The Regional Government of Oromia

The Financial Management Performance of the Oromia Government (PEFA Report)

June 2015

CURRENCY AND EXCHANGE RATES
Currency unit = Ethiopian birr (ETB)

US$1 = ETB 19.56 (as of May 30, 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*.

Support for this report was provided by:

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Acronyms and Abbreviations

ADB/ADF	African Development Bank/African Development Fund
AGA	Autonomous Government Agency (PEFA term)
BFC	Budget and Finance Committee, House of People's Representatives
BI	Budget institutions (ministries, agencies, institutions, and other budgetary units)
BoE	Bank of Ethiopia
BoFED	Bureau of Finance and Economic Development
CBE	Commercial Bank of Ethiopia
COFOG	Classification of Functions of Government
CRB	Complaints Review Board (procurement)
CSRP	Civil Service Reform Program
DFID	Department for International Development (UK)
EBO	Extra Budgetary Operation
EFY	Ethiopian fiscal year
EMCP	Expenditure Management and Control Program
ERA	Ethiopian Roads Authority
ERCA	Ethiopian Revenue and Customs Authority
ETB	Ethiopian birr
EU	European Union
FM	Financial Management
FPPMD	Financial, Procurement and Property Management Department
FY	Financial Year or Fiscal Year
GDP	Gross Domestic Product
GEQIP	General Education Quality Improvement Program
GFS	Government finance statistics (IMF standards)
GoE	Government of Ethiopia
GTP	Growth and Transformation Plan FY 2010/11–2014/15
HRD	Human Resource Department
IAD	Internal Audit Department
IBEX	Integrated Budget and Expenditures
ID	Inspection Department
IDA	International Development Agency (World Bank)
IMF	International Monetary Fund
IFMIS	Integrated Financial Management Information System
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IT	Information Technology
KfW	Kreditanstalt für Wiederaufbau
MDG	Millennium Development Goal
MEFF	macroeconomic and fiscal framework
MoFED	Ministry of Finance and Economic Development
MTEF	Medium-Term Expenditure Framework
NBE	National Bank of Ethiopia (Central Bank)
NGO	Nongovernmental Organization
NS	Not Scored (by PEFA)
OFAG	Office of the Federal Auditor General
ONRS	Oromia National Regional State
OPESA	Oromia Privatization and Public Enterprises Supervising Agency
ORA	Oromia Revenue Authority

ORAG	Office of the Regional Auditor General
PAC	Public Accounts Committee
PBS	Promotion of Basic Services (formerly Protection of Basic Services Program)
PE	Public Enterprises
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PI	Performance Indicator (PEFA)
PMIS	Payroll Management Information System
PPA	Public Procurement and Property Administration Authority
PPESA	Privatization and Public Enterprises Supervising Agency
PREM	Poverty Reduction and Economic Management, World Bank
PSCAP	Public Sector Capacity Building Program
PSNP	Productive Safety Net Program
RFQ	Request for quotation
SIGTAS	Standard Integrated Government Tax Administration System
TAC	Tax Appeal Commission
TIN	Taxpayer Identification number
TOR	Terms of Reference
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund
USAID	U.S. Agency for International Development
VAT	Value-Added Tax
WaSH	Water and Sanitation Hygiene

Summary Assessment

This is the third PEFA assessment conducted of the Regional State of Oromia. The objective is to provide an independent assessment of the quality and performance of the public financial management (PFM) system in the regional state.[1]

A detailed summary of scores down to the dimension level and comparisons with the FY 2010 assessment are given at Appendix A. A brief summary is provided in Table SA.1 at the end of this summary assessment.

Integrated Assessment of Public Financial Management (PFM) Performance

Budget Credibility

The budget is not a realistic projection of revenue or expenditure and is not a credible statement of Oromia State Government policies. As in FY 2010, there are moderate expenditure variances, particularly on capital expenditures, where successive budgets provide for an unrealistic level of project execution. During the year there are many significant transfers between budgets, indicating rapid changes in priorities and/or poor budgeting. The state's own revenue is consistently underestimated, by an average of 35 percent, particularly on income tax, turnover tax, and sale of goods and services. However, the impact of this on government finance is minor, as own revenue is only 21–24 percent of all revenue. The block grant from the Federal Government and Millennium Development Goal grants are the major sources of revenue, and these (particularly the block grant) are much more predictable, which lends stability to fiscal management.

Expenditure arrears are low (below 2 percent of expenditures for the year). There is still a problem of verifying and clearing old balances. More information and age analysis of payables is needed.

Comprehensiveness and Transparency

The budget classification allows analysis by function and economic character that is fairly consistent with International Monetary Fund government finance statistics standards; it also allows analysis by administrative responsibility center and source of funds. However, budget documentation presented to the Council and general fiscal information available to the public does not meet accepted standards of transparency, despite the improvements brought in by the Financial Accountability and Transparency Project. In addition, the budget and accounts are very incomplete, missing the Oromia Road Authority, some noncommercial bodies supervised by the Oromia Privatization and Public Enterprises Supervising Agency (OPESA), and significant external aid through Channels 2 and 3.

Fiscal relations between the regional government and its subordinate bodies are fairly transparent, as the major transfer of funds to woredas (the block subsidy) is determined by formula. The intimation of the budgeted allocations to woredas is late (after their budgets should be finalized as a result of late approval of budgets at higher levels. Reporting up the line is timely, using the same chart of accounts at all levels. Extra-budgetary autonomous agencies and public enterprises submit fiscal reports to the OPESA at least annually, but a consolidated overview of fiscal risk is missing. The change in the law allowing the Oromia State Government to borrow and give guarantees on loans to these bodies suggests a need for a more formal regular overview by the regional Bureau of Finance and Economic Development (BoFED) and the Council.

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[1] The PEFA Framework is presently under review. A new framework will probably apply to future assessments. All present guidance is available on the PEFA website www.pefa.org.

Policy-Based Budgeting

A clear annual budget calendar exists, but there are some slippages. A comprehensive and clear budget circular is issued to budget institutions (BIs) that shows the ceilings previously approved by the Oromia Cabinet, but expenditure ceilings are flexible and not finalized before BIs have to prepare their budgets. The Council approves the budget soon after the start of the year.

Forecasts of fiscal aggregates are prepared for three years on a rolling annual basis, a major advance. Sector strategies are prepared based on the Growth and Transformation Plan (GTP), but not within overall resource projections. Many investment decisions have weak links to sector strategies. Recurrent cost implications are included in forward budget estimates.

Predictability and Control in Budget Execution

The legislative framework and procedures for most taxes are comprehensive and clear, with limited discretionary powers of the revenue authority, and taxpayers are being educated and supported. The tax appeals system, however, does not appear to be independent of the revenue authority.

Taxpayers have been substantially registered and biometrics collected, enforced through control of trade licensing and company registration. Penalties for not registering or making declarations are adequate but not always effective. There has been an improvement in tax audits, resulting in significant additional assessments. Tax arrears are not significant in relation to total collections (less than 2 percent). However, there is no aggregate control in the computerized Standard Integrated Government Tax Administration System (SIGTAS) to ensure reconciliation of arrears at the beginning of the year with assessments, collections, and closing arrears.

Revenue collections are transferred to the BoFED Treasury Account at least monthly. Cash forecasts are made each year and updated monthly. BoFED releases quarterly ceilings to the zero balance accounts of budgetary institutions, which are cleared against the Treasury Account daily, so program managers have a continuous three-month horizon of what they can spend. Most cash balances are known daily. At the time of this assessment, the government had no formal debt on its books, although there is some debt in its autonomous bodies and public enterprises. It still needs guidelines on the contracting of loans and guarantees and a more formal and regular review of fiscal risk.

Payroll and personnel records are disconnected manual or MS Excel systems, except in the Bureau of Education (BoE), which has an integrated package used by education branches in many woredas. Controls are adequate against overpayments, late payments, and “ghost” employees.

Procurement has a new legislative framework and extensive training has been given, although there is high staff turnover and procurement is still weak. The regulatory body audits a small proportion of procuring entities each year. Competitive methods of procurement are used in 80–90 percent of procurements, but there is still unjustified use of noncompetitive single source and request-for-quotation methods. The complaints system meets most standards of transparency and fairness, but government procurement plans and actual contract awards are not transparent (except to actual bidders).

The Integrated Budget and Expenditures (IBEX) system has been rolled out to all regional sector bureaus, zones and woredas, and 283 of these are now connected: the rest send in their data by email or memory stick. The IBEX controls payments within the respective budgets but does not include commitment data. The new Integrated Financial Management Information System (IFMIS) includes commitment controls and is being piloted across the country, including in Oromia. It is expected that the rollout of IFMIS will enable more systematic control of commitments within the projected cash available. Other internal controls are sound and, subject to staff training and turnover, are understood and applied. Internal audit is being strengthened.

Accounting, Recording, and Reporting

Bank reconciliations are up-to-date and advances are controlled, although with some old balances carried forward indefinitely. Service delivery units such as schools and health centers keep records of cash resources received and post information on notice boards.

Woredas submit monthly financial reports and BoFED issues consolidated quarterly reports, usually within six weeks (rated B). BoFED also issues annual consolidated financial reports, recently within six months of the end of the year. However, the budget and all financial statements omit some extra-budgetary units and donor-funded projects. The fiscal picture is full of holes. Accounting standards are prescribed in regulations and manuals and do not equate to international standards, such as cash-based International Public Sector Accounting Standards (IPSAS).

External Scrutiny and Audit

The Oromia Regional Auditor General (ORAG) has been reestablished by proclamation and has adequate powers and an increasing budget. It has started on performance audits, linking expenditure to benefits. However, it is auditing only two-thirds of all expenditures each year, using a risk-based approach. Audit reports are taking 10–11 months from receipt of the annual financial statements to submission of audit reports to the Council. Nevertheless, there is a strong and systematic follow-up of findings and fair management response.

The Budget and Finance Committee (BFC) in the Council reviews draft budgets, including overall resource projections, and has adequate time for its review and interaction with the executive. However, the executive makes significant adjustments to the budget during the year, including transfers from a large contingency budget. *Ex post*, the same committee receives ORAG reports, financial and performance, and completes its review within four months. Follow up is robust.

Assessment of the Impact of PFM Weaknesses

Aggregate Fiscal Discipline

Fiscal discipline is generally strong, but large and unpredictable variations from plan and budget, which are not explained in the accounts, indicate a lack of planning capacity or a lack of discipline in sticking to the plan and budget. A lack of transparency, both in the budget documentation presented to council and in key fiscal data to the public, limits the information on government performance.

Two areas of risk are omitted from the budget and accounts: some extra-budgetary funds and public enterprises. These bodies are now enabled to borrow, creating contingent liabilities for the regional government. At present, there is insufficient monitoring of fiscal risk.

Strategic Allocation of Resources

Budgetary institutions prepare their budgets within ceilings that have been politically approved, but ceilings are still negotiable within the executive. Final allocations are not known until higher-level budgets are approved. This undermines the prioritization of resource allocations.

The medium-term planning is based loosely on medium-term strategic sector plans, but these are framed without reference to aggregate resource projections. It is also not clear how far sector strategies are aligned with the GTP.

Efficient Service Delivery

Efficient service delivery requires that program managers know their resource allocations in good time to undertake orderly procurement. The intimation of ceilings for expenditure on zero-balance accounts, not just for a single month but also the following two months, allows managers to plan more rationally.

The tight controls on transactions, and the constant scrutiny of internal and external audit, also contribute to the reduction of fraud, errors, and waste and the promotion of economy, efficiency, and cost-effectiveness.

Prospects for Reform Planning and Implementation

Most reform is managed at federal level by the Ministry of Finance and Economic Development (MoFED) through the Expenditure Management and Control Program (EMCP). This was discussed in the PEFA report on the Federal Government. Since FY 2011, EMCP has led reforms in accounting (including the rollout of IBEX), planning and budgeting, cash flow management (zero-balance accounts for sector bureaus), procurement and property management (the legal framework), internal audit (manuals, training) and downward accountability awareness (training of citizens and their representatives).

The Oromia State Government has participated fully in these reforms and made considerable progress. This looks likely to continue.

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

	A. PFM Out-turns: Credibility of the Budget	**Score 2010**	**Score 2014**
HLG-1	Predictability of transfers from higher-level government	**A**	**B+**
PI-1	Aggregate expenditure outturn compared to original approved budget	**B**	**B**
PI-2	Composition of expenditure outturn compared to original approved budget	**B+** *(revised method)*	**B+**
PI-3	Aggregate revenue outturn compared to original approved budget	**D** *(revised method)*	**D**
PI-4	Stock and monitoring of expenditure payment arrears	**B+**	**B+**
	B. Key Crosscutting 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**	**C**
PI-7	Extent of unreported government operations	**D+**	**D+**
PI-8	Transparency of intergovernmental fiscal relations	**B+**	**B+**
PI-9	Oversight of aggregate fiscal risk from other public sector entities	**A**	**C+**
PI-10	Public access to key fiscal information	**C**	**C**
	C. Budget Cycle	**Score 2010**	**Score 2014**
	C (i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	**B+**	**B**
PI-12	Multiyear perspective in fiscal planning, expenditure policy and budgeting	**D+**	**NR**
	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	**C+** *(dimension (iii) over-scored)*	**D+** *(No change)*
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** (dimension (ii) over-scored)	**C** (No change)
PI-18	Effectiveness of payroll controls	**B+**	**B+**
PI-19	Competition, value for money, and controls in procurement	**NA**	**C**
PI-20	Effectiveness of internal controls for non-salary expenditures	**B**	**B**
PI-21	Effectiveness of internal audit	**C+**	**C+**
	C (iii) Accounting, Recording, and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	**B+**	**B**
PI-23	Availability of information on resources received by service delivery units	**C**	**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	**D+**	**B+**
PI-28	Legislative scrutiny of external audit reports	**C+**	**B+**
	D. Donor Practices	**Score 2010**	**Score 2014**
D-1	Predictability of direct budget support	**NA**	**NA**
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	**D+**	**D+**
D-3	Proportion of aid that is managed by use of national procedures	**D**	**C**

In summary, it appears that 18 performance indicator (PI) scores have remained unchanged; 6 have gone down (HLG-1, PIs 9, 11, 15, 17, and 22); 6 have gone up (PIs 6, 14,23, 27, 28 and D-3); while one could not be scored (PI-12) and one was not applicable (D-1). However, the comparisons are strongly affected by new information taken into account in this assessment, which was not taken into the FY 2010 assessment. These factors are explained in the individual indicator descriptions in Chapter 3 and in Appendix A.

1. Introduction

1.1 Background and Objectives

Two previous PEFA assessments have been made of the Regional State of Oromia, in FYs 2007 and 2010. Following discussions in FY 2013 between the Ministry of Finance and Economic Development (MoFED) and development partners (DPs), MoFED took ownership of the next PEFA by setting up a technical team to supervise the process. The Minister of State, MoFED, on July 31, 2013, nominated a team of 14 members, comprising the head of the Expenditure Management and Control Program (EMCP) Coordinating Unit (as chair), 10 directors and senior officers of MoFED, and 3 directors and senior officers of the Public Procurement and Property Administration Agency (PPA).

After a period of consultation among donor partners and MoFED, a Concept Note[2] was agreed upon. This covers a set of seven PEFA assessments: the Federal Government, Addis Ababa city administration, and five regions (states)—Oromia, Amhara, Southern Nations and Nationalities Peoples' Region, Tigray, and Somali. A synthesis report consolidates the findings. This report is the third to be produced and covers only the regional state of Oromia.

The objective of the PEFA assessment is to provide an independent assessment on the quality and performance of the public financial management system in the regional state. This will be used to benchmark progress against a standard set of indicators and as the basis for dialogue on ongoing public financial management (PFM) reforms supported through the Expenditure Management and Control Program 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 United Kingdom's Department for International Development. In accordance with PEFA philosophy, the report itself makes no recommendations, but provides a pool of reliable information on which dialog can be based.

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

1.2 Scope

The regional government of Oromia has three administrative levels: the regional government is the first level and includes 53 budgetary institutions: 44 sector offices, the regional Auditor General, the Regional Council (RC), and a number of autonomous government agencies. The second level consists of 18 zones. These are de-concentrated branches of the regional government that have legal personality but no political authority (no elected councils). Zonal offices administer the woredas (*anas*) under their jurisdiction and are responsible for law and order in their respective areas. The third level is woredas: 44 urban woredas (also called urban administrations) and 265 rural woredas. Woredas are responsible for primary and secondary education (up to 10th grade), primary health care (health posts and health centers), construction, and maintenance of woreda roads and access roads to kebeles (village areas), drinking water supply, agricultural extension services, and administration of the woreda councils. Woredas have elected councils, so woreda offices have a dual accountability: to their councils as well as to the regional government.

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[2] World Bank, (2013), "Concept Note: Ethiopia: Public Expenditure & and Financial Accountability (PEFA) Assessment"

The regional budget and accounts first consolidate revenue and expenditure at state and zonal levels: there are no separate accounts at these two levels. A further consolidation includes all the woredas, that is, there are two sets of accounts. For some PEFA indicators, however, it is not possible to distinguish between expenditures at the different levels. For practical purposes, the Oromia National Regional State is a single sub-national government.

In accordance with the terms of reference, this assessment covers the whole of Oromia National Regional State. The fieldwork included visits to a representative zone and woreda. It should be noted that the scope of the FY 2010 assessment was limited to the state and zonal levels. This assessment has a wider scope, so some comparisons with FY 2010 scores may not be valid.

Table 1.1 Structure of Oromia State Government

<table>
<tr><th>Institutions</th><th>Number of entities</th><th>Total expenditure (birr millions)</th><th>% of total</th></tr>
<tr><td>State government</td><td>53</td><td rowspan="2">11,959</td><td rowspan="2">55.1</td></tr>
<tr><td>Zones</td><td>18</td></tr>
<tr><td>Woredas</td><td>309</td><td>9,742</td><td>44.9</td></tr>
<tr><td>Total</td><td>380</td><td>21,701</td><td>100.0</td></tr>
</table>

Source: BoFED Accounts FY 2012/13 (EFY 2005). Note that the woreda share is stated under, as expenditure on primary schools and health centers is accounted for at the zonal level.

1.3 Process of the Regional Assessment

The assessment follows the Supplementary Guidelines for the Application of the PEFA Framework to Sub-national Governments (January 2013) and the Guidelines for Conducting a Repeat Assessment issued by the PEFA Secretariat. The scoring of all 32 indicators was done according to the revised PEFA Framework (January 2011), together with clarifications and other guidance collected into the PEFA Field Guide (May 2012). The revised framework changed the method of calculation of PIs 2, 3, and 19, so this report includes a reworking of the scores given in the 2010 assessment to make a fair comparison with 2014, as far as possible.

The process included a preparation and training stage, a fieldwork stage and a report drafting stage. The training consisted of two events. First was a half-day high-level workshop in Addis Ababa, on January 28, 2014, inaugurated by Abraham Tekeste, State Minister, MoFED. Around 50 high-level officials attended, including directors from MoFED and heads and Auditors General from Regional Bureaus of Finance and Economic Development (BoFEDs). Second was a three-day training workshop in Hawassa, from January 28 to February 1, 2014, attended by almost 90 government officials who are the main counterparts for the assessments. The training was delivered by the head of the PEFA Secretariat in Washington, D.C., and the Lead Financial Management Specialist in the World Bank's Operations Policy and Country Services (OPCS), Financial Management Unit.

The regional PEFA team, led by the head of the BoFED, took the lead in supporting and guiding the assessment. While the assessment team remained independent, BoFED officials were closely involved in helping them collect data to meet the needs of all 32 indicators. There was strong collaboration and support from BoFED and sectoral bureau officials, from the Oromia Regional Auditor General, from autonomous bodies such as the Ethiopian Revenue and Customs Authority (ERCA), the Oromia Revenue Authority (ORA), and the Oromia Roads Authority, and the Oromia Regional Council (RC).

The main fieldwork for the Oromia assessment was done March 17–29, 2014. It included an initial meeting with the BoFED head and his PEFA team, followed by interviews with civil servants at the level of department heads and technicians, the Regional Auditor General and RC members, and with Oromia Chamber of Commerce (listed at appendix B). It also included a review of key documents (see appendix C). Interviews with donor agencies were undertaken in the course of the federal level assessment. The assessment team comprised three independent consultants: Tony Bennett (team leader), Getnet Haile, and Zeru Gebre Selassie, under the supervision of Parminder Brar, World Bank sector leader and Lead Financial Management Specialist. Individual terms of reference were provided to the consultants, based on the Concept Note. As far as possible, the information collected was triangulated with other sources.

A draft report was prepared during and after the fieldwork and was presented to the World Bank on May 30, 2014. It was circulated to all stakeholders and peer reviewers (see "Quality Assurance") and their comments were collated by the World Bank. Comments were received in writing from Oromia BoFED on July 7, 2014, and at a workshop on October 17. The assessment team addressed all comments in a draft final report. This was standardized with other regional reports in an integrated report issued on January 18, 2015. Further comments on the (un-standardized) Oromia report were received from the PEFA Secretariat on January 31. Comments were received from development partners (DPs) on the Federal Government report, but not the Oromia or other regional reports. The final report will be posted on the MoFED website and linked to the PEFA website.

1.4 Donor Harmonization

The donor agencies concerned with PFM in Ethiopia are the World Bank and International Development Agency, Department for International Development (UK) (DFID), African Development Bank (ADB), European Union (EU), U.S. Agency for International Development (USAID), Irish Aid, the UN Group, and others, who have set up a public financial management (PFM) donor group, co-chaired at the time of the assessment by DFID and the World Bank. The group was fully involved in the arrangements for the 2014 PEFA assessments, starting with the Concept Note and agreement on funding. The assessments are being funded jointly by DFID, USAID, Irish Aid, and the World Bank, with the World Bank managing the process. A first meeting was held between the donor group and the assessment team on February 11, 2014, and a progress review meeting on February 28, 2014.

Donor agency inputs were solicited during the fieldwork, both for the scoring of the donor indicators (D-1 to D-3) and for their perceptions on financial management performance over the past four years and possible future directions. Donors participated in the regional workshop on October 17, 2014.

