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<td>African Development Fund</td>
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<td>ADB</td>
<td>African Development Bank</td>
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<td>APRM</td>
<td>African Peer Review Mechanism</td>
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<td>AU</td>
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<td>BD</td>
<td>Board Document</td>
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<td>CSRP</td>
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<td>Direct Budget Support</td>
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<td>Federal Ethics and Anti-Corruption Commission</td>
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<td>EMCP</td>
<td>Expenditure Management and Control Programme</td>
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<td>EPRDF</td>
<td>Ethiopian Peoples’ Revolutionary Democratic Party</td>
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<td>EU</td>
<td>European Union</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GNP</td>
<td>Gross National Product</td>
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<td>GOE</td>
<td>Government of Ethiopia</td>
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<td>HOF:</td>
<td>House of Federation</td>
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<td>HOPR</td>
<td>House of Peoples Representatives</td>
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<td>JBAR</td>
<td>Joint Budget &amp; Aid Review</td>
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<td>MOFED</td>
<td>Ministry of Finance and Economic Development</td>
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<td>Medium-Term Fiscal Framework</td>
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<td>NEBE</td>
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<td>NEPAD</td>
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<td>NGO</td>
<td>Non-Governmental Organization</td>
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<td>PASDEP</td>
<td>Plan for Accelerated Progress and Sustained Development to End Poverty</td>
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<td>Public Sector Capacity Building Programme</td>
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<td>SDPRP</td>
<td>Sustainable Development and Poverty Reduction Program</td>
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<td>SNNP</td>
<td>Southern Nations, Nationalities and Peoples Region</td>
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ETHIOPIA COUNTRY GOVERNANCE PROFILE

EXECUTIVE SUMMARY

1. Introduction

1.1 This Country Governance Profile (CGP) is a revised version of the document originally prepared following a Bank Group CGP preparation mission to the Federal Democratic Republic of Ethiopia from 11 to 27 April, 2005. The CGP has been updated substantially to reflect recent developments and the governance policy content of Ethiopia’s second Poverty Reduction Strategy, called the Plan for Accelerated and Sustained Development to end Poverty (PASDEP).

2. Assessment of Governance in Ethiopia

2.1 The objective of the CGP is to assess the strengths and weaknesses in Ethiopia’s governance. The focus is on dimensions of accountability, transparency, participation, judicial and legal reform and anti-corruption, which are of particular concern to the Bank in the context of its development mandate and the Good Governance Policy of 2000.

2.2 The CGP assessment shows that compliance with formal rules and regulations in the Ethiopian civil service is high and control systems are relatively strong. Public sector performance is, however, constrained by limited institutional and human resource capacity. Under the Public Sector Capacity Building Programme (PSCAP), donors are assisting the Government to deepen on-going civil service reform and address capacity gaps. This CGP has underlined the need to intensify these efforts, while safeguarding the autonomy and professionalism of the civil service to ensure effectiveness in the delivery of public services and enhanced accountability.

2.3 Public financial governance in Ethiopia is based on a solid legal and regulatory framework, consisting of an extensive body of laws, rules, and regulations and supporting institutions. Sustained reform implementation has led to the strengthening of the planning, budgeting, and accounting systems. These gains are reflected in improvements in the budget preparation process, budget comprehensiveness, as well as timeliness in fiscal reporting. Despite these improvements, Ethiopia’s PFM exhibits weaknesses in several areas, which have implications for accountability. These include: (i) low quality of fiscal data in some of the regions; (ii) inadequate capacity of key oversight agencies, namely the Federal Auditor General and Regional Auditor General; (ii) weak procurement capacity; and; (iii) weak implementation of audit recommendations. These weaknesses underline the need to deepen the PFM reform and capacity building efforts so as to enhance transparency and accountability.

2.4 The CGP has assessed progress in decentralization, which lies at the core of Ethiopia’s efforts to strengthen democratic governance and improve basic service delivery. The key challenge is to build the requisite institutional and human resource capacity at sub-national levels in order to effectively empower sub-national governments and communities. At the same time, there is need to strengthen the demand side of governance by moving forward the social accountability agenda, which is still in its infancy. The CGP notes the promising initiatives to promote social accountability in Ethiopia, particularly the Protection of Basic Services Programme (PBS).
2.5 The availability of information to citizens is vital for enhanced accountability. While access to information in Ethiopia has improved significantly, this aspect of governance remains challenging. The CGP has highlighted the importance of establishing an appropriate legal framework to underpin freedom of access to information, which is a basic human right.

2.6 The degree of corruption in Ethiopia has historically been low. There is, however, a growing perception that the incidence of corruption in Ethiopia is on the rise. This seems to be borne out by the recent trend in the Transparency International Corruption indices for Ethiopia. Whilst the legal and institutional framework for combating corruption exists, a more active engagement of non-state actors in monitoring corruption would be vital for the success of the anti-corruption drive.

2.6 The CGP has also assessed the judicial system in Ethiopia, and has identified weaknesses impeding its effectiveness and efficiency. These weaknesses are being addressed through the on-going Justice System Reform Programme, which is supported under the PSCAP. However, a key challenge in efforts to promote the rule of law, and strengthen horizontal accountability is to protect the independence of the judiciary.

3 Government’s Good Governance Agenda

3.1 The GOE has, within the wider context of its poverty reduction strategy developed a programme to address the governance challenges highlighted in this CGP. The focus of the agenda includes civil service reform, decentralization, urban management, judicial reform, participation and promotion of human rights. The governance reform agenda is strong, but its success will largely depend on the adequacy of implementation capacity, political commitment, and incentives of the different actors.

4 Bank Support for Good Governance

4.1 The CGP has identified the scope, options, and opportunities for Bank support to Ethiopia good governance programmes. The recommended pillars for support are decentralization and PFM reform. This focus is in line with Bank wide strategic direction in the realm of governance. A set of issues around which the Bank will conduct dialogue with the Government has also been defined in this CGP.
1. INTRODUCTION

1.1 There is consensus that good governance is an essential ingredient for sustainable development and poverty reduction. The Country Governance Profile (CGP) is the Bank Group’s diagnostic tool for operationalizing its Good Governance Policy. This CGP assesses the strengths and weaknesses of Ethiopia’s governance, identifies key issues and challenges, and considers whether the Government’s good governance agenda responds appropriately to these challenges. Based on the assessment, the CGP recommends an appropriate focus and entry point for Bank Group governance support to Ethiopia.

1.2 This CGP is a revised version of the document originally prepared following a Bank Group CGP preparation mission to the Federal Democratic Republic of Ethiopia from 11 to 27 April, 2005. The mission collected relevant information and consulted with a broad range of key stakeholders on the governance situation of the country. However, before the CGP could be finalized, Ethiopia experienced a major political crisis shortly in the wake of the general elections of May, 2005. The political crisis triggered a suspension of Direct Budget Support to Ethiopia by donors and prompted a deep reflection on the most effective ways of engaging the country on both the development and governance agendas. Consensus soon emerged on the way forward and around a set of core principles to guide the engagement. The Protection of Basic Services Programme (PBS) was developed as an alternative instrument to Direct Budget Support with the aim of protecting basic service delivery at the local level while enhancing mechanisms and processes for accountability and transparency.

1.3 The CGP has been updated substantially to reflect recent developments and evolution of governance policies as outlined in Ethiopia’s second Poverty Reduction Strategy Paper—the Plan for Accelerated and Sustained Development to end Poverty (PASDEP), approved by Ethiopia’s Parliament late 2006. The Bank consulted stakeholders regarding the contents and recommendations of the CGP and sought their views.

1.4 The document has also been informed by existing diagnostic work, such as the 2007 Public Expenditure and Financial Accountability (PEFA) assessment for Ethiopia, the Justice Baseline Study, and recent PBS documents. This CGP is selective in the coverage of governance issues and is structured as follows: Chapter 2 gives the country historical context while Chapter 3 assesses Ethiopia’s governance performance. Chapter 4 assesses the Government’s good governance package as articulated in the PASDEP while Chapter 5 describes the existing and proposed donor support for the good governance package and the coordination framework. Chapter 6 recommends areas for Bank governance support and presents issues around which its dialogue would be conducted jointly with other development partners. The conclusion and recommendations emanating from the CGP assessment are presented in Chapter 7.