1.5 Quality Assurance

A robust quality assurance has been put in place through the PEFA Secretariat's PEFA CHECK system and through the World Bank peer review process. The criteria for the PEFA Secretariat to give the PEFA CHECK endorsement were followed.

The World Bank process includes a decision meeting on the Concept Note, which was chaired by the Country Director. The World Bank peer reviewers are (1) Nicola Smithers, PFM cluster leader, PREM public sector anchor, World Bank, Washington, D.C.; (2) Gert Van der Linde, lead PFM specialist, South Africa CO; (3) Sanjay Vani, lead FM specialist, OPCS, World Bank, Washington, D.C.; and (4) Manoj Jain, lead FM specialist and FM cluster leader, South Asia Region, World Bank, New Delhi.

The government PFM team in MoFED was consulted at every stage of the process to ensure that the reports are of the required quality and to take ownership of the process and the outputs. In addition, the draft final report was circulated to the PFM donor group and their inputs sought before the report was finalized.

1.6 Structure of the Report

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

2. Country Background Information

2.1 Economic Context, Development, and Reforms

Oromia[3] is the largest and most populous of the nine regions of Ethiopia, with a land area of 363,375 square kilometers and a population of 32,997,000, or about one-third of the entire country. The state stretches across central Ethiopia and shares boundaries with Kenya and South Sudan and with all the other regional states except Tigray. The administrative capital is Addis Ababa (Finfinne).

Source: Wikipedia, with permission of USAID, Ethiopia.

The regional gross domestic product (GDP) is estimated by Oromia Bureau of Finance and Economic Development (BoFED). Regional GDP at constant (base 2000) market prices was ETB 41,418 million in FY 2009/10, or ETB 1,408 per capita (US$109). Real GDP grew 10.4 percent that year, and has continued to grow steadily. The economy is based on agriculture, mainly rain-fed, which contributes 65 percent of the regional GDP and employs 89 percent of the labor force. Oromia accounts for a large proportion of Ethiopian agricultural exports: coffee[4], hides and skins, pulses, and oil seeds.

Oromia has a very varied topography and climate: rainfall varies considerably from 400

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[3] Information in this section is from BoFED, "Oromia in Brief," December; www.oromiaBoFED.org; and Office of the President, "Oromia Today" 2013/1

[4] The Jimma area of Oromia is believed to be the place of origin of coffee.

millimeters a year in the south to 2,400 millimeters a year in the western highlands. Only 7.1 percent of irrigable land is irrigated: irrigation development is a priority of the state to ensure food security and attain the Millennium Development Goals (MDGs). Industry accounts for about 10 percent of GDP and services provide the remaining 25 percent. There are abundant minerals (gold, tantalum, iron, nickel, coal, marble, and so forth). The potential for exploitation of these minerals has not yet been fully assessed. There is also great potential for hydropower.

The national Growth and Transformation Plan (GTP) is the source for the Oromia strategy for economic and social development. Significant achievements have been made since FY 2001/02 in the MDG sectors: agriculture, education, health, water and sanitation, and roads.

2.2 Budgetary Outcomes

The outcomes are summarized in Tables 2.1 and 2.2.

Table 2.1 Budget Outcomes, FYs 2010/11–2012/13 (ETB, millions)

	2010/11	2011/12	2012/13
Total revenue	8,708.0	18,425.3	22,595.1
Own revenue	2,672.0	3,937.3	5,375.1
Federal subsidy (block)	5,961.7	7,368.6	8,463.5
Federal capital grants	74.3	7,119.4	8,756.5
External grants			
Total expenditures	10,624.8	16,527.7	21,700.8
Personnel	5,975.8	7,666.3	9,057.3
Goods and services	1,648.8	2,298.8	3,185.8
Other recurrent	674.3	331.6	653.5
Interest	0	0	0
Capital	2,325.9	6,231.0	8,804.2
Surplus/deficit	-1,916.8	1,897.6	894.3
Use of surplus (financing items)	1,916.8	-1,897.6	-894.3
External loan repayment	0	0	0
Domestic borrowing repayment	198.3	75.4	0
Decrease in payables	-152.9	-1,559.7	-1,072.2
Increase in receivables	-640.4	2,083.3	1,644.7
Increase in cash	1,039.5	1,333.2	402.3
Difference[a]	-3,642.1	-34.6	-80.5

a. Major difference in FY 2010/11 not traced at the time of submitting this report.

Source: BoFED accounts, trial balances. Up to EFY 2013/14, external assistance and road fund transfers were not brought into the budgetary accounts. There are small differences on rounding.

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

	FY 2010/11 (EFY 2003)	FY 2011/12 (EFY 2004)	FY 2012/13 (EFY 2005)
Current expenditure	78.0	62.3	59.4
Wages and salaries	56.2	46.4	41.7
Goods and services	15.5	13.9	14.7
Interest	-	-	-
Subsidies, investments, contingency, etc.	6.3	2.0	3.0
Capital expenditure	21.9	37.7	40.6
Total expenditure (ETB, millions)	**10,625**	**16,528**	**21,701**

Note: Data are not available on actual budgetary allocations by sector.
Source: BoFED accounts, total expenditure (all sources) by object code.

The growth in nominal expenditure over the period is 42.9 percent per year. This was more than matched by revenue growth. However, inflation was high in those years, averaging 21 percent a year. Real expenditure growth was therefore still high, at about 25 percent.

2.3 Legal and Institutional Framework

See appendix G for general background on sub-national government in Ethiopia. This section focuses on Oromia Regional National State.

Legal Framework

The Oromia Regional National State is established by the Constitution of EFY 1994. The working language of the regional government is Afan-Oromo, and proclamations are published in Afan-Oromo, Amharic, and English. The Regional Council (*Caffee*, RC) has the power to make laws and exercise judicial and executive powers over matters not specifically included in the powers of the Federal Government. It has legal personality and can establish relations and make agreements with the Federal Government, regions, private sector, nongovernmental organizations, and (with federal authorization) international organizations. The RC is accountable to the Federal Government and to the residents of the state.

BoFED was established under State Proclamation no. 7/1992, with are extensive powers and responsibilities similar to those of the same body in other states. These include:

- administering the Proclamation 156/2010 on financial administration;
- preparing annual budgets (capital and recurrent) and presenting them to the Cabinet and the Council for final approval;
- monitoring execution of the budget, allocating resources to the sectoral bureaus, zones, and woredas and monitoring the procurement and internal audit functions in those bodies;
- preparing supplementary budget requests as necessary;
- managing the cash resources of the state.

In addition, it works with the Central Statistical Agency in collecting and publishing socioeconomic statistics and maps and geographical studies for economic development of the region and preparing regional income accounts.

The regional government has powers to assess and collect income and profits taxes, land-use fees, value-added taxes (VAT), fees for municipal services, and so forth. The assessment and collection of direct and indirect taxes is undertaken by the Oromia Revenue Authority (ORA). It can borrow from domestic and external sources with federal authorization.

Institutional Framework

BoFED is the main institution for budget preparation and execution (including treasury, internal audit, and control functions). It consists of departments, called core processes, sub-processes, and support processes (see organization chart at appendix D). The RC approves the draft budget and the annual financial accounts. The Office of the Regional Auditor General (ORAG) is in charge of external audit of budgetary institutions, zonal offices, woredas, and enterprises.

There are many autonomous government agencies, including the Oromia Roads Authority, Construction Industry Development and Control Authority, Land Development and City Renewal Agency, Addis Ababa City Courts, Qebele Social Courts, Tax Appeal Commission, Labor Relations Board, Civil Service Tribunal, Urban Land Clearance Matters Appeal Commission, and so forth. These are mostly within the state budget and accounting system (see PI-7 dimension (i)).

Key Features of the Oromia Public Financial Management System

Although woredas are elected bodies, have legal personality, contract in their own name, and maintain their own budgets and accounts, fiscally they are decentralized units of the regional government. The Oromia budget, monthly accounts, and annual accounts consolidate all their revenues and expenditures from the Integrated Budget and Expenditures (IBEX) computer system, which produces monthly reports on each of the budgetary institutions (BIs) (53 at state level, 18 zones, and 309 woredas, of which 44 are urban administrations and 265 are rural). There is online connectivity between BoFED and the sectoral bureaus and other BIs within Addis Ababa, but not yet with the zonal offices or between the zonal offices and the woredas. Zonal offices and woredas use stand-alone IBEX systems and submit monthly summaries of their transactions to BoFED. Payments are made by each connected BI on a zero-balance bank account that is reimbursed at the end of each day from the Oromia Treasury. Revenue bank accounts are used by the ORA and revenue-receiving BIs: these are also cleared daily to the Oromia Treasury. Payroll and procurement operations are decentralized to the BIs, and they have their own internal audit units. All are tightly supervised by BoFED.

Block grants (untied) are made by BoFED to the woredas monthly in accordance with the approved budget, which is prepared according to a revenue-sharing and block-allocation formula based on principles of equity and encouragement of competition. The regional government has its own formula for horizontal distribution to the woredas, and this is not controlled by the Federal Government. There are also specific grants for capital projects (see under PI-8).

Based on their action plans, budgets are disbursed to the different sector bureaus, rural woredas, and urban administrations on a monthly basis. Monthly reports on expenditure are sent to BoFED.

3. Assessment of the Public Financial Management (PFM) Systems, Processes, and Institutions

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

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

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

3.1 Budget Credibility

HLG-1 Predictability of transfers from higher level of government

The Oromia government receives from the Federal Government: (1) an annual allocation from the MoFED block grant to regions; (2) Millennium Development Goal (MDG) capital grants; and (3) a 50 percent share of business income tax and 30 percent of indirect taxes collected by the Federal Government on behalf of Oromia state.

The purpose of the block grant formula is to ensure that every citizen has equal access to basic services, such as health, education, clean water, agricultural development and roads. It aims to equalize the revenue of regions, based on a calculation of the revenue-raising capacity and expenditure needs per capita. The formula is based on: (1) population; (2) resources needed to provide all people of the region with the basic services; and (3) an estimate of the revenue potential of the region. The challenge of the unit cost-based formula is that it requires extensive data. Woredas have difficulty in providing good quality data.

The grant to the regional capital budget is based on an infrastructure deficit index. Regions that are disadvantaged in terms of schools, health clinics, roads, and other infrastructure get higher shares.

The regional distribution from the road fund goes directly to the Oromia Road Authority for road and drainage maintenance. This is not in the Oromia budget or accounts and has been excluded from this indicator. Similarly, external assistance and loans from donor agencies through sector ministries should be included in the assessment of predictability of transfers. However, these are not brought to account, neither in the Oromia budget nor the accounts (see PI-7 (ii)), so have also been excluded.

The block grant to Oromia is at present 32.5 percent of the federal total block grant each year. The BoFED provides data for the calculation of the percentage every three years. The House of the Federation (which includes Oromia regional representatives) is mandated by the

Constitution to fix the percentage allocations (see the federal assessment under PI-8). MoFED informs the BoFEDs of the indicative amount in March and April, and the final amount at the end of May or early June. It is disbursed in 12 equal monthly installments, in the first week of each month, and is very predictable.

MDG grants are given for capital projects in the agriculture, health, education, water and sanitation, and road sectors. These have to be individually negotiated with BoFED and are paid to the respective woredas through the sector bureaus.

Shares of concurrent revenue are paid to Oromia monthly on time. Data on amounts were not available and have been excluded from the assessment.

The amounts budgeted and received by Oromia BoFED from FYs 2010/11 to 2012/13 are indicated in Table 3.1.

Table 3.1 Transfers from Federal Government to Oromia State Government

	FY 2010/11 (EFY 2003)		FY 2011/12 (EFY 2004)		FY 2012/13 (2005)	
	Budget	Actual	Budget	Actual	Budget	Actual
Block grant	7,642	8,450	9,932	9,958	11,575	11,575
MDG grants	0	0	4,880	4,557	6,500	5,665
Shared revenues	NA	NA	NA	NA	NA	NA
Total	7,642	8,450	14,812	14,515	18,075	17,240
% variance		+10.6%		-2.0%		-4.1%

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

In no year did transfers fall short of the estimate by more than 5 percent. The data do not include shared revenues, as in 2010 (and in other regions). This dimension is rated A.

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

Only MDG grants are earmarked. These started in FY 2011/12. Appendix G shows that variance in the provision of earmarked grants in FY 2011/12 was 3.1 percent and in FY 2012/13 it was 6.2 percent. This earns a rating of B.

(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)

The legal mandate for public bodies to spend money is the vote of the House of People's Representatives on the annual budget appropriations for the approved budget, which takes place no later than July 7. MoFED notifies public bodies, including the regions, of their approved budgets between July 8 and July 15. Regions adjust their work plans, where outcomes and required resources to achieve these outcomes are presented, to the approved budget. Thereafter, financial action plans, indicating monthly disbursement requirements are submitted to MoFED.

Zones should know their forthcoming transfers by the end of March, before they prepare the budget for the zone and the 13 woredas under them. The disbursement timetable is pre-agreed and respected. This qualifies for a score of A. See Table 3.2.

Table 3.2 HLG-1 Results

PI	Score 2010[a]	Score 2014	Justification	Performance change
HLG-1	A	B+	M1	
(i)	A	A	Data on share of shared revenues not available.	**No change.**
(ii)	A	B	Variance in provision of earmarked grants exceeded 5% in no more than one of the past three years.	**No comparison possible.** No MDG grants at the time of the 2010 assessment.
(iii)	A	A	Actual transfers have been distributed evenly across the year in all of the past three years.	**Improvement in timeliness of transfers.**

a. In the 2010 assessment, the indicator was given an A but the dimensions were not scored. As this is an M1 indicator, an overall A implies that all dimensions are rated A.

PI-1 Aggregate expenditure outturn compared to original approved budget

The regional accounts (consolidated BIs, zones, and woredas) show that total expenditure (recurrent and capital) was above budget in FY 2010/11 but below budget over the past two years (see appendix F). Table 3.3 shows the percentage of under-expenditure, and the corresponding under-collection (or overestimation) of revenue. In effect, expenditure was constrained by capacity limitations and revenue was more than adequate to meet the reduced expenditure (see also Table 2 on budgetary outcomes). Council approval of overestimated expenditure increases BoFED discretionary power to make transfers between budgets.

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

	Variance of expenditure/budget	Variance of revenue/budget
FY 2010/11 (EFY 2003)	+11.6%	+69.9%
FY 2011/12 (EFY 2004)	-8.7%	+30.9%
FY 2012/13 (EFY 2005)	-4.8%	+26.4%

Table 3.4 PI-1 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-1	B	B	Actual expenditure deviated more than 10% from budget in only one of the past three years.	**No change.**

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 out-turns against the original budget at a sub-aggregate level. In the Oromia government budget and accounts, as in the federal accounts, there is an administrative classification, with organizations classified into four broad functional groups: administrative and general, economic, social, and other, then into 22 sub-functional heads (see PI-5). Appendix E shows the original budgets and actual out-turns for each of these heads.

The method of assessing this indicator changed in 2011. Allowance is now made for any change in the total resource envelope, which is equal to the total actual expenditure. The original approved budgets are adjusted by the ratio of the actual resource envelope to the budgeted resource envelope.[5] Variances are then measured against these "adjusted budgets." It should be made clear that the term *adjusted budget* is a PEFA term and has no reference to Oromia council-adjusted budgets, which may be quite different.

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

Appendix E shows that there was moderate variance in each of the past three years, amounting to 10.2 percent, 9.7 percent, and 8.8 percent. This results in a B score.

The assessment in 2010 showed high variance (a D score), but this has been reworked according to the new method and using the same basis of classification, so that a comparison can be made with 2014. Appendix E shows that in 2010 the score would have been B rather than D. There is therefore no change from 2010 to 2014.

An analysis of the variance shows that in FY 2010/11 (EFY 2003), variance was mainly due to under-expenditure on water and health and over-expenditure on agriculture and construction. In FY 2011/12 (EFY 2004), it was mainly due to under-expenditure on water and education and over-expenditure on general services and health. In FY 2012/13 (EFY 2005), it was due to under-expenditure again on water and education and over-expenditure on general services and construction. Water is always under-spent (or overestimated), but the other sub-functions are sometimes overspent, sometimes under-spent. Overall variance is reducing slowly.

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

A second change made in 2011 was the separation of the contingency budget and actual contingency expenditure, which is made the subject of a new dimension (ii). It is good practice to charge contingency expenditure to the benefiting heads and to transfer the budget also to the benefiting heads. This is done. The contingency budget averaged 1.7 percent of total budget in the past three years, BoFED has authorized many transfers to other codes, and expenditures have been charged to those codes, not against the contingency code. The contingency budget averaged 1.3 percent in FYs 2006/07–2008/09, not significantly different from FYs 2010/11–2012/13, indicating that changes in the ratio of the contingency to expenditure had no material impact on the changes in the ratings for dimension (i). A significant proportion of the contingency is for wage increases, the allocation of which has no bearing on credibility.

Table 3.5 PI-2 Results

PI	Score 2010	Score 2014	Justification	Performance change

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

PI-2	B+	B+	M1	
(i)	D (B new methodology)	B	Variance has exceeded 10% in one of the past three years.	**Not comparable.** This is due to change in method of assessment.
(ii)	NA	A	Actual expenditure charged to the contingency budget has been nil in the past three years.	**Not comparable.** This is due to change in method of assessment.

PI-3 Aggregate revenue outturn compared to original approved budget

A comparison of budgeted and actual revenue provides an indication of the quality of revenue forecasting and the performance of the revenue collecting authorities.

Oromia regional tax and municipal revenue are estimated each year by Oromia Revenue Authority and other revenue-collecting departments, in collaboration with the BoFED planning department using the Federal Government's projections for inflation and BoFED projections of real gross domestic product (GDP) growth. BoFED uses an MS Excel spreadsheet for calculations. The revenue forecast and expenditure budget are finalized and submitted to the RC to be proclaimed each year. Woredas through their Inland Revenue Offices are primarily responsible for collecting the region's revenue, mainly in the form of taxes. These taxes are collected at woreda and kebele (village area) level (only agricultural and land-use fees at the latter). Urban administrations also collect taxes (municipal revenues). Among these taxes are personal income taxes, sales tax, agricultural tax, and service charges, for example on medicines. These taxes are, however, collected on behalf of the region and the amounts are deducted from the transfers to woredas. Woreda tax collection is considered as part of the regional revenue.

The previous year's tax collection serves as a basis for BoFED to forecast the region's own revenue. Revenue has been consistently underestimated (see appendix F). During FYs 2010/11-2012/13 (EFYs 2003-5) actual revenue collected exceeded budgets by 70 percent, 31 percent and 26 percent, respectively, an average under-estimation of 35 percent. Although there have been revenue collection improvements, this level of underestimation indicates conservatism in forecasting rather than exceptional performance by the revenue-collecting authorities.

Table 3.6 shows that the main sources of overestimation are income tax (30 percent), turnover taxes on local services (22 percent), and sale of public goods and services (412 percent). Offset against these items, miscellaneous revenue, is not budgeted at all despite substantial collections each year.

Table 3.6 Analysis of Revenue Variance, FYs 2010/11–2012/13 (EFYs 2003–5)

Description	Total budget for 3 years (birr millions)	Total actual for 3 years (ETB, millions)	Actual as % of budget
Total revenue	**8646.4**	**11,667.7**	**135%**
Tax revenue	**7673.1**	**9440.7**	**123%**
Tax on income, profit, and capital gain	5116.5	6637.1	130%
Value added tax	1781.1	1977.7	111%
Excise taxes on locally manufactured goods	3.7	0.9	25%
Sales turnover tax on locally manufactured goods	362.5	409.8	113%
Turnover tax on local services	108.5	132.0	122%
Stamps sales and duty	300.9	283.2	94%
Excise tax on imported goods	0.0	0.0	
Sales tax on imported goods	0.0	0.1	
Non-tax revenue	**965.2**	**2218.8**	**230%**
Administrative fees and charges	213.8	280.2	131%
Sales of public goods and services	182.4	933.1	512%
Government investment income	560.9	461.2	82%
Miscellaneous revenue	0.0	535.5	
Contributions to pension fund	0.0	0.4	
Capital revenue	**8.1**	**8.2**	**101%**
Sales of movable and immovable properties	6.4	6.6	104%
Sales of stock	0.1	0.0	10%
Royalty on public assets	1.6	1.7	104%

Source: BoFED accounts EFY 2003–5.

The method of scoring PI-3 was changed in 2011. Since then, underestimating revenue is also penalized, although not as much as overestimation. This makes a big difference to the comparison with the 2010 assessment. The score for 2010 would be D under the new method, as revenue was grossly underestimated in the relevant years, at an average of 43 percent. In effect, the pattern of underestimation has continued, particularly for non-tax revenues, although slightly less in the past three years. There is no real change in performance, as shown in Table 3.7.

Table 3.7 PI-3 Results

Indicator	Score 2010	2010 score under new method	Score 2014	Justification	Performance change
PI-3	A	D	D	Actual revenue was above 116% of budget in all three years	**No change.**

PI-4 Stock and monitoring of expenditure payment arrears

(i) Stock of expenditure payment arrears

The Oromia State Government like the Federal Democratic Republic of Ethiopia (FDRE), has a system for bringing payments on capital projects into the year in which the expenditures were incurred. Payment arrears on capital projects are called *grace period payables* (GPPs) and BIs obtain BoFED authorization to retain cash to pay them within 30 days of the end of the financial year, that is, by August 6. At July 7, 2013, there were ETB 631.9 million grace payables. Approximately 80 percent of these were paid within 30 days, leaving ETB 118.5 million true arrears. Unlike the Federal Government, there is no practice of returning unused grace period cash to the treasury. The cash remains in the accounts of BIs until paid to the suppliers. The balance of grace period payables (GPPs) at October 10, 2013 was ETB 82.2 million. Some of these are in dispute. According to the Oromia Chamber of Commerce, payments typically take two months but can take even two or three years, due to bureaucratic problems. Some housing contractors have been put out of business, and claims have gone to the federal level.