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1 The African Union’s New Partnership identifies good governance as a basic requirement for peace, security and sustainable growth and development. For this reason, the NEPAD has established the African Peer Review Mechanism (APRM) as a tool for improving governance through peer review, sharing of best practices and designing action plans to improve governance.
2. HISTORICAL CONTEXT

2.1 For centuries, Ethiopia was governed by a highly centralized monarch. The last monarch was Emperor Haile Selassie who accessed to the throne in 1931. After a popular uprising in 1974 which left a political vacuum, a provisional administrative council, known locally as the Derg, was set up but collapsed in May 1991. The Ethiopian Peoples’ Revolutionary Democratic Front (EPRDF) took over the capital, Addis Ababa. The EPRDF assumed governance responsibilities and convened a National Peace Conference in Addis Ababa which adopted a Transitional Charter and formed a transitional government. This paved the way for the installation of an elected government under a pluralist political system.

2.2 Among the key features of the newly constituted political system were an ethnic-based political map, extensive devolution of power to regions, and a new formula for unity based on equality of nations, and nationalities, and voluntary union. The new constitution adopted in 2005 transformed Ethiopia into a federal system of government, whose structure is described in Annex I. Concurrently, the new Government embarked on comprehensive macro-economic and structural reforms, aimed at stabilizing the economy, and transforming the economy from a command economy to a market-oriented one. After achieving economic stabilization and reconstruction, the Government embanked on a longer term social and economic development agenda.

2.3 Ethiopia ranks amongst the poorest countries in the world with an estimated 38 percent of the population living below the poverty line; faced with regional and internal conflicts. Faced with the poverty challenge, the pro-poor orientation of development policies was enhanced with the adoption of the first Poverty Reduction Strategy Paper, the Sustainable Development and Poverty Reduction Programme (SDPRP) in 2002. Since 2005, the Government has embarked on the second phase, called the PASDEP.

3. ASSESSMENT OF GOVERNANCE IN ETHIOPIA

3.1 Quality of Public Administration

3.1.1 The current Government inherited a highly centralized and control oriented civil service. The civil service lacked autonomy while accountability to citizens was weak. These institutional shortcomings, in turn, hindered the effectiveness and responsiveness of the state in public service delivery.

3.1.2 Since 1994, the GOE has embarked on a comprehensive civil service reform programme designed to improve performance and strengthen accountability and transparency. Decentralization was also initiated as part of broad based efforts to improve the effectiveness of the state in public service delivery and advance the democratization process. The laws, rules and regulations governing Ethiopia civil service have undergone changes in line with the 1995 Federal constitution to foster an impartial, ethical and accountable civil service. The degree of compliance with rules in the Ethiopian civil service is, generally high and control systems such as payroll are relatively strong. However, the transition from a socialist to a market oriented economy has necessitated a reorientation of the civil service toward a more service oriented public administration.

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2 Annex IV highlights some of the key Governance Risks in Ethiopia.
3 This reflects strong respect for authority which some believe is rooted in the Ethiopian culture.
3.1.3 The Federal Constitution provides for checks and balances between the executive and other branches of Government in order to foster horizontal accountability. Yet in practice the executive branch in Ethiopia has tended to wield greater powers vis-à-vis other branches of Government. The democratization process and on-going governance reforms, however, are creating conditions that would allow the system of checks and balances to work better, and prevent possible abuse of executive power.

3.1.4 Since the early 1990s, the GOE has pursued sound macro economic policies and has shown a remarkable commitment to improve the delivery of basic services and infrastructure in pursuit of its growth and poverty reduction objectives. Significant progress has been achieved in several key areas of development action, including the expansion of access to basic services, especially primary education. However, despite these positive efforts, overall civil service performance continues to be constrained by the scarcity of skilled and qualified manpower, inadequate working systems, and weak performance orientation in management. Capacity building efforts are being supported through the multi-sectoral Public Sector Capacity Building Programme (PSCAP) (see Annex VII).

3.2 Public Financial Governance

In this section, Ethiopia’s performance in public financial governance is assessed with respect to the following particular aspects: (ii) budget comprehensiveness and transparency; (iii) access to fiscal information; and (iii) controls in the budget execution process to ensure efficient and transparent use of public resources, including procurement; and (iii) external audit and legislative fiscal oversight. Annexe III also provides some highlights of achievements made in this area.

3.2.1 Legal and Institutional Framework for Financial Governance: Public financial governance in Ethiopia is anchored on a legal and regulatory framework comprising an extensive body of laws, rules, regulations and international standards, adapted to local conditions. The legal and regulatory framework covers: revenue administration; budgeting; financial accounting and reporting; procurement; controls in budget execution and external oversight. The institutional framework for PFM is well established with clear demarcation of responsibilities and roles for each of the institutions involved in the budget cycle.