There is no similar control on *recurrent* payables. At the end of FY 2012/13 (EFY 2005), accounts payable, excluding grace period payables, deposits and contract retentions, were ETB 342.8 million, and payables to other levels of government were ETB 1,443.7 million. However, there were also undefined receivables (code 4274) amounting to ETB 1,476 million. The assessment team was informed that these payables and receivables are due (at least partially) to end-of-year entries that are reversed in the New Year, and the payables are not arrears of expenditure. Netting receivables against the payables leaves ETB 310.5 million. Together with the capital arrears, this is about 2.0 percent of total expenditure for the year. The corresponding calculations for previous years, show that they were 2.1 percent of total expenditure for FY 2011/12 and 1.9 percent in FY 2010/11, according to BoFED accounts, net trial balance summary for each year.

Table 3.8 Arrears of Expenditures, End of FY 2010/11 to End of FY 2012/13

	2012/13		**2011/12**		**2010/11**	
	GPP Balance (ETB, millions)	Outstand-ing GPP %	GPP Balance (ETB, millions)	Outstand-ing GPP	GPP Balance (ETB, millions)	Outstand-ing GPP
Grace period payables, July 7	631.9		733		181.5	
As of August 6 (one month from the end of the fiscal year)	118.5	19%	113.5	15%	37.7	21%
As of September 10 (two months from the end of the fiscal year)	113.5	18%	113	15%	15.1	8%
As of October 10 (three months from the end of the fiscal year)	82.2	13%	102	14%	13.1	7%
Other payables/receivables						
Account payables (other than GPP, deposit, and retentions)	342.8		337.9		160.2	
Payable within government	1,443.70		746.8		211.2	

Less receivables	-1,476		-855.8		-204.7	
Net recurrent payables	310.50		228.90	0.00	166.70	0.00
Total arrears	429.00	0.19	342.40	0.15	204.40	0.21
Total expenditure for the year	21,700.90		16,602.40		10,540.50	
% of arrears to total expenditure	1.98%		2.06%		1.94%	

This dimension is rated on the balance of arrears at the end of the last financial year before the assessment, i.e., at July 7, 2013. At that time, arrears were just under 2 percent of expenditure for the year, which is counted as low and earns an A rating.

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

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

Table 3.9 PI-4 Results

PI	Score 2010	Score 2014	Justification for score	Performance change
PI-4	B+	B+	M1	
(i)	A	A	The stock of arrears is less than 2% of total expenditure.	The end-year stock of arrears has grown since FY 2008/09 but has fallen as a % of expenditure since FY 2010/11. Delays in paying bills are due to bureaucratic problems rather than commitment control problems.
(ii)	B	B	The annual accounts show payables in detail, but they are not analyzed by age.	**No change.**

3.2 Comprehensiveness and Transparency

PI-5 Classification of the Budget

(i) The classification system used for formulation, execution, and reporting of the central government budget

The same chart of accounts is used for formulating the budget, reporting during the year, and for informing the annual financial statements at all levels of government. The assessment of this indicator is, therefore, the same as for the Federal Government. See Table 3.10 for results.

Revenue is classified according to the International Monetary Fund (IMF) government finance statistics (GFS) standards (tax revenue, non-tax revenue, and capital revenue), although with three exceptions: (1) privatization proceeds (sale of public enterprise equity) are treated as capital revenue rather than a financing item; (2) repayments of principal on loans made by the Government of Ethiopia (GoE) (code 1505) are also treated as capital revenue rather than a financing item; and (3) external assistance (donor grants) is treated as a financing item rather than revenue.

The expenditure budget is broken into four parts: (1) recurrent; (2) capital expenditure from treasury revenue; (3) capital from external assistance (grants); and (4) capital from donor loans. There is also an administrative classification, with organizations classified into four broad functional groups: administrative and general, economic, social, and other. These groups are then classified into 22 sub-functions, which broadly align with the international classification of functions of government (COFOG) at the *main* function level (10 main functions), but not the sub-functions. At present, program budgeting has not been introduced into regional planning and budgeting.

The budget and accounts also use two further classifications, although the printed budget does not present this detail. The first is *area of expenditure*: personnel, classification 61; goods and services, 62; fixed assets and construction, 63; and other payments, 64. The latter includes grants and subsidies, investments, debt service, contingency, and pension payments. The second is *line items*, which analyze areas of expenditure in more detail, e.g., salaries to permanent staff are coded 6111. These two classifications constitute an economic classification that is broadly compliant with the IMF GFS classification except that public debt principal repayments are treated as expenditures rather than negative financing.[6]

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

Table 3.10 PI-5 Results

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

PI-6 Comprehensiveness of information included in budget documentation

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

This indicator is assessed on the latest budget documentation, which is for FY 2013/14 (EFY 2006). The budget documentation[7] as submitted to the RC (budget estimates) includes the requirements in Table 3.11.

Table 3.11 Information in Budget Documentation for FY 2013/14

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[6] It appears that highly concessionary loans in the past have been treated as grants and taken to revenue, so the logic is to treat their repayment as expenditure. Neither treatment complies with IMF-GFS standards.

[7] The budget documentation submitted to the Oromia Regional Council consists of the Macro-Economic and Fiscal Framework (end December/early January) and the detailed estimates of revenue and expenditure (end May).

Requirement	Fulfilled	Document
1. Macroeconomic assumptions, including aggregate growth, inflation, and exchange rate estimates, at the very least	Yes	The Budget and Financial Affairs Committee of the Oromia Regional Council receives only the draft Budget. GDP growth data are shown for the past three years and forecast years in the budget document.
2. Fiscal deficit	Not applicable	The law requires a balanced budget.
3. Deficit financing	Not applicable	The law requires a balanced budget.
4. Public debt stock	Not applicable	The state may now legally borrow (Financial Proclamation 156/2010, Article 39), but no formal borrowing has been completed at the time of this assessment.
5. Financial assets	No	These are in the trial balance but this is not part of the budget documentation. Supplementary budget considers financial assets. Quarterly report is submitted and discussed in depth with cabinet.
6. Prior year's budget outturn (FY 2011/12), in the same format as the budget for FY 2013/14	No	Only data for the budget year are shown.
7. Current year's budget outturn (FY 2012/13), in the same format as the budget for FY 2013/14	No	This is not provided. Explained to the RC, but not in terms of delivery.
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	Partial	The detailed budget shows only data for the budget year. Revenue summary over the years is available, but expenditure is not.
9. Explanation of the budget implications of new policy initiatives	Yes	Social and economic situation of the regions in the past is assessed. Current year priorities and policy issues and implication to the budget are explained: Priorities detailed by sectors, including the Growth and Transformation Plan (GTP).

Proportion of above information contained in the budgetary documentation published most recently by the central government

The most recent budget documentation of EFY 2006 (FY 2013/14) fulfils two of the six applicable information benchmarks.

Table 3.12 PI-6 Results

PI	Score 2010	Score 2014	Justification	Performance change

PI-6	D	C	Two of the six applicable information elements are completely provided.	**No change.**

PI-7 Coverage of government operations

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

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

The revenue and expenditure accounts for the last completed financial year (FY 2012/13) appear to be comprehensive except as follows.

In addition to its own budget (Code 273, the second largest BI in the Oromia Regional Government (ORG) Budget after education), the Oromia Roads Authority acts as a de-concentrated agency of GoE's Ethiopia Roads Authority (ERA), which administers the DP-supported Roads Fund (RF). The RF finances GoE road maintenance projects. By agreement with DPs, the ERA transfers funds monthly from the RF to Oromia Roads Authority which manages both financial and physical project performance. The Oromia Roads Authority maintains separate project accounts on a stand-alone Integrated Budget and Expenditures (IBEX) system and reports monthly to BoFED and quarterly to the RF. The budgeted expenditure for FY 2013/14 out of the RF is ETB 1,480 million, mainly for road maintenance (contracted out to Oromia Road Construction Enterprise up to FY 2012/13).

The funding is effectively a Channel 2a mechanism (DPs to sector ministries to sector bureaus), as mentioned under PI-7 dimension (ii). As with other Channel 2a projects, the RF-funded projects are (or should be) budgeted and reported on at federal level. If they are not, then they are an unreported EBO at federal level, not regional level. In any case, as noted above, the Oromia Roads Authority reports quarterly to RF, indicating that spending is not an unreported EBO. Even if it is an extra-budgetary operation at the regional level, its operations are reported to BoFED, which is in the position to report to the Regional Cabinet, which itself can report to the RC (which is the case in Amhara, as noted under PI-7 (i) in the 2010 and 2014 PEFA assessments).

The budget and accounts, both in-year and annual, include many autonomous bodies, which are shown in each year's accounts, such as the Credit Guarantee Fund (Code 461), Police Commission, Oromia Public Enterprise Supervising Authority, Agricultural Research Institute, and Public Service College, which is in accordance with the International Public Sector Accounting Standards (IPSAS) and PEFA Framework. Public enterprises are excluded from the budget and accounts, in accordance with the PEFA Framework.

There are seven bodies outside the Oromia National Regional State (ONRS) accounts (IBEX) system, which are all owned 100 percent by ONRS. They are supervised by the Privatization and Public Enterprises Supervising Authority (PPESA), which reports to the ONRS President and the Council. On preliminary analysis, it appears that only two of the seven are in fact public enterprises (non-financial public corporations), as defined by UN and IMF GFS (GFSM 2001), as follows:

1. *Oromia Forest and Wild Life Enterprise.* This enterprise was set up to manage the

forest resources of Oromia. Apart from its regulatory functions such as the issue of hunting licenses, it sells timber, makes and sells furniture, and appears to be a public corporation.

2. *Oromia Seed Enterprise.* This enterprise produces and sells seeds and similar products to agriculturalists. This is also a public corporation.

There are also some commercial subsidiary companies, such as Oromia Plastic Pipes and Oromia Steel Pipes, which are majority-owned by ONRS.[8]

The other five appear to be autonomous government agencies (nonprofit bodies under state ownership and supervision, carrying out government functions), which are classified by the UN and IMF as part of the government sector. Their revenues and expenditures should also count as part of the ONRS budget and accounts. They are as follows:

1. *Oromia Waterworks and Construction Enterprise.* This entity is responsible for the construction of waterworks, especially in the dry zones. This is a developmental not a commercial operation.
2. *Oromia Waterworks Design and Supervision.* This is a developmental not a commercial operation.
3. *Oromia Road Construction Enterprise.* This is a developmental not a commercial operation.
4. *Oromia Agricultural Marketing Enterprise.* This entity provides marketing infrastructure for agricultural products. This is a developmental not a commercial operation.
5. *Oromia Drilling Enterprise.* This entity drills boreholes and so forth. This is a developmental not a commercial operation. It had no expenditures in FY 2012/13.

Neither their expenditure nor their monthly and annual accounts are included in the Oromia budget. Their total extra-budgetary expenditure in FY 2012/13 is shown in Table 3.13. This is 2.6 percent of total reported expenditure for the year.

Table 3.13 Extra-budgetary Expenditure, FY 2012/13 (ETB millions)

	Expenditure	Regional grant	Unreported
ORA spending of Federal Road Fund transfers	1,480		
Oromia Waterworks and Construction Enterprise	617	476	141
Oromia Water Works Design and Supervision	50		50
Oromia Road Construction Enterprise	682	162	520
Oromia Agricultural Marketing Enterprise	4		4
Total	**2,833**	**638**	**715**

Hospitals, health centers etc. are allowed to retain their revenues and spend them within the limits of their budgetary appropriations but must record the amounts and report monthly to BoFED. No unreported receipts or expenditures have been identified.[9]

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

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[8] Further enterprises are being set up: due to the absence of color printing capacity in Ethiopia, a printing and publishing company is being established with a loan from China Exim Bank to produce school exercise books.

[9] A number of other special purpose grants, such as the Public Safety Net Fund, are paid through BoFED and WoFEDs but are not included in the proclaimed regional budgets or the WoFED budgets, as they are part of the Federal Government's budget. (MoFED (2009): *Layperson's Guide to the Public Budget Process at Regional Level*.

Donor funding to Oromia is provided through the following channels:

- *The Promotion of Basic Services (PBS) Program.* The funds are akin to budget support to the Federal Government, which is then incorporated into the Federal Government block grant to regional governments.
- *Channel 1.* Donor funding for projects and programs is channeled through MoFED to BoFED (Channel 1a), the spending being budgeted for at federal level, or is provided straight to BoFED (Channel 1b), which then allocates the funds to sector bureaus and woredas, the spending being budgeted for at regional level. Most of this spending represents UN Executive Committee (ExCom)-funded projects (UNICEF, UN Development Program (UNDP) and UN Population Fund (UNFPA)). The annual amounts being very small.
- *Channel 2.* Donor funding for projects and programs is channeled through Federal Government line ministries to the corresponding regional sector bureaus (Channel 2a) or is provided straight to the sector bureaus (Channel 2b). The Channel 2a funding is supposed to be budgeted for at federal ministry level. The Channel 2b funding is supposed to be budgeted for at regional level, but, as with other regions, this tends not to be the case in Oromia, the actual spending not being reported to BoFED either. The spending therefore constitutes unreported EBOs, the magnitude of which is not known. Judging by the experience in other regions assessed, the amounts could be significant.
- *Channel 3.* Donors (including NGOs) fund projects directly, bypassing both BoFED and sector bureaus.

PI-7 (ii) refers only to funds provided directly to any level of ONRS, that is, not through the federal subsidy, and only to extra-budgetary operations, that is, operations that are not in the Oromia budget and/or not included in the Oromia monthly and annual accounts. This definition excludes all the channel 1a projects—the PBS program, Productive Safety Net Program (PSNP), Household Asset Building Program (HABP), General Education Quality Improvement Program (GEQIP), Urban Local Government Development Program (ULGDP), Public Sector Capacity Building Program (PSCAP), and WaSH—and, in principle, Channel 2a projects. In principle, it excludes the Channel 1b projects (four UN ExCom projects), as these are contained in the approved budgets. At present, however, actual spending is not being reported on through IBEX due to the ongoing connectivity problems.

There is little information on Channel 2 and Channel 3 aid flows. Under Channel 2, the Global Fund for HIV, Malaria and Tuberculosis provides support directly to the Oromia Health Bureau and is not included in the Oromia budget or accounts, and appears not to be included either in the Ministry of Health (MoH), as also noted in the 2010 PEFA, at which time the Global Fund was spending very large amounts of money in Ethiopia, including in Oromia. According to the Health Bureau, US$ 67.9 million (approximately ETB 1,328 million) was disbursed to Oromia in FY 2012/13. Aid through the Agricultural Sector Support Project is channeled through the Ministry of Agriculture to Oromia Agriculture Bureau and is also omitted from Oromia fiscal reports, as it is covered in the Ministry of Agriculture's budget. Table 3.44, under indicator D-3, shows ETB 283 million on the UN ExCom projects funded through Channel 1b. These are budgeted for, but spending is currently not captured by IBEX (it was up to FY 2010/11). Together, these amount to ETB 1,611 million.

Under Channel 3, "unreported expenditure" in terms of assessing PI-7 (ii) includes any external aid to projects that does not flow through government accounts but has been agreed to through intergovernmental agreements, which may be at federal level, even if the spending takes place at regional level in sectors where the regional government is providing public services. U.S. Agency for International Development (USAID) funded projects, some of which are big, fall into this category, as indicated by the Multilateral and Bilateral Aid Department in MoFED. Aid through NGOs may or may not be considered as part of public funds, depending whether the NGOs are providing services that the regional government has a mandate to provide and whether there is a contractual service delivery agreement between the NGO and the relevant sector bureau or woreda office. Information on NGOs is deficient, even though NGO coordination guidelines issued in FY 2008/09 by BoFED require NGOs to register with BoFED and periodically report on their operations. Planned spending is reported, but actual spending tends not to be. Nevertheless, even for funding that falls outside the scope of this indicator, central information on such funding is important for sectoral management.

The chart of accounts differentiates only between external assistance (grants, codes 2000–2999) and external loans (codes 3000–3999) and captures only the Channel 1b assistance already noted. External assistance direct to sector bureaus, which could use these codes, is omitted from the accounts. According to BoFED, this is accounted separately. These accounts have not been seen by the assessment team, and the amount of unreported or unconsolidated expenditure is not known. Nor have any reports on relevant Channel 3 spending being seen, although it could be substantial.

Table 3.14 PI-7 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-7	D+	D+	M1	**No change.**
(i)	D	B	The level of unreported extra-budgetary expenditure (other than donor-financed projects) was 2.6% of total expenditure in FY 2012/13.	**No change.** Dimension (i) in the 2010 report was assessed on a different basis.
(ii)	B	D	Information on donor-financed projects is deficient.	**There does not appear to be any real change.** The 2010 rating was too high.

PI-8 Transparency of inter-government fiscal relations

The federal system of government in Ethiopia gives substantial political, administrative, and fiscal powers and autonomy to sub-national governments (see profile of sub-national government at Appendix G and section 2.3 on the legal and institutional framework). Oromia is the largest of the nine regional states. It is decentralized to 53 sector bureaus and other agencies, 18 zones, and 309 woredas (265 rural and 44 urban). Oromia receives an allocation of the federal block grant each month (see HLG-1 at the beginning of Chapter 3). The ORG also receives a relatively small Urban Development Grant, which has specific conditions attached to it, the inter-woreda allocation criteria not being as transparent as the block grant allocation.

This indicator assesses the transparency of allocations by Oromia State Government to the woredas. Allocations are made almost entirely through a system of non-earmarked block grants. The budget for FY 2012/13 (EFY 2005) included ETB 9,547.7 million for block grants. The block grant is disbursed to woredas in monthly installments by BoFED. It can be used in any sector and for capital or recurrent expenditures, as each woreda determines. In practice, most of it goes to recurrent expenditures, and mainly to salaries. Out of the 309 woredas, 13, mostly urban, cover their budgets from their own revenue, while 296 receive the block grants.

The allocation formula is continuously being refined. Several regions, including Oromia, now use a formula that is based on the unit costs of basic services, multiplied by the respective numbers of beneficiaries.

The assessment team visited East Shewa Zonal Office and Lomie Woreda to check on the predictability, transparency, and timing of Oromia state transfers. The East Shewa Zone has 30 sector offices, 10 rural woredas, and 3 urban woredas. The Zonal Office of Finance and Economic Development (ZoFED), which is, along with zonal sector offices, a de-concentrated component of the regional government, provides support to the sector offices on planning and budgeting. Lomie Woreda comprises 35 rural kebeles and five lower town administrations.

(i) Transparency and objectivity in the horizontal allocation among woreda government of transfers from ORG

The Oromia State Council allocates the block grant to the woredas based on unit costs, a formula that is intended to give every citizen fair and equal access to basic services: health, education, clean water, agricultural development, and road access. The formula is based on the following variables: (1) the number of beneficiaries of each basic service; (2) the unit (per capita) cost of woreda services; and (3) the revenue-raising potential. Data are collected and provided by each zone to BoFED in December and January. Expenditure needs are then estimated by sector, including education, health, agriculture, water, roads, and administration. Within these sectors, the main unit costs are identified, for example cost per student, per patient, and so on. Costs per unit are standardized and multiplied by the numbers of students, extension workers, and so forth. This gives the total cost of meeting the needs in each woreda, and funds are allocated accordingly.

Some of the "data" are matters of opinion, such as the revenue-generating potential. Woredas appear to be unable to use their data to calculate their subsidy themselves, and save themselves the trouble by waiting for the notification from BoFED and adjusting their budgets accordingly.

The capital budget provided by the Federal Government is allocated to woredas according to the infrastructure deficit in each of the basic sectors. Woredas with relatively poor infrastructure (schools, classrooms, farmer training centers, veterinary clinics, health centers and health posts, water supply, and roads) get higher shares. Each capital project must be approved and managed at the regional level. Disbursements are made according to progress.

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

The total amount of block grants to woredas from BoFED is mainly based on the amount of block grant from MoFED to BoFED. The initial notification of this from MoFED is in February. BoFED then provides woredas with initial notification of the block grants to them. Woreda offices then start preparing their budgets. Each Woreda Office of Finance and Economic Development (WoFED) consolidates its sector offices' work plans into a proposed budget and submits it to the Woreda Cabinet to be checked and agreed on. WoFED makes any necessary adjustments based on comments from the Cabinet and submits the budget to BoFED via the zonal office, which plays a facilitation and coordination role. The Cabinet may make further modifications. The revised draft budget may require further amendment by sector offices once MoFED provides BoFED with the final block grant to it, following Parliament's approval of the GoE Budget Proclamation at the end of June. The finalized Budget Proclamation is presented sometime in July or August to the woreda council for approval and Proclamation. Adjustments are usually small. The amounts of subsidy are considered sufficiently reliable to obviate any later significant changes by early June, one month before completion of budgets.

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

Zonal administrations consolidate monthly reports submitted by woredas in the zone and then submit reports to BoFED from their standalone IBEX systems. BoFED consolidates zonal and woreda data yearly. Reports follow the standard chart of accounts used by all levels of government, including the sectoral classification. These reports are consolidated into Oromia government reports by the Accounts Department, classified by function, program, and accounts code. Annual consolidated accounts are finalized within six months of the end of the year.

Table 3.15 PI-8 Results

PI-8	Score 2010	Score 2014	Justification	Performance change
M2	B+	B+		
(i)	B	B	For the EFY 2005 and 2006 budgets, at least 90% of the total grants to woredas were in the form of the formula-based block grant. WoFEDs tend to have some trouble understanding the basis for the allocation of the block grant.	**No change.**
(ii)	B	B	Zones and woredas are provided reliable information on their grant ceilings before they complete their budgets.	**No change.**
(iii)	A	A	Fiscal data are collected from all zones and woredas using the same chart of accounts as at higher levels. BoFED consolidates these into annual reports within six months of the end of the fiscal year.	**No change.**

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

(i) Extent of central government monitoring of AGAs and PEs

Most autonomous government agencies (AGAs) are monitored through IBEX. However, there are five AGAs and two public enterprises (PEs) outside the IBEX system (see section 2.3). These AGAs and PEs are monitored by their boards, which include representatives of the Mayor's office. They are accountable through OPESA to the State President and Council. They copy their reports to BoFED and their parent bureaus.

There is no regular consolidation of the reports of extra-budgetary AGAs and PEs, nor of fiscal risks arising from their operations.