3.2.2 PFM Performance: Since the mid 1990s, Ethiopia has embarked on a comprehensive programme of Public Financial Management Reforms which aim to improve efficiency and effectiveness in public spending while enhancing transparency and accountability in the management of public finances. Diagnostic studies such as the 2007 Public Expenditure and Financial Accountability (PEFA) conducted at both federal and regional level, detail progress in these reforms.

3.2.3 Budget Comprehensiveness and Transparency: PEFA has scored Ethiopia highly in the area of budget classification at federal and sub-national levels. However, lack of reporting on statutory funds, such as the Pension and the Road Fund requires re-dress. According to the PEFA, the share of extra budgetary funds in total budget over the 2002/03-2004/05 period averaged 12 percent. On the other hand, the Government maintains that extra budgetary funds do not represent a weakness as the funds are reported to the Council of Ministers and then Parliament.

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4 The budgets are classified by function, economic function category and by administrative layer.
3.2.4 **Budget Credibility and Fiscal Discipline:** Budget execution in Ethiopia is characterized by high degree of discipline. The PEFA assessments indicate that the amount of deviation between approved and budgeted primary expenditure and actual expenditure outturns is less than 5%, an indication of good performance. As a result of budget discipline, payment arrears no longer exist. The weakness in budget credibility, however, is that actual expenditure composition exhibits a high variation, estimated at more than 5%.

3.2.5 **Policy Based Budgeting:** Ethiopia’s annual Federal Budget is derived from the Medium Term Expenditure Fiscal Framework, which ensures alignment of budgetary allocation decisions to strategic policy priorities within a stable macro-framework. The budget process is orderly and adheres to a financial calendar. Moreover, the preparation process involves all stakeholders within Government. The medium term planning and budgeting process at sub-national level, however, is still in its infancy. Although stakeholder participation in SDPRP and the PASDEP processes was strong, the role of non state actors in the budget process in Ethiopia is still limited.

3.2.6 **Fiscal Reporting:** Until recently, the closure of government accounts was fraught with delays leading to long lags in expenditure reporting and hence the accumulation of a backlog of accounts and audits. Over the past three years, the timeliness of Ethiopia’s fiscal reporting has improved significantly and the backlog in federal accounts has virtually been eliminated. Budget execution reports are prepared on a quarterly basis which has helped improve expenditure monitoring. These improvements have resulted from budget and accounting reforms implemented under the auspices of the EMPC, and supported by the District Support Activity Project which closed end 2007. However, in the smaller emerging regions which have lagged behind in budget and accounting reforms, fiscal reporting remains a challenge, both in terms of quality and timeliness.

3.2.7 **Internal Controls:** Payroll controls systems in Ethiopia are adequate, although internal controls on non-salary expenditures show some weaknesses. For example, payment commitments for goods and services do not always consider cash flow availability. Internal audit systems exist in all budgetary institutions in Ethiopia at both federal and sub-national levels. However, the internal audit capacity is weak. This is partly due to lack of professionalization of the internal audit function. There are initiatives underway to strengthen and modernise the internal audit function to conform to international best practices.

3.2.8 **Procurement:** In 2002, the Government and donors had conducted a Country Procurement Assessment Review (CPAR), which identified several weaknesses in the procurement process. Amongst the weaknesses identified were the cumbersome procurement procedures, the outdated legal framework, insufficient competition and lack of transparency. In order to address these weaknesses, and recognizing the importance of transparency and integrity, the GOE embarked on major procurement reforms. A new federal procurement law was enacted in 2005 (Proclamation No. 430/2005), and is being replicated in regions.

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5 The emerging regions are catching on the reforms as a result of the special support provided by MoFED to regional finance bureaus.

6 There is need to professionalize the internal audit function. Plans are underway under the EMCP Action Plan to professionalize the internal audit function by supporting internal auditors to take the Certified Internal Auditors Qualification.
3.2.9 **External Audit Scrutiny:** Each region has its own Auditor-General (ORAG) responsible for auditing regional accounts. However, in recent years, confusion has arisen over the mandate for auditing regional expenditures financed from block grants. The respective roles of OFAG and ORAG are being clarified to ensure harmonious working relations. Due to weak capacity, external audit coverage of federal expenditure is only 50%. Coverage of regional expenditure audit is even lower. Despite its constraints, OFAG has performed relatively well, and is a credible accountability institution. Delays in submission of external audit reports have been due largely to delays in the closure and submission of accounts by public institutions to OFAG. Although the situation has improved, delays continue to occur in some of the regions. Follow up of audit recommendations is rather weak, and sanctions are not applied frequently or consistently. It is vital that audit recommendations are acted upon quickly to strengthen fiscal accountability and transparency. There is need for greater clarity in the laws defining the tenure of the Federal Auditor-General and its mandate to audit regions.