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

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

Table 3.16 PI-9 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-9	A	C+	M1	
(i)	A	C	Extra-budgetary AGAs and PEs submit fiscal reports to the Oromia PPESA at least annually, but a consolidated overview of fiscal risk is missing.	**Performance not comparable due to change in scope**. ORG had only one public enterprise in 2010 (waterworks), the financial position of which was monitored.
(ii)	A	A	Zones and woredas cannot generate fiscal liabilities	**No change.**

PI-10 Public access to key fiscal information

Transparency depends on whether information on fiscal plans, positions, and performance of the government is easily accessible to the public or at least the relevant interest groups. See Table 3.17. For the overall PI score, see Table 3.18.

Table 3.17 Number of the Required Elements of Information to which the Public has Access

Information benchmark	Full compliance?
1. Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.	**No.** The budget law is published and available only after it is approved by the RC. The public cannot obtain a set of budget documentation when it is submitted to council. Later, it is posted on the BoFED website (www.oromiaBoFED.org) and on woreda notice boards.
2. In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.	**Yes.** Budget execution reports are posted quarterly on woreda notice boards within one month of their completion.
3. Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.	**Yes.** Annual financial statements are posted on woreda notice boards within six months of completed audit.
4. External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit.	**No.** Audit reports from Oromia Regional Auditor General (ORAG) are submitted to the RC, auditee, and any supervisory body, but are not made available to the public. ORAG has no website.
5. Contract awards: Award of all contracts with value above approximately US$100,000	**No.** Contract awards are not posted on any website or otherwise made available to the public.

is published at least quarterly through appropriate means.	
6. Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	**Yes.** Resources available to primary schools and health centers are known to the public as they are posted on school and health center notice boards.
7. Information collated by ORG on fees, charges, and taxes collected by woreda governments.	**No.** The information is contained in IBEX generated in-year revenue performance reports, but these are not available to the public (element 2). The ORA has no website.

Table 3.18 PI-10 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-10	C	C	The government makes available to the public three of the applicable seven elements of information.	**Improvement.** The number of elements met rose from one to three, but no change in score due to change in requirements introduced in SNG guidelines 2013. Scores not comparable.

3.3 Policy-Based Budgeting

PI-11 Orderliness and participation in the annual budget process

Budget preparation is in accordance with the Oromia Manual for Planning, Budgeting, Monitoring and Evaluation and Information Management.[10] The Oromia BoFED has adapted the federal budget calendar.

- A rolling three-year macroeconomic and fiscal framework (MEFF) is prepared by BoFED based on a review of the past year's revenue and expenditure, a GDP projection by BoFED, CSA projection of inflation, data from the Oromia Revenue Authority, Road Fund, external assistance estimates (from MoFED), and so forth. It is finalized by the end of October and put to the Oromia cabinet for approval by mid-November.
- Budget guidelines are issued first for capital estimates (the Public Investment Program) from October 1 to March 15.
- The budget is prepared consultatively, with major inputs from the Council's Public Accounts Committee (PAC, see also under PI-27), and selected members of the public. Sector bureaus and woredas prepare draft budget requests on assumed expenditure ceilings pending notification of the final ceilings and annual work plans with planned outcomes as justification for their budget requests.

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[10] BoFED September 2013. Prepared by the Project on Strengthening Multisectoral Planning and Budgeting Capacity for Anas in Oromia Region (ORCAD) with assistance from JICA. The budget calendar is at p. ii.14.

- The draft recurrent and capital budgets are submitted to BoFED in May or June.
- When BoFED knows the actual amount of the federal block grant, it allocates its projected available resources to regional sector bureaus and to woredas. Allocation to sector bureaus is based on: (1) the past year's expenditure; and (2) new recurrent activities and capital projects. Allocation to woredas is based on the regional transfer formula.
- BoFED reviews the draft budget and puts it up to the Cabinet for endorsement.
- The endorsed budget is then presented to the RC (which is composed of elected representatives from woredas and urban administrations) for appropriation and final allocations to sector bureaus, zonal offices, woredas, and urban administrations.
- The Budget Proclamation (appropriation) is made by the RC soon after the end of the fiscal year (July 7).
- Sector bureaus, woredas, and urban administrations receive notification within one week after the budget appropriation by the RC, and are supposed to finalize their budgets and action plans in August and September.

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

BoFED aims to comply with the federal budget calendar, but there is some slippage. The Budget Call letter with final ceilings is not issued until June 1-10, nearly one month later than specified in the calendar. BIs are required to complete their detailed estimates by mid–June, which means they only have a few days to do this, so that BoFED can consolidate all budgets for clearance by the Cabinet and presentation to the RC for approval by the end (or close to the end) of the fiscal year. Much of the information needed by BIs for preparing the detailed budget estimates has already been prepared during the earlier budget request preparation period (March-April), but nevertheless the time needed for BIs to consult with the zones and finalize their detailed estimates was insufficient in the years assessed.

(ii) Guidance on the preparation of budget submission

The Budget Call letter contains the ceilings for recurrent and capital expenditures agreed by the Regional Cabinet. The guideline is comprehensive and clear.

(iii) Timely budget approval by the legislature

In the past three years, the budget has been approved after the start of the Ethiopian Financial Year (EFY), July 8. It cannot be approved until the federal budget is approved, which is usually not until near the end of the year (June 30). The FY 2013/14 budget (EFY 2006) was approved on July 14, 2013.

Table 3.19 PI-11 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-11	B+	B	M2	
(i)	A	C	A clear annual budget calendar exists but is not generally adhered to and does not allow BIs enough time (at least four weeks) to meaningfully complete their estimates on time.	**Deterioration in compliance with the calendar.**
(ii)	A	A	A comprehensive and clear budget circular is issued to BIs that shows the	**No change.**

			ceilings previously approved by the Oromia cabinet.	
(iii)	C	C	Council has approved the budget within two months of the start of the year for the past three years.	**No change.**

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

This indicator examines the medium-term expenditure implications of current policies and ongoing projects (their capital and recurrent expenditure implications) and new projects coming from the GTP and sector strategies, and the medium-term resource envelope expected on current taxation and non-tax revenue policies. Until recently, Oromia state region operated on a balanced budget. Since Oromia Council Proclamation 156/2010, BoFED is allowed to borrow domestically or give guarantees with RC authorization (Article 39).

The indicator has four dimensions, which cover the existence of a multiyear framework with functional allocations, the scope and frequency of debt sustainability analysis, the existence of sector strategies with comprehensive multiyear costing, and the integration of capital and recurrent expenditure in project appraisal.

(i) Preparation of multiyear fiscal forecasts and functional allocations

BoFED prepares a MEFF, which is a three-year projection of revenue and expenditure aggregates, rolled forward each year, based on the main economic and functional categories. This is done from August 15 to October 30 and submitted to the Cabinet for approval November 1–15. It is the basis on which the overall expenditure ceiling is established. The spending ceiling for the second year of the MEFF forms the starting point for establishing the spending ceiling for that year's budget, thus representing a continuation of macro-fiscal policy. Multiyear estimates are thus linked, and budget ceilings are not simply incremental. A medium-term expenditure framework (MTEF) under which functional and sectoral spending categories are projected is not yet in place.

(ii) Scope and frequency of debt sustainability analysis

Although Oromia State Government may now legally borrow domestically or give guarantees, it has contracted very little debt or guarantees. The need for debt sustainability analysis has not yet arisen. This indicator is currently not applicable.

(ii) Existence of costed sector strategies

Major sectors are said to have costed strategies. However, none has been produced to the assessment team.

(iii) Linkages between investment budgets and forward expenditure estimates

The MEFF and budget estimates cover both recurrent and capital expenditure, and the Budget Call letter requires BIs to include the recurrent expenditures that will result from completion of capital assets. At zone and woreda levels, the same staff prepares both capital and recurrent budgets. These are checked by BoFED Budget Department.

The linkage of capital investment decisions to sector strategies and the GTP is not clear, but it appears that decisions do take account of recurrent expenditure consequences.

Table 3.20 PI-12 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-12	D+	NR	M2	**Improvement under (i).**
(i)	D	C	A MEFF has been established since the 2010 PEFA assessment. Under this, aggregate spending ceilings are projected over the next three years. The second year is the starting point for establishing the aggregate spending ceiling for the next budget preparation period. An MTEF, under which medium-term expenditures are estimated on a functional and sectoral basis, is not yet in place.	**Improvement.**
(ii)	NA	NA	NA	**No change.**
(iii)	C	NR	No sector strategies seen.	**No comparison.**
(iv)	C	C	Many investment decisions have weak links to sector strategies, and their recurrent cost implications are included in forward budget estimates in some cases.	**No change.**

3.4 Predictability and Control in Budget Execution

PI-13 Transparency of taxpayer obligations and liabilities

(i) Clarity and comprehensiveness of tax liabilities

The Oromia Revenue Authority was established by Proclamation 175/2005. It has branches in 306 woredas.

The federal tax laws are listed in the federal assessment. The ONRA tax laws are as follows:

- Income Tax Proclamation no. 37/2004
- Stamp Duty Proclamation no. 137 of 2008 (A Proclamation to Amend the Stamp Duty no. 77/96
- Khat Product Tax Proclamation – 23/2000
- Income Tax Proclamation 74/2003 and amendment 134/2004
- Excise Tax Proclamation 76/2003
- Mining Income Tax 92/2005
- Rural Land Use Payment and Agricultural Activity Tax Amendment – 99/2005
- Revised Rural Land Use Payment and Agricultural Tax 131/2007
- Income Tax Proclamation Amendment 134/2008
- Turnover Tax Amendment 135/2008

There are also VAT laws.

Further regulations have been introduced to cover the introduction of new computerized techniques such as point-of-sale (cash register) data collection, biometric registration, online declaration, and so forth. All tax laws and regulations are posted on the Ethiopian Revenue and Customs Authority (ERCA) website. In general, the current rules and regulations are comprehensive and clear. Private sector representatives complain that presumptive assessments are often inflated to extort settlement, in particular where an appeal requires 50 percent of the assessment to be paid up front (see PI-13 (iii)). ERCA is undertaking a complete overhaul of tax procedures, with technical assistance from IMF.

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

Information on tax liabilities and administrative procedures for taxpayers is provided by the Oromia Revenue Authority and all its branches via the following avenues:

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

The RA's Taxpayer Education Directorate, in collaboration with ERCA, aims to enhance the awareness of taxpayers and thereby encourage voluntary compliance, improve taxpayer relations, increase taxpayer registration, and improve taxpayer participation and partnership. Private sector representatives confirm that ORA is improving taxpayer relations and compliance.

(iii) Existence and functioning of a tax appeals mechanism

Like the federal level, Oromia has a three-tier system to resolve tax disputes. In the first tier, a taxpayer has 10 days to appeal against an assessment. The appeal is addressed to ORA's Tax Complaints Team, which examines the complaint independently and can recommend revision of the assessment and waiver of penalties. If the taxpayer is not satisfied with the decision, she or he can appeal within 30 days to the Tax Appeal Commission (TAC); 50 percent of the assessment has to be paid up front pending resolution.

The TAC is a body under the Office of the State President. It has five members, one from ORA (who may act as chairperson), one from the President's office, one from the trade office, and two from the Oromia Chamber of Commerce, representing the taxpayers. The TAC has the authority to confirm, reduce, or annul any assessment appealed against. According to the Chamber of Commerce, the appeal procedure is not working, partly because of the prohibitive cost of paying half the assessment up front (although this is returned if the decision is in favor of the taxpayer), and partly because of the undue influence of the RA. Taxpayers tend to stop at the first level of appeal.

A party dissatisfied with the decision of the TAC can appeal to the competent court of appeal on the ground that it is erroneous on any matter of law within 30 days. The court of appeal hears and determines any question of law arising on appeal and after reaching its decision returns the case to the TAC. An appeal to a higher court of appeal from the decision of the lower court of appeal may be made by either party, within a further 30 days.

During FY 2012/13, the proportion of cases decided in favor of the revenue authority (conviction rate) was 65 percent. The high rate of conviction, and the inclusion of the revenue authority in the judicial process, raises doubts about its fairness and independence. According to the Chamber of Commerce, there are many irregularities in tax settlements.

Table 3.21 PI-13 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-13	A	A	M2	
(i)	A	A	Legislation and procedures for most taxes are comprehensive and clear, with limited discretionary powers of the revenue authority.	**No change.**
(ii)	B	A	Taxpayers have easy access to comprehensive, user-friendly, and up-to-date information on tax liabilities and procedures, and the revenue authority supplements this with taxpayer education campaigns.	**Improvement in taxpayer information.**
(iii)	A	B	A tax appeals system of transparent administrative procedures is functional, but some issues relating to access and fairness need to be addressed.	**Apparent deterioration.**

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

(i) Controls in the taxpayer registration system

Under the current taxpayer registration system, in effect since 2002, every taxpayer should have a taxpayer identification number (TIN). ERCA started to develop an automated TIN system in 2008, supported by a biometric fingerprinting system through integration of the Standard Integrated Government Tax Administration System (SIGTAS) with an automated fingerprint identification system, which includes a card production facility. In Oromia a total of 665,726 fingerprints (including students) have been collected, of which 373,559 represent Oromia formal taxpayers. The team was told that, as a result, almost 99 percent of taxpayers in the region are now registered. As in the Federal Government and other regions, it is not possible to get a trade license, form a company, or open a business bank account without a TIN and there is a serious penalty for not having a TIN. Thus, there are strong incentives for having a TIN and the biometric registration program has made it easier to obtain one.

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

Penalties are levied according to law for noncompliance with registration and declaration requirements. The main issue with the penalty system at the time of the 2010 assessment was that taxpayers were still not fully complying with their obligations. The penalty waiver directive, therefore, introduced at that time (following the Federal Government's example) through an amendment to the Income Tax Proclamation in 2008 (PI-13 (i)), permits penalties to be waived if taxpayers quickly pay past tax due and associated interest. The incentive for complying with the directive is the avoidance of heavier penalties at a later date (due to accrued interest); the quicker people pay, the greater the proportion of waiver.[11] The Government's revenue ends up being higher than in the absence of such a penalty waiver scheme. As a result of the directive, 80–90 percent of penalties are waived on payment of tax liabilities. No data have been seen by the team, however. As the arrears collection ratio is high (see PI-15 (i)), it appears that the penalties provide a sufficient incentive for payment of arrears, although not payment on time, and that revenue would be lower without them. SIGTAS has, since the 2010 assessment, made it easier to detect noncompliance and therefore to impose penalties for noncompliance.

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

To combat widespread tax evasion, efforts to counter it continue, principally by improved tax audit and enhanced taxpayer compliance. An annual plan is prepared by regional, zonal, and city administration levels and consolidated centrally by the audit and investigation department. There are 12 auditors at the regional office and 4 to 8 auditors, depending on size at zone and city administrations. Woredas are covered by zonal auditors. Tax audit procedures for Oromia have been aligned with SIGTAS using 13 risk-based criteria. The tax audit program is monitored to relate the number of days spent on tax audits to the additional revenue assessments made. In FY 2012/13 eight tax auditors generated ETB 14.1 million additional revenue.

Table 3.22 PI-14 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-14	B	B+ ↑	M2	
(i)	B	A	Taxpayers are registered in a complete database with comprehensive direct linkages to other government registration systems and financial sector regulations.	**Improvement.** This is due to introduction of a biometric fingerprinting system that has resulted in nearly all potential taxpayers being registered through issue of TINs.
(ii)	B	B↑	Penalties for noncompliance exist but are not always effective in terms of getting people to pay their taxes on time.	**No change.** However, the penalty waiver directive is providing an incentive to pay off tax debts quickly.
(iii)	C	B	Tax audits and fraud investigations are managed and reported on according to a documented audit plan with clear risk assessment criteria.	**Improvement.** This is through introduction of risk-based criteria and monitoring of recoveries per auditor.

PI-15 Effectiveness in the collection of tax payments

Fur

[11] Under the directive a payments plan is agreed between ORA and the taxpayer, usually with a time limit (1–6 months). Payments of arrears 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 penalty waiver is 100 percent%, if within 2 months up to 80 % per cent waiver, depending on the reasons forwarded by the taxpayer for not complying. SIGTAS is programmed to administer these waivers.

(i) Collection ratio for gross tax arrears

Arrears can now be manually identified and aggregated from the SIGTAS database,. These are not significant. According to the revenue authority, arrears at the beginning of FY 2011/12 (EFY 2004) were ETB 22.1 million, which was 1.1 percent of FY 2010/11 total tax collections, and were ETB 36.3 million at the beginning of FY 2012/13, which was 1.15 percent of total tax collections for FY 2011/12. The collection ratio is low, only 18.8 percent over the past two years, but the low level of arrears justifies an A rating. The data for the last two years is shown in Table 3.23.

Table 3.23 Collection of Tax Arrears (ETB millions)

	Arrears at beginning of year	Collections of arrears during year	Debt collection ratio %	Total tax collections	Arrears/total collections %
FY 2010/11				2004.6	1.1
FY 2011/12	22.1	4.6	20.6	3,154.8	1.2
FY 2012/13	36.3	6.1	16.9	4,281.3	NA[a]
Average of past two years			18.8		1.1

a. Arrears at beginning of FY 2013/14 not available to team as FY accounts not yet finished.

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

Taxes and duties have to be paid by certified check at any of the woreda branches, or a branch of the Commercial Bank of Ethiopia (CBE). Checks paid into CBE branches are transferred daily and credited to a BoFED account within a few days. Cash collections at woreda branches are not deposited in banks until they reach prescribed threshold amounts, which may be up to a month later. A percentage of revenue collected by woredas is retained for possible refunds. Most of the tax revenue collected is retained by the WoFEDs for their own expenditure and offset against the monthly subsidy from BoFED.

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

The bank gives the taxpayer a slip, which she or he takes to the woreda office for a receipt. At the woreda level, receipts are reconciled daily with collections as shown on the bank statements. There is a monthly reconciliation of revenue collected by the branches with the amounts credited to the Treasury Account within 15 days of the end of the month. However, no reconciliation of opening arrears, assessments, penalties, collections, waivers, and closing arrears has been seen by the assessment team. Although individual taxpayer accounts are reconciled, SIGTAS does not aggregate this information for all taxpayers. Aggregate arrears are calculated manually, but no overall reconciliation appears to be made.

Table 3.24 PI-15 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-15	C+	D+	M1	**No change.** Dimension (iii) appears to have been over-scored in 2010 assessment.
(i)	A	A	The total amount of tax arrears is insignificant (less than 2% of total annual collections).	**No change in rating.** However, arrears as a percentage of tax collections fell to 1.1% from 1.4% (average of two years).

(ii)	C	C	Revenue collections are transferred to BoFED at least monthly.	**No change.** However, there is some improvement in collection procedures.
(iii)	B	D	No complete reconciliation seen. There is monthly reconciliation of revenues collected by ORG branches with amounts credited to BoFED bank account, but complete reconciliation of assessments, arrears, and collections not conducted.	**No change.** The 2010 assessment did not show evidence of reconciliation of arrears with assessments and collections. Appears to have been over-scored.

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

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

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

On approval of the annual budget, each BI and woreda prepares a forecast of its monthly recurrent and capital cash requirements. For the first month, BoFED releases one-twelfth of the recurrent budget. For subsequent months, the BI or woreda should submit a request by the 10th of each month to meet its needs for the following three months, together with copies of the payroll, procurement plan status, and commitments, to justify its request. Separate requests are made for recurrent and capital expenditure and separate ceilings are issued. Releases may be cut if a BI has unspent funds in its zero balance bank account, for example, because of contractor delays. Releases may be increased if needed, for example, for seasonal expenditures, but within the budget. BoFED processes requests and notifies each BI of its zero-balance ceiling by the fifth of the month. Releases to woredas are made by transfer to their bank accounts, subject to deductions for revenue they have collected and retained. Releases for non-salary expenditures are made immediately, while releases for salaries are made at the end of the third week.

About 50 percent of ORG's budgeted domestically funded expenditure consists of subsidies to woredas and urban administrations. These transfers are virtually guaranteed and the monthly disbursement pattern is planned in advance (simply the total divided by 12). Out of the other 50 percent, about 25 percent is for personnel expenses, which are also highly predictable on a monthly basis. Thus, cash flow forecasting is of importance to about 37 percent of total ORG expenditure.

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

As noted, BIs get monthly releases (overdraft ceilings for their zero bank balance accounts) but can rely on the indicative amounts for the subsequent two months. In practice, BIs and woredas can plan and commit expenditures with a time horizon up to the end of the year with a high degree of confidence that resources will be available to meet payments eventually arising from such commitments. Transfers from GoE comprise the bulk of ORG's financial resources and the receipt of these is very predictable. Since FY 2001/02, there has not been any cash flow problem. If cash is insufficient, a BI can apply for an increase in its monthly ceiling, within its budget.

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

In-year adjustments by the Council in FY 2012/13 (EFY 2005) were made only once through a supplementary appropriation. However, BoFED has discretion on reallocations among sector bureaus, zones, and woredas within the approved total expenditure. The only restriction is that transfers cannot be made from a capital budget to a recurrent budget. Reallocations are frequent but made after consultation with the affected BIs and with cabinet approval. The actual number of adjustments is not available, but the low score on PI-2 indicates that the amounts are substantial.

Table 3.25 PI-16 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-16	C+	C+	M1	**Improvement under (i)**
(i)	B	A	A cash forecast is prepared for the year and updated monthly based on actual cash inflows and outflows.	**Improvement** to monthly from quarterly updates.
(ii)	A	A	BIs are provided reliable information on resource availability at least quarterly in advance and can with confidence plan and commit expenditures with a time horizon for payments up to the end of the year.	**No change.**
(iii)	C	C	Significant in-year budget adjustments are frequent, but undertaken with some transparency.	**No change.**

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

The Oromia government may borrow from domestic sources with authorization by the RC (Financial Proclamation 156/2010, Article 39), and identify external sources of loans and ask the Federal Government so the latter secures the loan agreement for the benefit of the region. At the time of this assessment, it had no formal borrowing (at any level), but the consolidated trial balance showed sundry creditors and other operating payables (ETB 975million at July 2013, equivalent to 18 percent of total expenditure for the year).

(i) Quality of debt data recording and reporting

There is no formal debt, and debt recording and reporting is not an issue. This dimension is not applicable.

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

The Oromia State Government has 292 bank accounts, as follows:

- 156 'A' accounts funded by donors (ETB accounts);

- 52 'B' accounts for receipt of revenue, held by revenue receiving BIs and woredas;
- 44 'D' accounts for deposits;
- 44 'Z' accounts (zero-balance accounts for BI expenditure). All BIs have Z accounts, including four outside Addis Ababa. The zonal offices and woredas are not connected.

The numbers do not include all woreda bank accounts.

The zero-balance accounts are cleared daily against the main Central Treasury Account. The balances on the donor-funded accounts are known but not consolidated with other balances. The revenue accounts are cleared in two weeks to a month (see PI-15 ii). Deposit account balances are not government revenue and are not included in the single Treasury Account arrangement. About 70 percent of all deposits in ORG-controlled bank accounts are part of Treasury Single Accounts (TSAs).

(iii) Systems for contracting loans and issue of guarantees

As noted, the Oromia State Government can now borrow, but this has not yet been done, and there is no debt strategy or limits in place. However, no borrowing can be done or issue of guarantees made except through BoFED and with RC authorization.

Table 3.26 PI-17 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-17	B	C	M2	
(i)	NA	NA	There is no formal debt.	**No change.**
(ii)	B	C	Most government cash balances are calculated and consolidated at least monthly.	**No change.** The 2010 rating appears to have been too high.
(iii)	NA	C	The contracting of loans and guarantees are subject to approval by BoFED but are not subject to clear guidelines.	**Change in the legal framework.**

PI-18 Effectiveness of payroll controls

As the payroll is a major component of expenditure, its effective control is an important part of financial management. This indicator is concerned with the payroll of public servants only: wages for casual labor and discretionary allowances are included in the assessment of general internal controls (PI-20).

As in the Federal Government, Oromia payroll is decentralized. Personnel records are maintained by the human resource department of each BI. The Bank of Ethiopia (BoE) uses software called Payroll Management Information System (PMIS).[12] The software is currently used in about 70 woredas in the region. Other BIs including BoFED are not computerized: Excel spreadsheets are generally used for the preparation of payroll. Salaries are transferred to the saving accounts of staff directly from the accounts of BIs by the 24th of each month.

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

Fur

[12] Implementation of the software in the Bureau of Education was funded by USAID.

Wages and salaries are paid by the Financial, Procurement and Property Management Department (FPPMD) based on the list of personnel originally prepared by the Human Resources Department (HRD) and contained in its payroll system. Each month, the head of the HRD sends a list to the head of FPPMD of any changes to its personnel records that need to be reflected in the payroll, including attendance related changes.

The personnel database and the payroll system are not integrated or linked electronically. However, for every record change, FPPMD is notified by letter. Every month, payroll sheets are reconciled against the previous month's payroll and changes are supported by documentation.

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

Changes to personnel records (hiring, firing, retiring, promotions, demotions, and position shift) are the responsibility of HRD, following notification by the head of the employee's department. The list of staff sent to FPPMD each month reflects any changes made up to the 20th; changes made after the cutoff date are reflected in the following month's payroll.

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

There are three main controls. Firstly, employees sign an attendance sheet twice a day (morning and afternoon). It is the responsibility of the head of the department to report absenteeism to HRD together with attendance sheets. HRD issues the list of employees to be paid for the month and deductions for absenteeism. HRD issues a letter to FPPMD to suspend salary payment of an employee absent from work over five days. If the employee does not report within five days, HRD issues a letter of dismissal. Secondly, the payroll is reconciled against the previous month's payroll routinely before approval and transfer of cash to the accounts of the respective employees. Thirdly, only the payroll accountants have access to the Excel spreadsheet. Hard copy evidence of primary hiring, firing, retiring, promotions, demotions, and position shifts are kept in HRD, FPPMD, and Central Archive. Monthly attendance and payment authorization documents are signed by relevant employees for preparation, verification, and approval and filed chronologically at FPPMD.

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

Payroll audits are conducted as one component of the internal audit system (PI-21) and external audit system (PI-26). Internal auditors review the payroll as part of the financial audit. No comprehensive payroll audit is conducted. However, the internal auditors check the payroll payments against attendance sheets, check against the previous month's payments, check the calculations, and check whether new additions are in line with the HR records. In addition, internal auditors check HRD databases for completeness as a separate HRD audit. External auditors audit the payroll similarly. Ghost workers are not generally a problem in the region: just two cases were reported some years ago at woreda level and they were rectified immediately. Payroll audits are conducted as one component of the internal audit system (PI-21) and external audit system (PI-26). They cover all government entities.

Table 3.27 PI-18 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-18	B+	B+	M1	
(i)	B	B	Payroll and personnel database are not linked directly electronically, but payroll	**No change.**

PI	Score 2010	Score 2014	Justification	Performance change
			data is updated within a month based on personnel documentation and payroll of the month reconciled against the previous month payroll.	
(ii)	A	A	Payroll changes are updated in the month of the change if received before the 20th of the month, and if the change occurs after the end of the 20th day of the month, changes will be reflected on the subsequent month's payroll.	**No change.**
(iii)	A	A	There is a separation of role between maintenance of personnel records and preparation of payroll. Only payroll accountants have access to the Excel spreadsheet, and changes made to the payroll can be trailed back to the personnel documents copied to finance and those retained by the personnel department.	**No change.**
(iv)	B	B	There is no comprehensive, systemic audit of payroll. However, a separate audit of personnel records and payroll payment is conducted by both internal and external auditors as part of the financial audit.	**No change.**

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

More than 65 percent of the annual budget is spent through procurement, so an effective procurement system is critical for getting value for money and for the success of the GTP.

The actual practice of procurement is decentralized to BIs, zones, and woredas. In Oromia State, all procuring entities are regulated by the Procurement and Property Administration Unit (PPA) of the Financial Administration and Property Management Department, BoFED. The main functions of the PPA are to regulate procurement in accordance with the Oromia Proclamation 157/2010, which is currently being updated in line with the federal Proclamation, and to build procurement capacity of all stakeholders: procurement units, members of procurement approval committees, senior officers of bureaus, internal and external audit, and finance staff.[13] The PPA is responsible for procurement of common user items on behalf of all BIs but does not otherwise participate in any procurement decisions itself. The Proclamation does not cover procurements by public enterprises, nor procurements under external funding where the donor partner prefers to use different regulations. The FPPMD also regulates disposal of public properties (see under PI-20 (ii)).

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[13] A recent report on training needs in the Oromia State Government estimated the total number needing procurement training at 778. In all areas of PFM, the total number needing training was estimated at 25,988. *Conducting an Assessment and Producing PFM Institutionalized Training Strategic Action Plan, Oromia Regional State, Final Report*, April 2013, under MoFED PBS II Project, by IPE Global and B&M Development Consultants

Each BI is required to prepare and approve its annual procurement plan as part of its budget and submit a copy to the PPA (Proclamation, Article 12), but many plans are not sent or are incomplete. The plans are not published, but each BI is required to publish intended individual procurements over the relevant thresholds: works, ETB 10 million; goods, ETB 3 million; consultancy, ETB 2 million; and other services, ETB 1 million. Each BI has a procurement unit and a Procurement Approval Committee (PAC) of senior officers appointed by the head of the public body, which approves the bid documents before they can be issued and the evaluation of bids before a contract can be given. The procurement unit acts as the secretariat to the committee. All bidders are promptly notified of the results of the evaluation and have the opportunity to complain if they wish (see PI-19 (iv)). A similar procedure is followed in the Bureaus of Education and Health. There is no publication of contract awards, contrary to international standards. The Chamber of Commerce says that there are many complaints from its members (e.g., bidders not being invited to bid openings) and that complaints are not adequately addressed.

Every BI is required to submit a quarterly report to PPA showing the value (but not the number) of all contracts given during the quarter, categorized by method of procurement. These data are entered into the PPA database. The PPA estimates that only 80 percent of BIs are reporting. PPA annual reports show what is reported by BIs as being through open bidding, restricted bidding, request for proposals, request for quotation, and direct purchase (sole source). There is no verification of the data except indirectly through procurement audits. These are carried out by PPA as far as staff numbers and capacity allow. At present, there are six procurement auditors. The plan for FY 2013/14 was to audit 40 BIs out of all 370 (9 service bureaus, 4 zones, and 27 woredas): 25 had been completed at March 25, 2014. This is an in-depth audit of compliance with the Proclamation, directive, and standard documents and processes. Errors and irregularities are documented and reported back to the BI and to ORAG and a summary sent to the Council through BoFED. Corrective actions by each BI are checked in the next audit.

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

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

The requirements for the scoring of this dimension are listed in Table 3.28, and whether the state of affairs in the last completed year (FY 2012/13) meets the requirement.

Table 3.28 Transparency in Procurement

Requirement	**Oromia government practice in FY 2012/13**
1. The legal framework is organized hierarchically and precedence clearly established.	**Yes**. The procurement Proclamation and directive clearly establish the sole authority of the PPA on procurement by all the budgetary institutions.
2. It is freely and easily accessible to the public through appropriate means.	**Yes.** The Proclamation and directive are posted on the BoFED website, together with the regulations,

	manuals, and standard bidding documents. PPA does not yet have its own website.
3. It is applied to all procurement undertaken using government funds.	**Yes**. It applies to all Oromia state procurements using national procedures.
4. Open competitive procurement is the default method of procurement and the situations in which other methods can be used and how this is to be justified is clearly defined.	**Yes.** Open bidding is the default method under Proclamation section 33 (2), and other methods are defined clearly and have to be justified.
5. It provides for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints.	**No.** Bidding opportunities are required to be published in national newspapers. Procurement plans, contract awards and complaints, and their resolution are not required to be published.
6. It provides for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature.	**Yes.** There is an independent Complaints Review Board, and there is a five-day window in which complaints can be made before the contract is signed.

(ii) Use of competitive procurement methods

There are six methods described in the Proclamation: (1) open bidding (national or international); (2) request for (consultancy) proposals; (3) two-stage tendering; (4) restricted tendering; (5) request for quotation (RFQ); and (6) direct procurement (single sourcing). Open bidding is the default method (Proclamation sec. 33 (2)). According to PPA, 80–90 percent of contracts use national competitive bidding. The Proclamation 157/2010, Article 11 (6) allows BoFED to authorize deviations from prescribed methods. The assessment team was unable to access the report containing this information.

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

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

(iv) Existence of an independent administrative procurement complaints system

There is an independent complaints system, but the complainant has to submit the complaint first to the head of the BI (procuring entity). The Proclamation requires that the head answers within 10 days. If the complainant is not satisfied, the complainant can submit the complaint (within a further five days) to the Complaint Review Committee (CRC), which is an independent body set up by the 2009 Proclamation. The CRC comprises a private sector representative (currently the secretary, Oromia Chamber of Commerce); a senior officer of the procuring entity; the Deputy Head of BoFED; and two experts from the PPA. The PPA acts as secretariat to the CRC. It must meet within 15 working days of receiving the complaint. In the meantime, the procurement is suspended. In FY 2012/13, only six complaints were received: all were decided in favor of the complainant. Complaints in FY 2013/14 are rising, due to widespread training and greater awareness of rights. If a complainant is not satisfied, the case can be taken to a legal court.

The requirements for scoring this dimension and the present situation are shown in Table 3.29.

Table 3.29 Procurement Review Requirements

Requirement	**Present situation in Federal Government**

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

Table 3.30 PI-19 Results

PI	Score 2010	Score 2014	Justification for score	Performance change
PI-19	NA	C	M2	**No comparison possible due to change in method of assessment.**
(i)	NA	B	Five of the listed requirements are fully met.	
(ii)	NA	D	Reliable data were not available to the team.	
(iii)	NA	D	The government does not systematically make key procurement information available to the public	
(iv)	NA	B	The complaints system meets criteria 1 and 2 and four of the other five criteria.	

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

Financial controls are embedded in the financial regulations (themselves derived from the Financial Administration Proclamation) and associated internal directives. Other controls, 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. The adaptation is mainly a matter of translation into Afan Oromo.

A number of regulations and internal control procedures have been developed and circulated through the support of Expenditure Management and Control Program (EMCP) projects including the following:

- Financial Administration Proclamation no. 156/2010
- Financial Administration Regulations
- Procurement Proclamation no. 157/2010
- Guideline/Manual for the Procurement of Goods and Services
- Manual for the Administration of Budget
- Manual for Cash Management

- Cash Disbursement Manual
- Accounting Procedure
- Financial Accountability
- Internal Audit Manual
- Internal Control Standards
- Property Administration
- Handover Procedure
- Procedure On Guarantor

In addition, the internal audit manual of the regional government contains the basic principles of internal control systems. Line managers, with assistance from internal auditors and ORAG, are responsible for ensuring that internal controls are respected.

(i) Effectiveness of expenditure commitment controls

The IBEX system has a budget control module that is not fully used in Oromia. Commitments are controlled using separate records. According to the ORG Financial Administration Regulations, a BI cannot enter into an expenditure commitment without an approved budget and, within the budget, cannot enter into a commitment if the remaining uncommitted ("unencumbered") balance is insufficient, without the approval of the head of the BI. It seems that the law is generally respected.[14]

The PEFA Framework requires not only that commitments are controlled within the budget but also that they are controlled within projected cash availability. The IBEX system does not control commitments against projections of cash availability as derived by BoFED from the cash flow forecasts prepared by BIs (PI-16). It only monitors them, enabling the calculation of remaining uncommitted budget balance after a new commitment has been entered into the system. Financial administration departments in BIs can, however, through their manual control processes, block proposed commitments that would result in monthly cash expenditure limits (PI-17) established for the next quarter being exceeded (PI-16, PI-17). They can also block proposed commitments that would generate payables in following quarters not consistent with cash plans earlier agreed with BoFED (or they could suggest re-phasing and adjustment of expenditure plans). Thus, cash availability is taken into consideration, as well as unencumbered budget availability, in terms of controlling commitments.

According to the Oromia Chamber of Commerce, bills are typically paid two months after submission and in some cases, e.g., on government housing, are not paid even after two or three years (see PI-4). According to the discussion with the Oromia Road Authority, there are times when contractors perform work in excess of the available cash for the period, partly because they are implementing projects faster than budgeted for. In such cases, contractors may be required to wait for some time, perhaps up to three months, for payment after submission of certificates of work done. This is mainly a planning and budgeting issue rather than a commitment control issue, as the contractor is doing work that has not been budgeted for; in fact the commitment control system is working through guarding against payment for such work. A situation may also arise if the government revises the road construction budget downward during the year but does not inform the contractor to this effect. This is a communication issue rather than a commitment control issue.

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[14] In FY 2012/13, four BIs of a total of 46 spent ETB 49.5 million over their revised budgets, out of total expenditure of ETB 21,701 million.

There are instances where grace period payables (GPPs) (PI-4) remain outstanding for about 12 months due to delays in the review and approval of payment certificates submitted by contractors. Engineers based at zonal offices review payment certificates against physical work accomplished and may lack capacity. Their approval is required before the woredas can pay. The number of steps involved in processing such payments may be excessive (and thus an issue under PI-19 (ii) and PI-4, the benefits of the business process reengineering exercise not having been fully realized yet). This is a payments process issue rather than a commitment control issue.

It is expected that the introduction of IFMIS will enable more systematic control of commitments within the cash available through the automation of the largely manual commitment control processes currently used.

(ii) Comprehensiveness, relevance, and understanding of other internal control rules and procedures

As noted, manuals and guidelines have been issued with the objective of strengthening internal control. These prescribe segregation of duties for preparing, checking, certifying, and approving the movement of resources including cash, stock items, and properties. The number of people involved depends on the nature of the transaction. For some procedures (payroll, procurement, and employment), there is a separation of roles between units, functions, and committees. There is a periodic reconciliation of bank accounts against statements, and property and stock records against physical counts. The internal audit function (PI-21) prevents and detects noncompliance. Both internal and external auditors critically check daily subsistence payments (per diems) for rates, number of field days against attendance, authorization, and relevant documents. The internal control manual also outlines management responsibilities.

Documentation on regulations and procedures is readily accessible in offices, enabling good understanding by staff. Training has been provided for the accountants and head of BIs on the various internal control systems including on internal audit.

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

Generally, compliance with rules for processing and recording transactions is good. ORAG has reported noncompliance in certain BIs on cash and stock handling (shortages), effecting payment without documentation, and unlawful per diem payments, which in total represent about ETB 223 million. In addition, it is reported that a total of ETB 296 million was paid by different auditees with incomplete documentation and about ETB 336 million was paid contrary to financial and procurement laws, regulations, and directives. These amounts are almost 4 percent of total expenditure of ETB 21.7 billion in FY 2012/13.

Future reforms. It is expected that compliance will improve in the future from the recent initiatives of ORAG (PI-26) and the RCs (PI-28) using TV and radio programs on the findings of audit reports and measures being taken on noncompliance.

Table 3.31 PI-20 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-20	B	B	M1	

(i)	B	B	Expenditure commitment controls are in place. Together with strong cash management, they effectively limit commitments to projected cash availability and budget allocations with minor exceptions.	**No change.**
(ii)	B	B	Financial and non-financial controls are comprehensive, well documented, and widely understood.	**No change.**
(iii)	B	B	Compliance with rules is fairly high, but certain procedures may not be respected occasionally by some BIs.	**No change.**

PI-21 Effectiveness of internal audit

Regular and adequate feedback to management is required on the effectiveness of controls through an internal audit function (or equivalent systems monitoring function). This indicator assesses: (i) coverage and quality of the internal audit function; (ii) frequency and distribution of reports; and (iii) extent of management response to internal audit findings.

Internal audit activities in ORG are carried out by the internal audit unit of each BI. An internal audit manual, which was adapted from GoE internal audit manual, has been used since 2006. The manual was developed with a focus on meeting professional standards as per the International Standards for the Professional Practices in Internal Audit, issued by the Institute of Internal Auditors. In addition, the Inspection Department has adapted the prototype training module and report-writing guide, originally prepared by MoFED, and distributed them to internal audit units.

The Inspection Department, which is based in BoFED, is responsible for supervising internal audit activities, building capacity of the internal audit units and enhancing internal audit quality throughout the region. The department also conducts special audits originated by the head of BoFED, informants, and the Ethics and Anticorruption Commission. In addition, it conducts regular audits in collaboration with the internal audit team of BoFED, when BIs and woredas lack capacity. Two staff members are attending the certification course for Certified Internal Auditor from the Institute of Internal Auditors. In FY 2009/10, the Inspection Department developed a standard on the number of internal auditors required per BI. BIs are categorized by type, and the number of internal audit staff per BI is three, five, or eight, depending on the size of the BI's annual budget and the complexity of its transactions. The standard number of internal auditors for zonal offices is eight and for woredas is five. At the time of this assessment, about 70 percent of the positions were filled. Staff turnover is an issue in the region. Low salary, high workload, lack of independence, and unsatisfactory follow-up of internal audit findings are said to be major factors driving staff turnover. Newly recruited internal auditors often lack capacity to conduct internal audit until they have been trained.

(i) Coverage and quality of the internal audit function

The manual and procedures on internal audit are in line with professional standards. Internal audit is operational in all 44 BIs, 18 zonal offices, and 309 woredas. The Inspection Department reviews the annual audit plan of all internal audit units every year and may recommend the revision of the plan.

Comprehensive risk analysis is not practiced in most internal audit units. The units are required to audit accounts of the respective BIs on a monthly basis. When time allows, the units conduct systemic audits on procurement, property, human resource, payroll, and cash. The financial audit takes the largest share of audit time.

The internal audit function covers all government funds (regular Treasury and MDG Fund) and donor-funded projects. The Inspection Department in collaboration with the internal audit unit of BoFED supports woredas for regular and special internal audits. The Inspection Department estimates the internal audit coverage to be 40 percent.

(ii) Frequency and distribution of reports

Internal audit units are required to conduct monthly audits and submit quarterly reports to the Inspection Department and to the heads of the BIs audited. In practice, about 40 percent of them are sending their reports to the Inspection Department. Failures to report quarterly are mainly due to capacity limitations. The internal audit units visited by the team issue about 12 reports per annum to their respective BI heads. There is no legal requirement to submit reports to ORAG (which is accountable to the RC and not the executive), but ORAG can (and does) obtain internal audit reports on request.

(iii) Extent of management response to internal audit findings

Auditees are required to respond in three days, but in practice, many of them respond more than 30 days after receipt of audit reports. Sample internal audit unit heads said that internal audit reports are generally followed up by management. According to the Inspection Department, 50 percent of managers respond to internal audit findings and recommendations. The Inspection Department often writes letters to BoFED to withhold the budget to BIs who fail to respond to three follow-up reminder letters. No budget transfer has been withheld so far in response to Inspection Department requests.

Table 3.32 PI-21 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-21	C+	C+	M1	
(i)	C	C	Although the manuals and guidelines are in line with the international standards, due to high staff turnover and vacancies the coverage is about 40% and there is insufficient time for systemic audit.	**No change in rating.** No BIs and woredas are without internal auditors (as reported in 2010 PEFA). However, staff turnover is high, and at the time of the assessment only 70% of the positions were filled.
(ii)	A	A	Reports are issued generally on a fixed schedule at least on a quarterly basis.	**No change.**
(iii)	C	C	About 50% of the managers respond on time.	**No change.**

Planned reforms. There is a plan for internal audit units to conduct performance audits. Some of the internal audit staff attended training on performance audit in February 2014.

To improve the follow-up and actions on internal audit findings, audit committees are being formed in 123 pilot woredas. The audit committees will follow up the implementation of recommendations of internal and external audit reports and report to the woreda councils. In addition, the Inspection Department plans to send a summary of major internal audit findings and recommendations to the Regional Cabinet to enforce prompt action.

3.5 Accounting, Recording, and Reporting

PI-22 Timeliness and regularity of accounts reconciliation

(i) Regularity of bank account reconciliations

There are 292 bank accounts managed by the Treasury. Many of the BIs have three treasury-controlled accounts, called B account (revenue collection), D account (deposits), and Z account (zero balance account). In addition, some of the BIs have donor accounts.

Zero balance accounts are reconciled daily by the Treasury at BoFED if banks provide daily statements, otherwise they are reconciled every three days. Daily bank statements and disbursement reports from CBE are used to enter transactions into the IBEX system. BIs check the statements against the running balance of their ceilings. They submit monthly financial reports to BoFED, which checks them against the transfers made into zero balance accounts. Deposits to the Treasury Accounts at CBE are reconciled daily against deposit slips. Deposit slips are collected daily from CBE. The MDG account is not in the zero balance system. The account is reconciled on a monthly basis at BoFED and zonal offices. At the BoFED level, bank accounts of the Treasury and MDG are reconciled in less than three weeks from the end of the month. Posting is not taking place on the main database as opening balances are awaiting updates. A pseudo database is used to post transactions to get a temporary ledger and edit lists for the purpose of account reconciliation.

In some of the BIs (such as the Bureau of Education) and East Shewa Zone, bank accounts are reconciled in six weeks from the end of the month, and for certain project accounts within three months from the end of the month.

Channel 1 and some other donor-funded project accounts are reconciled more than four weeks from the end of the month. Zones reconcile their accounts. In addition, monthly bank reconciliation reports are prepared by each BI and submitted to BoFED as part of their monthly financial reports. Reconciliation takes place at detailed level.[15]

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

The balance of suspense account (4201) increased from ETB 8.3 million in July 2011 to ETB 12 million in July 2013. The details and the purpose of this account are not clear to BoFED, as details are available only at the level of BIs and woredas.

Most of the accounts are cleared by the end of the year. Generally, unknown bank entries shown in the statements are cleared in the month after reconciliation. Some BI accounts show that

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[15] The PEFA Framework requires reconciliation at aggregate and detailed levels (for all government bank accounts, not just Treasury-managed accounts) for an A rating. The detailed reconciliation is the only one that matches individual receipts and payments in both records and provides assurance of accuracy. The aggregate reconciliation adds nothing, and is insufficient in itself. Reconciliation statements should show only deposits in transit that are related to transfers, deposits made close to the end of the month, and outstanding checks where payees are yet to claim from the bank.

certain items were not cleared within six months.[16] Aging reports are not available to determine how promptly advance and receivable accounts are cleared. According to BoFED, long outstanding balances are mainly attributable to previous years and are under review and investigation to clear up.

Suspense payments that are part of the petty cash system are reconciled periodically and subject to monthly internal audit. Uncleared suspense accounts are transferred to staff advances after seven days and are deducted from salaries.

Table 3.33 PI-22 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-22	B+	B	M2	
(i)	B	B	Bank accounts are reconciled on a monthly basis for the majority of treasury bank accounts within 4 weeks from the end of the month.	**No change.**
(ii)	A	B	Suspense accounts and advances are reconciled at least annually and only a few balances are carried forward to the following year. Balances are mainly attributable to previous years	**Some deterioration.**

Future reforms. BoFED is negotiating with CBE to open a branch in the BoFED premises , in order to establish a dedicated banking service, get daily bank statements and avoid delays.

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

Oromia State aims to raise the number of primary schools to 12,559 and secondary schools to 571.[17] Primary schools report to the respective woredas and secondary schools to the respective zones. They receive resources from the Oromia Treasury and GEQIP, which is a multi-donor Channel 1 program. Under GEQIP, primary schools have their own bank accounts and are responsible for purchasing their inputs. Previously (as described in the 2010 PEFA assessment), woreda education offices would procure inputs (e.g., text books) and allocate these physically to schools according to an internal allocation system, recording the amounts allocated in the process. The amounts allocated to each school would not be captured by IBEX as they were in physical form, but the cash purchases by woreda offices (WoFED through the single pool system) would be captured in IBEX, although in aggregate and not on an SDU by SDU basis. The routine accounts record expenditure on each primary school: for example, Wata Wanda Primary School capital construction is coded 310-02-02-00. In addition, each school has a notice board that displays the school budget and revenue and expenditure. The Oromia Bureau of Education collects data on each school, including the resources received, and compiles them into annual reports.

Similarly, there are 948 health centers and 298 clinics (posts). Resources are received from the Oromia Treasury, UNICEF, and UNFPA, but only cash resources received by SDUs are captured within the IBEX system. Health posts tend not to have their own bank accounts,

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[16] As of July 7, 2013, receivables include staff advance balances of ETB 45 million, advances for recurrent expenditure from next year's budget of Br 22 million, purchase advances of Br 220 million, prepayments to contractors and suppliers of Br 2.59 billion, and other advances of Br 1.47 billion.

[17] Office of the President, *Oromia Today*, Addis Ababa,2013, p, 65

instead receiving resources in physical form from health woreda offices through their internal allocation systems, the offices keeping track of distribution to SDUs. The woreda offices send reports to zonal health offices, which then send reports to the Bureau of Health, which then compiles annual reports on all resources provided to health facilities. The reports may not always be complete, but the systems are in place for compiling information on resources provided to SDUs, both in cash form and in kind.

Table 3.34 PI-23 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-23	C	B	Routine data collection provides reliable information on resources received by primary schools and health centers, both in-kind and in cash form. The education and health bureaus compile annual reports, although there may be gaps if woreda offices do not report routinely to zonal offices on resources provided to SDUs in kind.	**Improvement** through primary schools being able to purchase inputs directly in cash (GEQIP), enabling direct reporting in IBEX, rather than the manual system of reporting by woreda education offices on resources provided in-kind.

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.

Since the 2010 PEFA, the rollout and 100 percent coverage of IBEX is the most significant change. Wide area connectivity is yet to be put in place, so the databases of woredas and zones are IBEX stand-alone. At March 2014, 283 (76 percent) of woredas had been connected with a virtual private network. Some pilot BIs are using IFMIS, which has greater functionality than IBEX.

Woredas submit the soft copy of their data to zonal offices, which import the data into their databases. On a quarterly basis, zones deliver the soft copy and a hard copy of zonal consolidated data to BoFED. The data includes woredas and transactions at the zonal level. Sector bureaus are also required to submit their accounts within 10 days. BoFED reviews the hard copies, reconciles transfers and imports data into the database at BoFED.

BoFED prepares two quarterly reports. The Joint Budget and Aid Review contains budget and actual expenditures at the bureau level, woreda level, and regional level classified by sub-function and source of funds. The second quarterly report is the budget execution report. This report is consolidated with other BoFED departments and submitted to the Regional Cabinet. Channel 1 donor project reports ("interim financial reports") have a different format. Channel 1 funds are reported separately and submitted to MoFED.

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

Monthly reports by BIs and woredas to BoFED show revenue and expenditures by economic classification and by source of funds, plus payables, receivables, transfers, and trial balances. Bank statements and bank reconciliation statements are annexed to the monthly reports. The reports from IBEX installations do not show commitments. Monthly reports of BIs that are using IFMIS show commitments alongside the budget and the outturn. The monthly reports also show the outturn for the month and for the year to reporting date. The reports are just tables and there is no narrative or notes.

(ii) Timeliness of the issue of reports

BIs are required to submit the soft copy of IBEX monthly data to zonal offices by the 15th of the following month. Some of the BIs manage to send reports even by the sixth of the following month. Since there is no online networking between BoFED and BIs outside Addis Ababa, the monthly reports of off-line BIs are entered manually into IBEX by BoFED's Financial Administration Department every month to generate consolidated financial reports at the regional level. Most BIs meet this deadline.

BoFED is required to submit its quarterly reports to MoFED within 30 days from the end of each quarter. The first quarter report for the FY 2013/14 was submitted two months from the end of the quarter and the second quarter report was submitted one month and 24 days from the end of the quarter.

Channel 1a (MoFED to BoFED) projects and programs come under the Federal Government, so in-year financial performance reports on them fall outside the scope of this assessment. Reports are consolidated quarterly and submitted to donors and other users within 90 days from the end of the quarter. This delay is due to the fact that data is consolidated primarily at woreda level, then at regional level. There is no consolidated in-year report generated at federal level. Channel 1a reports are generally submitted a few days before the reporting deadline agreed with donors.

BoFED compiles monthly in-year reports on Channel 1b (DPs to BoFED) projects and programs. The amounts are very small relative to total ORG expenditure (about 2 percent). It was possible to compile these reports using IBEX codes up to FY 2010/11, enabling consolidation with budgeted expenditures. Partly for connectivity reasons, reports were not compiled in IBEX but instead used the original DP codes in FYs 2011/12 and 2012/13. Since then, reports are again being compiled using IBEX codes, using a conversion protocol.

(iii) Quality of information

BoFED checks information submitted by the sector bureaus for accuracy. ZoFEDs also check the quality of reports collected from woredas. The complete rollout of IBEX and comprehensive financial audits by internal auditors improve the quality of reporting. High staff turnover, however, reduces the quality of reporting, as newly recruited staff need training on proper coding of transactions. Staff turnover also hinders clearance of long outstanding receivables and payables.

Table 3.35 PI-24 Results

Indicator	Score 2010	Score 2014	Justification	Performance change
PI-24	C+	C+	M1	**No change.**
(i)	C	C	Classification of data allows direct comparison with the budget, but only at the payment stage, not at commitment stage.	**No change.**
(ii)	A	C	Consolidated reports are prepared quarterly and issued within eight weeks of the end of the quarter (although the law requires them within one month).	**Scores not comparable.** 2010 assessment excludes the consolidated reports, which then took more than 1 month.
(iii)	B	B	There are some concerns about data accuracy, but these do not	**No change.**

			undermine their overall consistency or usefulness	

PI-25 Quality and timeliness of annual financial statements

Consolidated year-end financial statements are a key expression of the PFM system's transparency. The preparation and reporting of public accounts in Oromia regional state is governed by Financial Administration Proclamation 156/2010, Articles 5, 6, 58–61. According to the Proclamation, BoFED shall prepare consolidated public accounts for each fiscal year, which shall embody the audited accounts of BIs, and submit them to ORAG.

The quality of the annual statements may be judged from the ORAG opinions given. For FY 2011/12, there were 80 unqualified audit reports, 387 qualified, 27 disclaimers, and no adverse opinions of the 496 audited entities. Out of all 131 BIs, only 16 percent had clean reports.

(i) Completeness of the financial statements

The annual financial statements include budget and outturn expenditure by sub-functional classification and by BI, segregated by capital and recurrent expenditure and by source of funds, and a consolidated expenditure report. Budgeted revenue and outturn by type of revenue is also included in the report. On revenue and expenditure items, the original budget and adjusted budget (after supplementary authorization) are shown for comparison and the variance from the adjusted budget (over or under). There is no explanation or analysis of variance.

Financial assets and liabilities are shown in the trial balance, which is part of the report. Financial assets include cash and equivalents, advances, prepayments, and other receivables. Financial liabilities include grace period payables, pension payables, payables within government, retention payables, and deposits.

There are major concerns on the comprehensiveness of data. Except for Channel 1 aid, external assistance and loans and the expenditure from them are omitted from the main accounts. The assessment team was informed that these resources are accounted for separately. These separate accounts have not been seen. Second, there is significant aid in kind from UNESCO, UNICEF, and similar entities. This is not valued and brought to account. Expenditure in the benefiting sectors is therefore understated. Third, the consolidation does not include the extra-budgetary funds that are part of central government under IMF GFS definitions (see PI-7 (i)), as required by Proclamation 156/2010.[18] Public enterprises controlled by the Oromia State Government are also not included (as would be required under cash- or accrual-IPSAS). The omission of unbudgeted DP-funded project expenditure (see PI-7 (ii)) is not counted in the scoring of this indicator, which covers only budgetary central government and covers donor-funded project expenditure only if it is budgeted.[19] However, BoFED could not balance their accounts for FY 2010/11 (see Table 2.1).

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[18] See PEFA Field Guide, clarification 25-c, p.143. Full information, in terms of this dimension, is defined as full information on revenue, expenditure, and financial assets/liabilities, including disclosure of arrears of revenue, arrears of expenditure, financial assets, and public debt, either in the balance sheet (in an accrual-based system) or by way of notes to the financial statements (in a cash-based system). Off-budget operations, which are neither covered by the budget, nor managed through the Treasury system, therefore, do not have to be included in "full" information.

[19] These omissions are brought into the PEFA assessment through PI-7 above, not through PI-24 or 25.

(ii) Timeliness of submission of the financial statements

The last annual financial statements are for FY 2012/13. These are in draft as they are not yet audited. The Financial Proclamation states that public bodies (BIs) shall complete their annual financial statements within three months from the end of the fiscal year. There is no specific timetable indicated in the Proclamation for BoFED to complete and submit its annual report for audit. However, the ORAG Reestablishment Proclamation (154/2010) indicated that BoFED should submit its final report within eight months from the end of the fiscal year. According to the accounting procedure of Oromia, BoFED should complete and submit its financial statements to ORAG within six months from the end of the fiscal year and the audited consolidated accounts to the RC before the end of that year.

There is a considerable improvement in the timeliness of draft financial statements to ORAG. For the FYs 2010/11 and 2013/13, financial statements were available to ORAG in less than six months from the end of the fiscal year (see Table 3.36).

Table 3.36 Timeliness of Financial Statements Submission to ORAG

FINANCIAL STATEMENTS	FY 2010/11	FY 2011/12	FY 2012/13
Submission to ORAG	December 13, 2011	January 30, 2013	January 1, 2014
Timeliness of submission (from the end of the EFY)	5 months and 3 days	6 month and 23 days	5 months and 23 days

Source: Accounts Department, BoFED.

(iii) Accounting standards used

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); employee income tax and fines (recognized on processing of payroll); interest on salary advances (also 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.

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.

Financial statements are not in line with IPSAS. Unlike the Federal Government, the financial statements for FYs 2010/11, 2011/12, and 2012/13 did not contain a cash flow statement, statement of financial position, and statement of financial performance, and extensive notes and supplementary disclosures were not provided. Analysis of accounts payable and receivable were also not included in the reports.

Table 3.37 PI-25 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-25	C+	C+	M1	
(i)	B	B	Financial statements are comprehensive (except for the	**No change.**

			omission of some extra-budgetary funds and donor funded projects), but accounts for FY 2010/11 could not be reconciled.	
(ii)	B	A	The latest financial statements were submitted six months after the end of the fiscal year.	**Significant improvement** since 2010.
(iii)	C	C	Financial statements are prepared in line with government account procedure except some of the reporting requirements are yet to be fulfilled.	**No performance change.**

3.6 External Scrutiny and Audit

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

A high quality external audit is an essential requirement for creating transparency in the use of public funds. Dimensions to be assessed are (i) scope and nature of audit performed, (ii) timeliness of submission of audit reports to the legislature, and (iii) evidence of follow-up on audit recommendations.

ORAG was "reestablished" in April 2010 under Proclamation no. 154/2010 in accordance with Article 49(3)a of the Revised Constitution of Oromia National Regional State, 46/2002. Key provisions include the following:

- The Auditor General and Deputy Auditor General are appointed by the RC, which also approves their salaries. The term of office is six years, with a maximum of two terms;
- The office and the regional Auditor General are accountable to the RC;
- Issuance of certificates of competence of private auditors and accountants who provide auditing and accounting services to ORAG;
- There are penalties for auditees who fail to provide the information required by ORAG in the course of its auditing duties. Penalties are five to seven years imprisonment or a fine of ETB 10,000 or both.

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

ORAG has about 150 auditors with an estimated personnel budget of ETB 8.3 million. The number of auditors has increased significantly from the time of the 2010 assessment, but it is still only half of ORAG's estimated audit staff requirement. The minimum qualification is a bachelor degree in accounting and related fields. Five staff members have master's degrees.

ORAG does not yet have its own website. ORAG publicizes its activities to an extent through brochures. The reporting language used is Afan Oromo as required by Oromia's Constitution.

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

Oromia ORAG is responsible for the audit of the accounts of regional, zonal, and woreda level BIs, including those of donor-funded projects managed by the regional government and BIs. There are 44 sector offices at the regional level, 309 at woredas (including 44 urban woredas), and 18 at zones, for a total of 371 entities. The single pool system, whereby WoFED manages the finances of the woreda sector offices and ZoFED manages the finances of zonal sector offices, permits aggregation, so that an external audit can cover several public bodies as one aggregate body.

ORAG has divided the BIs into three categories based on the level of risk. These are high-risk, medium-risk, and low risk BIs. Every year, 100 percent of the high-risk, 50–60 percent of the medium-risk, and 40 percent of the low-risk BIs are audited by ORAG. About 71 entities, including most of the sector bureaus, are classified as high risk. ORAG's overall financial audit coverage is estimated to be about 65 percent of the total regional expenditure, representing a reduction from the 70 percent coverage at the time of the 2010 assessment, indicating the capacity constraints faced by ORAG.[20]

ORAG's financial audit includes project accounts managed by BIs. In addition, the Office of the Federal Auditor General (OFAG) audits funds controlled by the Channel 1 Coordinating Unit at MoFED, including PBS, and PSNP but managed by BIs in all regions including Oromia. In addition, ORAG audits the water projects and road fund, which are not part of the regional budget.

As per the Proclamation, ORAG has the mandate to audit public enterprises within the region. Financial audits are outsourced to private auditors. ORAG conducted performance audits in two public enterprises: Forest Development Enterprise and Oromia Water Works Construction Enterprise.

In addition, ORAG's scope includes private companies under contract to the regional government for contracts exceeding ETB 500,000, as indicated in Article 8 in the ORAG law. So far, no comprehensive audit has been conducted on the accounts of contractors. ORAG, however, contacted some contractors to verify the invoices and documents they issued to the auditees.

ORAG conducts financial audits separately at the level of BIs and a financial audit based on the annual consolidated financial report of the region. ORAG also conducts special audits, performance audit, environmental audit, and a follow-up audit. In FY 2012/13, ORAG conducted 494 different audits including 467 financial audits, 20 special audits, 6 performance audits, and 1 environmental audit.

ORAG follows the audit standards of the federal level OFAG, which are consistent with the International Standards for Supreme Audit Institutions (ISSAIs) issued by the International Organization of Supreme Audit Institutions (INTOSAI). ORAG has separate audit manuals for regulatory audit (since 2011), performance audit (since 2012), and environmental audit, based on ISSAIs. ORAG is accountable to the RC and in principle is independent of the executive. It has full right of access to all information it requires to fulfill its responsibilities. ORAG budget is discussed by the PAC at RC. PAC often presses BoFED to accept the budget proposed by ORAG.

Publication of audit reports is not prohibited by law, but in practice, no reports have been published, contrary to ISSAIs. ORAG has a weekly radio program broadcast in Afan Oromo.

The focus is increasingly on audit of internal control systems (as stipulated in paragraph 4 of Article 8 in the ORAG law on powers and duties of ORAG) as per ISSAIs, rather than of

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[20] At the workshop on 17 October 2014, a higher coverage was claimed for FY 2012/13, but no evidence for this has been provided.

individual transactions. Internal audit reports are used by ORAG for risk assessment and audit planning. In addition, ORAG follows up the implementation of internal audit findings, discusses findings with auditees at exit conferences, and evaluates the performance of internal audit units.

(ii) Timeliness in the presentation of audit reports to the legislature

BoFED is required to submit audited consolidated accounts to the RC within 12 months of the end of the fiscal year. This has been achieved for the last two years audited. In terms of the duration of audit, from receipt of financial statements to the submission of financial audit reports, ORAG has taken 10–11 months for the last two completed audits. See Table 3.38.

Table 3.38 Timeliness of Audit of Financial Statements by ORAG

	EFY 2003 (FY 2010/11)	**EFY 2004 (FY 2011/12)**	**EFY 2005 (FY 2012/13)**
Financial statements received by ORAG	December 13, 2011	January 30, 2013	January 1, 2014
Audits of financial statements completed by ORAG and submitted to BoFED and council	November 2, 2012	December 16, 2013	Not completed by April 5, 2014
Duration of audits	10 months 19 days	10 months 17 days	

Source: Oromia OFAG.

(iii) Evidence of follow up on audit recommendations

Under section 21.3 of the Proclamation governing ORAG, audited entities are obliged to take corrective measures and respond within 30 days from the date of receipt of the audit report sent to them by ORAG. ORAG first discusses its audit findings with the relevant staff of the audited organization (exit conference), who then discuss with their management. ORAG requests a written reply from management within 30 days. ORAG may then return if it has more queries, otherwise it produces its opinion and sends its report to the auditee, Regional Cabinet and the RC.

ORAG conducts exit interviews and submits audit reports to auditees. The Budget and Finance Committee (BFC, also referred to as PAC) is actively following up serious audit findings and repeated audit findings, which are not acted upon. ORAG has a separate unit dedicated to follow-up audits on the actions taken by auditees on previous audit findings and recommendations. The follow-up unit has eight auditors. This unit was established in 2010 and is part of the Planning, Monitoring, and Evaluation Department of ORAG. ORAG's auditors attend audit hearings conducted by the PAC, which the heads of the BIs attend. In addition, the media are invited to attend. As indicated under PI-28, the PAC was established only in 2010; prior to that, it was part of BFC, and consequently had less focus on review of audit reports. A weekly TV and radio program on audit findings, which includes interviews with the heads of the auditee BIs, improves the level of response.

In addition to the regional PAC, budget and finance committees at the woreda level conduct hearings on audit findings of ORAG. The PAC conducts field visits to woredas to follow up action plans by zonal and woreda level BIs.

Table 3.39 PI-26 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-26	**C+**	**C+**	M1	
(i)	C	C	The coverage is about 65%, about the same as at the time of the 2010 assessment. ORAG follows INTOSAI standards and conducts a systemic audit.	**No change.** Capacity constraints have precluded an increase in % coverage.
(ii)	A	C	Audit reports on financial statements are submitted to the Council 10 to 11 months after receipt of the statements.	**Deterioration.** This occurs in the timeliness of audit reports, also reflecting the capacity constraints.
(iii)	C	A	There is a strong follow up through a separate follow-up unit in ORAG, established in 2010. The role of PAC, also established in 2010, and the publicity of audit findings by ORAG and PAC in radio and TV programs has enhanced the responsiveness of BIs to audit findings.	**Improvement in follow-up.**

Future reforms. The website of ORAG is under development and was expected to be launched by end June 2014. The technical staff members of ORAG have been trained on the administration of the website.

PI-27 Legislative scrutiny of the annual budget law

(i) Scope of the legislature's scrutiny

The RC consists of members directly elected to represent the woredas and urban administrations. It is not directly involved in the preparation of the budget. The BFC of the RC, however, organizes hearings with sector bureaus. The BFC[21] is also briefed on budget priorities by the Regional Cabinet, which consists of the administrator and the heads of sector bureaus. If the committee disagrees with the Cabinet, it can send the budget back to BoFED for revision. When agreement is reached, the recommended budget is presented to the RC for approval. Council members are also responsible for representing and communicating with their constituencies.

The BFC is a standing committee of five members, appointed by the Speaker of the Council. Its scrutiny of the budget is done in three phases, one on the MEFF, one on the detailed estimates, and one on its execution.

The MEFF is received end December or early January. The BFC examines and discusses with BoFED the sectoral allocations, checks whether they are in line with the GTP, and checks the federal subsidy calculations. The review may inform the preparation of the requests for budget proposals that BoFED circulates in February (see PI-11). What is supposed to happen is that

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[21] Also called the Public Accounts Committee (PAC). The BFC also oversees the executive implementation of the budget, confirmed by site visits where necessary. Quarterly reports are made by BoFED and the ORA to BFC and the specialized committees. The BFC can give feedback and make recommendations to the executive.

the detailed estimates are received through the Speaker by the end of May. Scrutiny is organized first through the Coordinating Committee, which comprises the chairpersons of eight specialized committees. The Coordinating Committee may propose minor changes. These are addressed by BoFED and the draft budget is supposed to be submitted to the BFC by June 15 for detailed review. BIs and citizens may be called to the first hearing, which is supposed to be completed by June 27. After three days, the bill is proposed to the full council by the BFC Chairperson.

For FY 2011/12 (EFY 2004), the Coordinating Committee received the budget on June 8, 2011, the motion to pass the bill was delivered on June 15, and was approved on July 11, about one month after submission of the draft budget to the RC. The budget is normally approved a few days after the beginning of the year (July 7), usually because of difficulty in convening all members from across Oromia.

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

Both the legislature and the executive are controlled by the party in power. The procedures are well established and respected, although the convening of all members of the RC from across Oromia can pose logistical difficulties. At the time of the 2010 assessment, technical manuals, including one on budget preparation, were being prepared (with DP support) to assist BFC members in their scrutiny of the draft budget. These manuals have helped to strengthen the robustness of the procedures. The chairman of BFC at the time of the 2010 assessment mentioned that procedures were not always respected due to the logistical difficulties involved in ad-hoc part-time members being able to attend meetings when required, due to living in other parts of the region. This appears to be less of a problem now.

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

As noted under PI-11, compliance with the budget preparation timetable slipped in relation to preparing the FY 2013/14 budget, with the Coordinating Committee not receiving the budget until the second half of June; this allowed for about three weeks of review instead of one month prior to the approval of the budget on July 14, 2013 (itself late by a week). The total time for review, taking into account the one-month review of the MEFF earlier in the year, is therefore about seven weeks.

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

A supplementary appropriation is sought by the executive only if the approved aggregate expenditure budget is insufficient. This usually happens once a year, and after six months performance. BoFED seeks cabinet approval for an adjusted budget in January. This includes all uses of the contingency budget. The procedure is shorter than for the original budget. BoFED submits the supplementary budget to the BFC, which scrutinizes it and presents it to the Council for approval. It should be noted that any *reduction* in expenditure below the approved estimates, e.g., due to a shortfall of resources, is managed by BoFED and does not require legislative authorization.

Reallocations within the approved aggregate expenditure budget are clearly defined by the Financial Administration Proclamation 136/2010 Articles 22-24. BoFED has power to transfer budgetary provisions between BIs, sectors, programs, and economic items, within the overall ceiling. The only restriction is that savings on the capital budget cannot be transferred to increase recurrent expenditure.

Table 3.40 PI-27 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-27	D+	B+	M1	**Overall improvement.**
(i)	C	B	The BFC review covers fiscal policies and aggregates (the MEFF) as well as detailed estimates of revenue and expenditure.	**Improvement in coverage.** (A rating requires coverage of medium-term priorities, which is not the case yet.)
(ii)	C	A	The legislature's procedures are well established and respected and include inputs from specialized review committees.	**Improvement.** This is partly due to the use by BFC members of the technical manuals being prepared for them at the time of the 2010 assessment.
(iii)	D	B	The legislature had about seven weeks to review the draft FY 2013/14 budget between January and July 2013.	**Improvement**. At the time of the 2010 assessment, the BFC was not reviewing the MEFF.
(iv)	D	B	Clear rules exist and are respected, but they allow extensive administrative reallocations.	**Improvement.** The D score in the 2010 assessment was due to ex-post approval of supplementary budgets.

PI-28 Legislative scrutiny of external audit reports

The Oromia State Council has a key role in scrutinizing the execution of the budget that it approved. ORAG submits his reports through the speaker of the RC to the PAC, which was split off from the BFC in January 2010. The PAC has five members appointed by the speaker from council members for the term of the Council (five years). All belong to the ruling party (there is no formal opposition).

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

ORAG conducts: (1) financial audits on each separate BI on which it sends quarterly reports to the BFC; (2) a financial audit based on the annual consolidated financial statements of the region; also (3) special audits, performance audits, environmental audits, and follow-up audits. This dimension is concerned only with the examination of the financial audit report on the consolidated financial statements.

The latest annual statements on which BFC has reported are for FY 2011/12 (EFY 2004). BFC was expected to complete the review on FY 2012/13 (EFY 2005) by mid-May 2014, 10 months after the end of the year. The PAC takes 4 months to review each report, somewhat longer than the 2 months at the time of the 2010 assessment.

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

ORAG quarterly reports on individual BIs provide the main basis of accountability to the RC. Heads of all BIs receiving a qualified or adverse opinion (or disclaimer) from ORAG are called to account. Hearings are in depth, usually one full day each week, two days per BI on average. Representatives of ORAG and BoFED attend and provide technical support. Hearings are open to the media. A TV channel broadcasts a weekly program where an investigative journalist interrogates the head of a BI.

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

The PAC sends a summary of the hearings to the speaker, who writes to each defaulting BI, with a copy to the state president, requiring a response and corrective action plan within 15 days. If corruption is suspected, the report is copied to the Federal Office of Ethics and Anti-Corruption. PAC recommendations go beyond the ORAG recommendations, for example, by identifying culpable officers and recommending actions to be taken. ORAG verifies actions taken in the course of its audit the following year. According to the PAC chairperson, satisfactory action is taken in 90 percent of cases.

Table 3.41 PI-28 Results

PI	Score 2010	Score 2014	Justification	Performance change
PI-28	C+	B+	M1	
(i)	A	B	The financial audit review is completed by May, four months after receipt of the OFAG report.	**An apparent deterioration**, as in 2010 the PAC was carrying out its review within two months.
(ii)	C	A	In-depth hearings take place consistently, with responsible officers from defaulting entities.	**Improvement in the coverage and effectiveness of hearings**.
(iii)	C	A	BFC recommendations are strongly followed up and generally implemented.	**Improvement in follow-up** by the RC and ORAG

3.7 Donor Practices

D-1 Predictability of direct budget support

Like other regions, ORG does not receive budget support directly from DPs. This indicator is therefore not applicable.

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

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

Forecast and actual program and project support are shown in Table 3.42.

Table 3.42 Forecast and Actual Program and Project Support (ETB, millions)

	FY 2010/11		FY 2011/12		FY 2012/13	
Program	Forecast	Actual	Forecast	Actual	Forecast	Actual
PBS II C	21.1	1.2	40.7	40.7	25.0	25.0

PBS A2 (LIG)	83.0	83.0				
PSNP and HABP	507.7	464.1	982.8	881.2	800.0	659.9
GEQIP	474.3	474.3	524.9	524.9	589.1	589.1
ULGDP	413.5	413.5	332.6	332.6	412.2	412.2
PSCAP	180.0	68.3	186.8	48.0	178.4	153.8
WASH (IDA/DFID)		229.5		79.4		459.8
WASH ADB		129.1				75.0
UNICEF					149.0	203.6
UNDP					79.4	68.4
UNFPA					11.3	8.7
WEP					85.9	2.7
Total	1,679.6	1,863.0	2,067.8	1,906.8	2,330.3	2,658.2

Note: DFID = Department for International Development, GEQIP = General Education Quality Improvement Program, HABP = , IDA = International Development Agency, PBS = , PSCAP = Public Sector Capacity Building Program, PSNP = Productive Safety Net Program, ULDGP = , UNDP = United Nations Development Program, UNFPA = United Nations Population Fund , UNICEF = United Nations Children's Fund, WASH = , WEP =
Source: BoFED.

Most of the programs in Table 3.42 (up to and including WaSH, excluding UNICEF, UNDP, and UNFPA, and including World Food Program (WFP)) are Channel 1a programs (DPs to MoFED to BoFED) which, as indicated under PI-7, are proclaimed in the GoE budget not the ORG budget, and are thus not relevant to this indicator. The remainder, all UN programs, are Channel 1b programs (DPs to BoFED direct). The table excludes aid provided through Channels 2: 2a, DPs to sector ministries to sector bureaus, covered under sector ministry budgets in any case; and 2b, DPs to sector bureaus direct, not covered in ORG budget. The table also excludes aid provided through Channel 3 (DPs to projects direct).

Good practice in terms of budget preparation is that all major donors provide estimates to BoFED of their support for the coming budget at least three months prior to the end of the current year and that the planned expenditures use the government's budget classification system, so that actual spending is reported on in government systems as well as planned expenditure.

The Oromia Budget Proclamations show annual budgeted external assistance and loans, e.g., ETB 221.8 million assistance and ETB 22.8 million loans in FY 2012/13, more or less the same as the sum of planned UNDP, UNICEF, and UNFPA disbursements shown in Table 3.42. However, these are not shown in the Proclamations according to the IBEX classification, except in aggregate terms.

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

Donors do not generally provide quarterly data on actual disbursements.

Table 3.43 D-2 Results

PI	Score 2010	Score 2014	Justification	Performance change
D-2	D+	D+	M1	
(i)	C	C	Channel 1b DPs (UN agencies) provide estimates of project aid for the coming year at least three months prior to the start of the year, although not using GoE classification, except at very aggregated level.	**No change.**
(ii)	D	D	Donors (at least the largest five) do not provide quarterly reports of actual disbursements within two months of the end of each quarter.	**No change.**

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

Table 3.44 shows the extent of use of country systems for both Channel 1a (DPs to MoFED to BoFED) and Channel 1b (DPs to BoFED direct), the latter comprising UNICEF, UNDP and UNFPA. The Channel 1a projects and programs are proclaimed in the GoE budget and, therefore, are not relevant for the purposes of assessing D-3 for ORG. According to Table 3.44, the Channel 1b DPs use country procurement and payment and accounting systems but not the reporting and audit systems. Thus, they are using 50 percent of systems.

Table 3.44 Share of Aid Using National Procedures

Program	Disbursements FY 2012/13 (ETB million) weighting	Procurement	Payments/ Accounting	Reporting	External audit
PBS II C	25.0	CS	CS	CS	CS
PSNP and HABP	659.9	CS + WB	CS + WB	CS	CS
GEQIP	589.1	CS	CS	CS	CS
ULGDP	412.2	CS	CS	CS	CS
WASH (IDA/DFID)	459.8	CS + WB	CS	CS + WB	CS + WB
PSCAP	153.8	WB	CS + WB	CS + WB	CS + WB
WASH (ADB)	75.0	CS + ADF	CS	CS + ADF	CS + ADF
UNICEF	203.6	CS	CS	Not CS	Not CS
UNDP	68.4	CS	CS	Not CS	Not CS
UNFPA	8.7	CS	CS	Not CS	Not CS
WFP	2.7	CS	CS	Not CS	Not CS
Weighted averages		49%	69%	63%	63%
Overall average		61%			

Note: CS = country system; WB = World Bank.
Source: BoFED.

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 by DPs), 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 (ETB 280 million, as shown in Table 3.44); 50 percent of this uses government systems, as noted. The total amount delivered through Channel 2b and 3 is not known (as indicated under PI-7 (ii)). None of it uses country procedures.

About 33 percent of the block grants to BoFED from MoFED consist of the PBS budget support provided by DPs, based on the 32.5 percent of the block grant allocated to Oromia (table 9, GoE PEFA report). The total block grant to BoFED (excluding the MDG grant) was ETB 11,575 million in FY 2012/13 (Table 3.1 in this report under the HLG-1 PI), so the DP share of this was ETB 3,762 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 ORG systems, even under very optimistic projections of Channel 2b and Channel 3 aid.

Table 3.45 D-3 Results

PI	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 PBS aid that is incorporated in the block grant.	**No change.**[a] The adjustment for the PBS component of the block grant was not made in the 2010 assessment, so the D rating is probably an underscore.

a. MoFED indicated to the assessment team that this adjustment was valid, though in principle the MoFED and DP contributions to the block grant are comingled and cannot be distinguished separately.

4. Government Reform Process

4.1 Recent and Ongoing Reforms

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

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

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

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

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

The PBS was established in 2006 and is now in its third phase, funded by GOE, the World Bank, the ADB, DFID-UK, the EU, Austria and Italy. The social accountability component is being supported by DFID, KfW (Germany), Irish Aid, and the EU. A PBS Secretariat was established by the donors to facilitate and coordinate the dialogue on the program and its implementation, and provide analytical support. MoFED is the implementing agency for the program, coordinated by the Channel One Programs Coordinating Unit (COPCU) and the PBS Secretariat (PBS II ICR, 2013).

4.2 Institutional Factors Supporting Reform planning and Implementation

Government leadership and ownership of its PFM reforms is high. Most PFM reforms are implemented within the Expenditure Management and Control Program (EMCP), coordinated by the EMCP Coordinating Unit in MoFED. Reforms at the federal level are models for adoption at the regional level.

The EMCP started in FY 2006/07 (EFY 1999) and is managed by a Steering Committee chaired by the Minister of Finance, and including senior GOE officers and representatives of DPs.[22] The program is divided into 12 projects, each of which has a designated Project Manager. Performance is monitored against a rolling three-year action plan. The current action plan lists

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[22] MoFED (2011), *Expenditure Management and Control Reform Program: Tasks and Implementation*, 3rd edition, July 2011

56 activities, their implementation by year, and responsible bodies (MoFED Directorates, the PPA, regional and woreda administrations, etc.).[23] Progress is monitored weekly by project managers, monthly by the EMCP Coordinating Unit in MoFED, and quarterly by the high level Steering Committee. Progress reports are used to revise and update the action plan. External diagnostic studies such as the CPAR and PEFA assessments are also major sources of data.

The Development Assistance Group of donor partners (DAG) provides harmonized support and funding to the GTP, promotes the OECD DAC harmonization agenda, strengthens government monitoring and evaluation systems, and provides strategic and coordinated support to focus areas of the GTP, including education and gender mainstreaming. For PFM there is a specialized Donor Group of interested donors, which at the time of the assessment was co-chaired by DFID and the World Bank. The Joint Budget and Aid Reviews are a further monitoring and coordinating mechanism. This is a platform for federal and regional governments and donor partners to review the reform plans and achievements and to resolve issue

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[23] MoFED/EMCP (2012) EMCP *Action Plan for 2013-2015*, November

Appendix A. Summary of Indicator Scores

No.	Indicator	Scoring	Brief explanation and cardinal sources used	Performance change
A. PFM Out-turns: Credibility of the Budget				
HLG-1	Predictability of transfers from higher level of government	**B+**	Block grants very predictable, but some variance on tied MDG grants. BoFED data	**Deterioration** due to greater variability of MDG grants introduced in FY 2011/12, but no overall comparison possible.
PI-1	Aggregate expenditure outturn compared to original approved budget	**B**	Actual expenditure deviated more than 10% from budget in only one of the last three years. BoFED accounts	**No change.**
PI-2	Composition of expenditure outturn compared to original approved budget	**B+**	(i) Variance was high (>10%) in one of the past three years (B). (ii) Contingency budget was high, but transferred as required to benefiting BIs (A). BoFED accounts	**No comparison possible** due to change in method of assessment.
PI-3	Aggregate revenue outturn compared to original approved budget	**D**	Actual revenue was above 116% of budget in all three years. BoFED accounts	**No change** (after calculating 2010 variance on new method).
PI-4	Stock and monitoring of expenditure payment arrears	**B+**	(i) The stock of arrears (capital project payables >30 days overdue plus recurrent payables) is less than 2% of total expenditure (A). (ii) Monitored centrally but not aged (B). BoFED accounts and trial balances	**Slight deterioration.**
B. Key Crosscutting Issues: Comprehensiveness and Transparency				
PI-5	Classification of the budget	**B**	Budget formulation and execution is based on administrative, economic, and functional classification (using at least the 10 main COFOG functions), using GFS and COFOG standards or a standard that can produce consistent documentation according to those standards. BoFED Planning and Budgeting, FY 2013/14 budget.	**No change.**
PI-6	Comprehensiveness of information included in budget documentation	**C**	The draft budget presented to the Council meets two of the six relevant information benchmarks.	**Improvement** due to disclosure of

No.	Indicator	Scoring	Brief explanation and cardinal sources used	Performance change
			BoFED Planning and Budgeting, FY 2013/14 budget.	macroeconomic assumptions and budget implications of new initiatives
PI-7	Extent of unreported government operations	**D+**	(i) Most autonomous bodies are included in the budget and accounts, but not some noncommercial bodies supervised by OPESA, whose expenditures constitute 2.6% of total expenditure (B). (ii) Lack of information on Channel 2 and Channel 3: aid not brought into the budget and accounts (D). BoFED, Oromia PPESA, ORA	**No change.**
PI-8	Transparency of intergovernmental fiscal relations	**B+**	(i) 60% of the total grants are unearmarked and allocated on a formula basis. The rest are specific grants, which are individually negotiated (B). (ii) Zones and woredas are provided reliable information on their grant ceilings before they complete their budgets (B). (iii) Fiscal data is collected from all zones and woredas using the same chart of accounts as at higher levels and BoFED consolidates this into annual reports within six months of the end of the FY (A). BoFED, East Shewa Zone ZoFED, Lomie Woreda	**No change.**
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	**C+**	(i) Extra-budgetary AGAs and PEs submit fiscal reports to the Oromia PPESA at least annually, but a consolidated overview of fiscal risk is missing (C). (ii) Zones and woredas cannot generate fiscal liabilities (A). BoFED, Oromia PPESA, Oromia Road Authority	**Performance not comparable** due a change in scope under (i), as number of enterprises increased to seven from one.
PI-10	Public access to key fiscal information	**C**	The government makes available to the public three of the applicable seven elements of information (C). BoFED Planning and Budgeting, Accounts, ORAG, PPA, BoE, BoH	**Improvement:** two extra elements made available to public.
C. Budget Cycle				
C (i) Policy-Based Budgeting				

No.	Indicator	Scoring	Brief explanation and cardinal sources used	Performance change
PI-11	Orderliness and participation in the annual budget process	**B**	(i) A clear annual budget calendar exists but is not generally adhered to and does not allow BIs enough time (at least four weeks) to meaningfully complete their estimates on time (C). (ii) A comprehensive and clear budget circular is issued to BIs which shows the ceilings previously approved by the Oromia cabinet (A). (iii) RC approves the budget within two months of the start of the year for the past three years (C). BoFED Planning and Budgeting, BoE, BoH, ORA, East Shewa ZoFED, and Lomie Woreda	Deterioration on timetable compliance, otherwise no change.
PI-12	Multiyear perspective in fiscal planning, expenditure policy and budgeting	**NR**	(i) Forecasts of fiscal aggregates are prepared for three years on a rolling annual basis, and links between multiyear estimates and subsequent budget ceilings are clear (C). (ii) No debt, not applicable. (iii) Sector strategies not seen. (iv) Many investment decisions have weak links to sector strategies, and their recurrent cost implications are included in forward budget estimates (C). BoFED Planning and Budgeting, BoE, and BoH	**No comparison possible.**
C (ii) Predictability and Control in Budget Execution				
PI-13	Transparency of taxpayer obligations and liabilities	**A**	(i) Legislation and procedures for most taxes are comprehensive and clear, with limited discretionary powers of the revenue authority (A). (ii) 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 (A). (iii) A tax appeals system of transparent administrative procedures is functional, but some issues relating to access and fairness need to be addressed (B). ERCA, ORA, and Oromia Chamber of Commerce	**No overall change.** Improvement in taxpayer information offset by deterioration in the tax appeal process.
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	**B+↑**	(i) Taxpayers are registered in a complete database with some linkages to trade licensing and company registration systems (A).	**Improvement in** registration controls and in tax audit and

No.	Indicator	Scoring	Brief explanation and cardinal sources used	Performance change
			(ii) Penalties exist but are not always effective in terms of getting people to pay their taxes on time. The penalty waiver directive introduced since the 2010 assessment is, however, encouraging people to pay off their tax debts quickly (B↑). (iii) Tax audits and fraud investigations are managed and reported on according to a documented audit plan with clear risk assessment criteria (B). ERCA, ORA, and Oromia Chamber of Commerce	strengthening under (ii).
PI-15	Effectiveness in collection of tax payments	**D+**	(i) The total amount of tax arrears is not significant (less than 2% of total annual collections) (A). (ii) Revenue collections are transferred to BoFED at least monthly (C). (iii) No complete reconciliation of opening arrears with assessments, collections, and closing arrears (D). ERCA, ORA, and Treasury	**No change under any dimension.** Dimension (iii) appears to have been over-scored in 2010 assessment.
PI-16	Predictability in the availability of funds for commitment of expenditures	**C+**	(i) A cash forecast is prepared for the year and updated monthly (A). (ii) BIs are provided reliable information for three months in advance (A). (iii) Significant in-year budget adjustments are frequent but done after consultation (C). BoFED Treasury Department, BoE, BoH, and Oromia Road Authority	**No overall change.**
PI-17	Recording and management of cash balances, debt and guarantees	C	(i) There is no formal debt. (ii) Most government cash balances are known and consolidated at least monthly (C). (iii) The contracting of debt and guarantees is subject to approval by BoFED and the Council, but there are no guidelines (C). BoFED Treasury Department	**No change.** Dimension (ii) in 2010 assessment appears to have been over-scored.
PI-18	Effectiveness of payroll controls	B+	(i) Payroll and personnel data base are not linked directly electronically, but payroll data is updated within a month based on personnel documentation and payroll of the month reconciled against the previous month payroll (B).	**No change.**

No.	Indicator	Scoring	Brief explanation and cardinal sources used	Performance change
			(ii) Payroll changes are updated in the month of the change or the next month payroll (A). (iii) Authority to change records and payroll is restricted and results in an audit trail (A). (iv) Payroll is completely audited by internal and external audit (B) HRM Department, BoE, and BoH	
PI-19	Transparency, competition, and complaints mechanisms in procurement	**C**	(i) Five of the six listed requirements for the regulatory framework are met (B). (ii) Reliable procurement data are not available (D). (iii) The government does not systematically make key procurement information available to the public (D). (iv) The complaints system meets six of the seven criteria (B). Finance and Procurement Management Department, BoE, BoH, PPA, Chamber of Commerce, and PPA Annual Report	**Rating method changed. No comparison possible.**
PI-20	Effectiveness of internal controls for non-salary expenditure	**B**	(i) Expenditure commitment controls are in place. Together with strong cash management, they effectively limit commitments to actual cash availability and budget allocations with minor exceptions (B). (ii) Financial and non-financial controls are comprehensive, well documented, and widely understood (B). (iii) Financial and non-financial controls are comprehensive, well documented, and widely understood (B). Inspection Department, ORAG, Internal Audit Units of BoFED, BoE, and BoH	**No change.**
PI-21	Effectiveness of internal audit	**C+**	(i) Although the manuals and guidelines are in line with the international standards, due to staff shortages the coverage is about 40% and there is insufficient time for systemic audit (C). (ii) Reports are issued generally on a fixed schedule at least quarterly (A). (iii) About 50% of recommendations are followed up (C).	**No change.**

No.	Indicator	Scoring	Brief explanation and cardinal sources used	Performance change
			Inspection Department, ORAG, Internal Audit Units of BoFED, BoE, and BoH	
C (iii) Accounting, Recording, and Reporting				
PI-22	Accounts reconciliations	**B**	(i) Bank accounts are reconciled on a monthly basis for the majority of treasury bank accounts within four weeks from the end of the month (B). (ii) Suspense accounts and advances are reconciled at least annually and only a few balances are carried forward to the following year. Balances are mainly attributable to previous years (B). BoFED accounts	**Some deterioration of performance.**
PI-23	Availability of information on resources received by service delivery units	**B**	Routine data collection provides reliable information on resources received by primary schools, health centers, and health posts, both resources paid in cash (GEQIP-supported primary schools) and resources received in kind (B). Annual reports are compiled for the education and health bureaus. BoE and BoH	**Improvement** due to (1) easier tracking of resources provided to primary schools (due to GEQIP) and (2) submission of annual reports to education and health bureaus.
PI-24	Quality and timeliness of in-year budget reports	**C+**	(i) Classification of data allows direct comparison with the budget, but only at the payment stage, not at commitment stage (C). (ii) Consolidated reports are prepared quarterly and issued within eight weeks of the end of the month (C). (iii) There are some concerns about data accuracy, but these do not undermine their overall consistency or usefulness (B). BoFED accounts	**No real change.** 2010 assessment did not take into account delays in consolidation.
PI-25	Quality and timeliness of annual financial statements	**C+**	(i) Financial statements are comprehensive except that some extra-budgetary funds and donor-funded projects are not included (B). (ii) The latest financial statements were submitted six months after the end of the fiscal year (A). (iii) Financial statements are prepared in line with government account procedures, except some of the reporting requirements are yet to be fulfilled (C).	**No change in overall score.** Significant improvement in timeliness of annual accounts.

No.	Indicator	Scoring	Brief explanation and cardinal sources used	Performance change
			BoFED accounts	
C (iv) External Scrutiny and Audit				
PI-26	Scope, nature, and follow-up of external audit	**C+**	(i) Audit coverage of expenditure each year is about 65%. ORAG follows INTOSAI standards and conducts a systemic audit (C). (ii) Audit reports on financial statements are submitted to the Council 10 to 11 months after receipt of the statements (C). (iii) There is a strong follow up through a separate follow-up unit and publicity given to audit findings (A). ORAG and BFC	**No change in overall rating.** Deterioration in timeliness of audit, but improvement in audit follow-up and effectiveness.
PI-27	Legislative scrutiny of the annual budget law	**B+**	(i) The BFC review covers fiscal policies and aggregates (the MEFF) as well as detailed estimates of revenue and expenditure (B). (ii) The legislature's procedures are well established and respected and include inputs from specialized review committees (A). (iii) In principle, the RC has a total of two months to review the budget proposals, but the time was shorter (seven weeks) for the review of the draft FY 2013/14 budget (B). (iv) Clear rules exist and are respected, but they allow extensive administrative reallocations (B) BFC, BoFED planning and budgeting	**Improvement** under all dimensions.
PI-28	Legislative scrutiny of external audit reports	**B+**	(i) The financial audit review is completed by May, four months after receipt of the Office of the Federal Auditor General report (B). (ii) In-depth hearings take place consistently with responsible officers from defaulting entities (A). (iii) BFC recommendations are strongly followed up and generally implemented (A). ORAG and BFC	**Overall improvement** due to greater extent of hearings and implementation of recommendation
D. Donor Practices				
D-1	Predictability of direct budget support	**NA**	There is no direct budget support.	**No change.**

No.	Indicator	Scoring	Brief explanation and cardinal sources used	Performance change
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	**D+**	(i) Most large donors provide estimates of project aid for the coming year at least three months prior to the classification (C). (ii) Donors (at least the largest five) do not provide quarterly reports of actual disbursements within two months of the end of each quarter (D). BoFED finance	**No change.**
D-3	Proportion of aid that is managed by use of national procedures	**At least C**	At least 50% of aid funds to the Oromia State Government are managed through country systems. BoFED finance and donor partners	**No change.** The adjustment for the PBS component of the block grant was not made in the 2010 assessment, so the D rating is probably an underscore.

Appendix B. Persons Seen

Bureau of Finance and Economic Development	
Siraj Kedir Fayisa	Bureau Head
Frayol Lemma	Deputy Head
Feyisa	Director, Planning, Procurement, and Finance Administration
Asefaye	Channel 1 Coordinator
Gari Amosa	Director, Treasury
Tesfaye Gemecha	Director, Accounts
Etafe	Accountant
Abeba Alemayehu	Director, Procurement and Property Administration
Oromia Revenue Authority	
Lemessu Liki	Deputy General Director
Oromia Road Authority	
Hirpo Erso	Head of Finance
Kebede Debel	Planning Representative
Ifa Hussein	Senior Engineer
Fiseha Assefa	Capital Expenditure Accountant
Senbu Demissie	Expenditure Accountant
Mohammed Kelil	General Ledger Accountant
Asfaw Geleta	Audit
Hik Yigezu	
Eshetu Ararsa	Procurement
Bureau of Education	
Bedria Hassen	Accountant
Abaynesh Reta	Accountant
Kebede Tabor	Accountant
Adugna Buta	HR Process Owner
Adugna Muchie	HR Documentation
Bureau of Health	
Girma	Bureau Head
Mirihatu Taaraqany	Deputy Head
House of People's Representatives	
Nasir Hussein	Chairman, PAC
Tshome Eshatu Belete	Vice Chairman, PAC
Tayet Geresu	Chair, Budget and Finance Committee
Demelew Zerihun Biable	Member, Budget and Finance Committee
Public Enterprises Supervisory Authority	
Shimelis Abdisa	Vice Deputy Head

Office of the Regional Auditor General
Ayalech Ulfata — Regional Auditor General

Oromia Chamber of Commerce
Franol — Secretary

World Bank
Lead Economist and Sector Leader — Lars Christian Moller

IMF
Resident Representative — Jan Mikkelson

African Development Bank
Regional Financial Management Coordinator — Francis Kanyerere Mkandawire
Senior Financial Management Officer — Melaku Tadesse

European Union Delegation
Head of Section — Jeroen Willems
Economist and PFM Specialist — Ephraim Zewdie

Department for International Development, UK
Governance Adviser — Ahmed Mohammed
Finance Manager — John Moffat

USAID
Controller — Frank Monticello
Supervisory Financial Analyst — Kelemwa Kebede

Ireland Aid
Accountant and IT Officer — Henock Abbay

Appendix C. Documents Seen

IPE Global and B&M Development Consultants, *Conducting an Assessment and Producing Public Finance Management Institutionalized Training Strategic Action Plan, Oromia Regional State, Final Report,* Addis Ababa, April 2013.

Magalata Oromiyaa Proclamation no. 106/2005, "Proclamation to Define the Organization, Duties, Conduct of the Members and Meeting Procedures of the Caffee."

Magalata Oromiyaa Proclamation no. 154/2010, amending Proclamation 90/2005 "Reestablishing the Office of Oromia National Regional State Auditor General."

Magalata Oromiyaa Proclamation no. 156/2010, "Financial Administrative Proclamation," per 2001 Revised Constitution of Oromia National Regional State, 2001.

Magalata Oromiyaa Proclamation no. 157/2010, "Proclamation on Public Procurement and Property Administration."

Ministry of Finance and Economic Development, *Layperson's Guide to the Public Budget Process at Regional Level, A Prototype for Regions*, Addis Ababa, August 2009.

Ministry of Finance and Economic Development, *Oromia Regional Government PEFA Assessment Report*, amended by Proclamation 153/2009, Addis Ababa, October 2010.

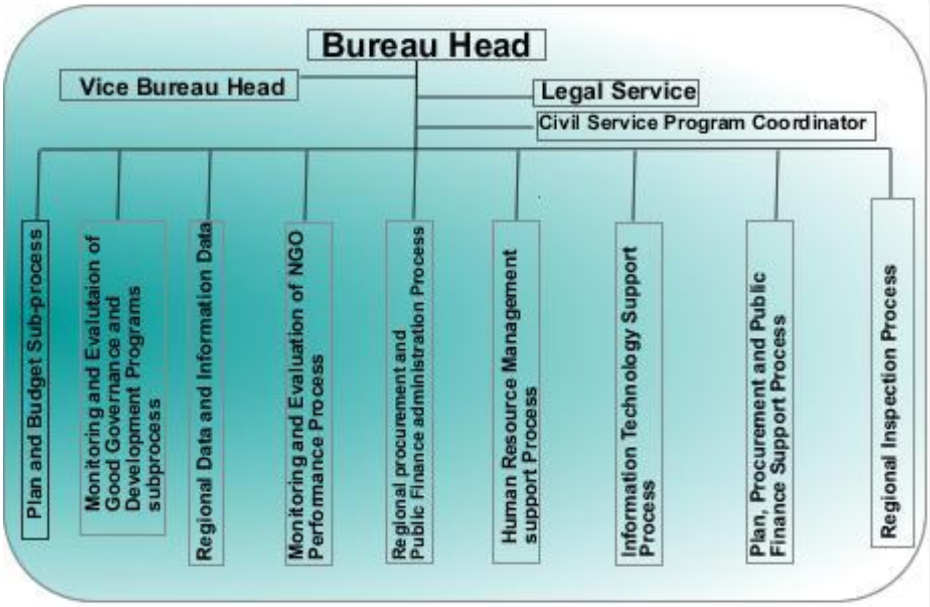
Office of the President, Communication and Protocol Directorate, *Oromiya Today*, vol. 5, no. 4, December 2013.

Oromia Bureau of Finance and Economic Development, "Oromia in Brief," Addis Ababa, December 2012.

Oromia Bureau of Finance and Economic Development and Japan International Cooperation Agency, *Manual for Planning, Budgeting, Monitoring and Evaluation and Information Management*, Addis Ababa, September 2013

Websites:
www.oromiabofed.gov.et

Appendix D. Oromia BOFED Organization Chart



Source: "Oromia BoFED Structure," http://www.oromiabofed.org/index.php?option=com_content&view=category&layout=blog&id=40&Itemid=30, accessed June 29, 2015.

Appendix E. PI-1 and PI-2 Calculations

Table E.1 Fiscal Years for Assessment

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

Table E.2 Data for Fiscal Year 2010/11 (ETB, millions)

		Total budget	Total actual	Adjusted budget	Deviation	Absolute deviation	Percent
110	Organs of state	528.9	631.7	602.4	29.3	29.3	4.9%
120	Justice and security	904.0	981.5	1,029.7	-48.2	48.2	4.7%
150	General service	566.1	773.5	644.8	128.7	128.7	20.0%
210	Agriculture and natural resources	921.6	1,248.5	1,049.7	198.8	198.8	18.9%
220	Water resources	728.3	614.9	829.6	-214.7	214.7	25.9%
230	Trade, industry, and tourism	178.7	110.4	203.5	-93.1	93.1	45.8%
260	Support and advisory	30.0	8.7	34.2	-25.5	25.5	74.5%
270	Construction	729.9	1,003.2	831.4	171.8	171.8	20.7%
310	Education	3,252.4	3,675.5	3,704.6	-29.1	29.1	0.8%
330	Culture, social affairs, and sport	189.9	220.0	216.3	3.7	3.7	1.7%
340	Health	1,200.2	1,237.5	1,367.1	-129.6	129.6	9.5%
360	Relief and rehabilitation	23.8	35.1	27.1	8.0	8.0	29.5%
	Allocated expenditure	9,253.8	10,540.5	10,540.5	0.0	1,080.4	
460	Contingency	194.0	0.0				
	Total expenditure	9,447.8	10,540.5				
	Overall (PI-1) variance						11.6%
	Composition (PI-2) variance						10.2%
	Contingency share of budget						0.0%

Table E.3 Data for Fiscal Year 2011/12 (ETB, millions)

		Total budget	Total actual	Adjusted budget	Deviation	Absolute deviation	Percent
110	Organs of state	651.6	721.4	605.9	115.5	115.5	19.1%
120	Justice and security	1,224.9	1,234.5	1,139.1	95.4	95.4	8.4%
150	General service	1,009.4	1,268.2	938.7	329.5	329.5	35.1%
210	Agriculture and natural resources	1,456.3	1,441.9	1,354.2	87.7	87.7	6.5%
220	Water Resources	1,395.8	794.5	1,298.0	-503.5	503.5	38.8%
230	Trade, IMX, transport, and investment	345.3	322.4	321.1	1.3	1.3	0.4%
270	Construction	4,428.7	4,015.6	4,118.4	-102.8	102.8	2.5%
310	Education and training	5,112.0	4,553.1	4,753.8	-200.7	200.7	4.2%
330	Culture, social affairs, and sport	287.5	290.3	267.4	22.9	22.9	8.6%
340	Health	1,910.7	1,916.4	1,776.8	139.6	139.6	7.9%
360	Relief and rehabilitation	31.3	44.1	29.1	15.0	15.0	
	Allocated expenditure	17,853.5	16,602.4	16,602.4	0.0	1,613.8	
	Contingency	340.2	0.0				

Total expenditure (note 1)	18,193.7	16,602.4		
Overall (PI-1) variance				8.7%
Composition (PI-2) variance				9.7%
Contingency share of budget				0.0%

Table E.4 Data for Fiscal Year 2012/13 (ETB, millions)

		Total budget	Total actual	Adjusted budget	Deviation	Absolute deviation	Percent
110	Organs of state	712.2	798.0	688.0	110.0	110.0	16.0%
120	Justice and security	1,430.6	1,430.2	1,382.0	48.2	48.2	3.5%
150	General services	1,377.2	1,869.5	1,330.4	539.1	539.1	40.5%
210	Agriculture and natural resources	1,654.5	1,543.6	1,598.3	-54.7	54.7	3.4%
220	Water, mineral, and energy resources	1,803.4	1,288.9	1,742.2	-453.3	453.3	26.0%
230	Trade, transport, and investment	562.2	536.3	543.1	-6.8	6.8	1.3%
270	Construction	5,785.4	5,831.9	5,588.9	243.0	243.0	4.3%
310	Education and training	6,126.0	5,544.7	5,918.0	-373.3	373.3	6.3%
330	Culture, social affairs, and sport	351.1	334.1	339.2	-5.1	5.1	1.5%
340	Health	2,621.2	2,472.5	2,532.2	-59.7	59.7	2.4%
360	Relief and rehabilitation	39.9	51.2	38.5	12.7	12.7	32.8%
	Allocated expenditure	22,463.7	21,700.9	21,700.9	0.0	1,905.7	
	Contingency	320.9	0.0				
	Total expenditure	22,784.6	21,700.9				
	Overall (PI-1) variance						4.8%
	Composition (PI-2) variance						8.8%
	Contingency share of budget						0.0%

Table E.5 Results Matrix

Fiscal year	for PI-1	for PI-2 (i)	for PI-2 (ii)
	Total exp. deviation	Composition variance	Contingency share
2010/11	11.6%	10.2%	0.0%
2011/12	8.7%	9.7%	
2012/13	4.8%	8.8%	

Score for indicator PI-1	**B**		
Score for indicator PI-2 (i)		**B**	
Score for indicator PI-2 (ii)		**A**	**B+**

Source: BoFED extract from IBEX, expenditure from domestic sources only; team calculations. Accounts for the last year are not audited. There are differences between the above data and Table 2 on budget outcomes for FYs 2010/11 and 2011/12.

Appendix F. PI-3 Calculation

Budget versus Actual Revenue EFYs 2003-2005 (FYs 2010/11-2012/13) (ETB, millions)						
	2003 (2010/2011)		**2004 (2011/2012)**		**2005 (2012/2013)**	
Description	**Approved budget**	**Actual revenue**	**Approved budget**	**Actual revenue**	**Approved budget**	**Actual revenue**
All domestic revenue	**1,385.3**	**2,353.8**	**3,008.1**	**3,937.2**	**4,253.0**	**5,376.7**
Tax revenue	**1,217.4**	**2,004.6**	**2,647.9**	**3,154.8**	**3,807.8**	**4,281.3**
Tax on income, profit, and capital gain	862.2	1,469.5	1,817.4	2,244.8	2,436.8	2,922.8
Value added tax	218.1	342.4	601.4	586.0	961.6	1,049.3
Excise taxes on locally manufactured goods	0.3	0.3	3.0	0.5	0.3	-
Sales turnover tax on locally manufactured goods	58.5	84.4	104.1	159.2	199.9	166.1
Turnover tax on local services	19.6	26.7	34.7	57.4	54.2	47.9
Stamps sales and duty	58.7	81.1	87.3	107.0	154.9	95.1
Excise tax on imported goods	0.0	-				
Sales tax on imported goods	0.0	0.1				
Non-tax revenue	**165.2**	**347.5**	**356.7**	**780.0**	**442.0**	**1,091.3**
Administrative fees and charges	55.4	63.9	56.8	95.6	101.6	120.7
Sales of public goods and services			92.6	367.3	89.8	565.8
Government investment income	109.8	123.4	203.8	161.5	247.3	176.3
Miscellaneous revenue	0.0	158.3	0.0	152.9	0.0	224.3
Contributions to pension fund	0.0	0.1	0.0	0.2	0.0	0.1
Capital revenue	**1.3**	**1.8**	**3.5**	**2.4**	**3.2**	**4.0**
Sales of movable and immovable properties	1.3	1.4	2.6	1.8	2.5	3.4
Sales of stock	0.0	-	-	-	-	0.0
Royalty on public assets	-	0.5	0.9	0.6	0.7	0.6
Actual / Approved		**169.9%**		**130.9%**		**126.4%**

Source: Oromia BoFED accounts. There are small differences between the above data and Table 2 on budget outcomes for FYs 2011/12 and 2012/13, and a major difference on FY 2010/11.

Appendix G. Calculation of HLG-1 Variance

Table G.1 Fiscal Years for Assessment

Fiscal Year 1 = NA
Fiscal Year 2 = 2011/12 = EFY 2004
Fiscal Year 3 = 2012/13 = EFY 2005

Table G.2 Data for Fiscal Year 2011/12 (ETB, millions)

	Total budget	Total actual	Adjusted budget	Deviation	Absolute deviation	Percent
Block grant	9,932.4	9,958.0	9,733.3	224.7	224.7	2.3%
MDG-agriculture	138.2	129.0	135.4	-6.4	6.4	4.7%
MDG-health	438.1	409.1	429.3	-20.2	20.2	4.7%
MDG-education	551.0	514.6	540.0	-25.4	25.4	4.7%
MDG-water	433.4	404.8	424.7	-19.9	19.9	4.7%
MDG-rural roads	3,318.9	3,099.6	3,252.4	-152.8	152.8	4.7%
Total transfers	14,812.0	14,515.1	14,515.1	0.0	449.4	
Overall (HLG-1 i) variance						-2.0%
Composition (HLG-1 ii) variance						3.1%

Table G.3 Data for Fiscal Year 2012/13 (ETB, millions)

	Total budget	Total actual	Adjusted budget	Deviation	Absolute deviation	Percent
Block grant	11,575.4	11,575.4	11,040.3	535.1	535.1	4.8%
MDG-agriculture	85.4	74.4	81.5	-7.1	7.1	8.7%
MDG-health	728.7	635.0	695.0	-60.0	60.0	8.6%
MDG-education	801.7	698.6	764.6	-66.0	66.0	8.6%
MDG-water	684.2	596.3	652.6	-56.3	56.3	8.6%
MDG-rural roads	4,200.0	3,660.1	4,005.8	-345.7	345.7	8.6%
Total transfers	18,075.4	17,239.8	17,239.8	0.0	1,070.2	
overall (HLG-1 i) variance						-4.6%
composition (HLG-1 ii) variance						6.2%

Table G.4 Results Matrix

Fiscal year	for HLG-1 (i) Total exp. deviation	for HLG-1 (ii) Composition variance
2010/11	10.6%	NA
2011/12	-2.0%	3.1%
2012/13	-4.6%	6.2%

Score for indicator HLG-1 (i)	**A**
Score for indicator HLG-1 (ii)	**B**

Source: BoFED data, Team calculations.