3.2.10 **Legislative Scrutiny of the Budget and External Audits:** The Federal Constitution of Ethiopia has assigned the HOPR the responsibility of enforcing fiscal accountability. Accordingly, the HOPR approves the federal budget, including subsidies to regions. It is widely acknowledged that Parliament at both federal and sub-national levels has not been as effective in carrying out its fiscal oversight functions. There are several reasons for this. Firstly, audited reports were often submitted late until recently, rendering the exercise meaningless as corrective measures cannot be taken quickly. The situation has improved. Secondly, the Committee lacks the necessary resources to discharge its responsibilities effectively. As noted in the PEFA, public hearings on audit reports are conducted, but the process is not systematic, while the time devoted to scrutiny is often limited.

3.2.11 **Access to Fiscal Information:** The budget law in Ethiopia is widely disseminated and legislative budget discussions are open to the public. Yet as noted in the PEFA Report in-year budget execution reports and annual government accounts are still not accessible to the public. External audit reports are also not easily available. Since audit reports provide citizens with vital information for holding governments accountable, deliberate efforts to make these reports widely available is needed. Sub-national budget information was in the past not accessible to the public, thereby weakening transparency and accountability. However, the dissemination of sub-national budgets has improved markedly in recent years. Most woredas are now posting their budgets in public places, an important step toward strengthening budget transparency and accountability. Given the low levels of literacy in Ethiopia, the challenge is to raise the level of budget literacy and awareness to ensure effective monitoring of expenditures and services at local level.

**Key Recommendations for Improving Public Financial Governance**

3.2.12 Progress in PFM reform has been considerable. Nevertheless, there is need to deepen the efforts and sustain the gains. The key areas requiring particular attention are: promoting accountability and transparency include external audit scrutiny; legislative oversight; procurement; improving timeliness and quality of fiscal reporting at sub-national level, and access to fiscal

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7 MOFED is disseminating quarterly budget execution reports on its web site (www.mofed.org) as well as monthly data on federal regional and woreda block grant transfers.

8 A number of woredas are posting service delivery performance data, in addition to budget data. Improved budget transparency is a key focus of the PBS. The PBS requires that fiscal data be disseminated to the public regularly to promote accountability. PBS reviews include verification of budget dissemination.
information. The Government has developed a PEFA/EMCP action plan for addressing these issues. The next PEFA due in the next two years will enable Government and donors to further assess progress in improvement of the PFM system.

3.3 Information disclosure

3.3.1 There are several channels through which the executive communicates with citizens and their legislative representatives. “Question time” in Ethiopia’s Parliament affords legislators an opportunity to engage the Prime Minister and other Federal Government officials regarding the conduct and performance of the executive. Furthermore, the Prime Minister presents overall government annual plans at the beginning of each parliamentary session and submits a report on the performance of different ministries bi-annually to Parliament. This reporting mechanism is intended to enhance executive accountability. Each Ministry is also required to provide regular reports to the Council of Ministers on its performance.

3.3.3 While Government’s efforts to improve information disclosure to enhance transparency are commendable, major challenges remain in this area. Non state actors (e.g. researchers and CSOs) complain of limited access to information from the government. In recognition of the importance of freedom of access to information, the GOE has drafted a Law on Mass Media and Freedom of Information.\(^{10}\) The draft law, which builds on the constitutional right of freedom of expression, underwent extensive consultations with key stakeholders. The law was approved by Parliament in June, 2008. (See section 3.5). Public demand for print information in Ethiopia is, generally, low; this is a reflection of low literacy rates in the country, especially in rural areas, where the majority live. Consequently the use of information for advocacy and performance monitoring in Ethiopia is still limited. Thus, in order to embed accountability, deliberate efforts to stimulate demand for information and promote its use in advocacy, and performance monitoring, are required.

3.4 Participation

3.4.1 Political participation: Ethiopia has held three national elections since the new constitution was adopted in 1994. The third multi-party election took place on 15 May 2005. The elections of 2005 were judged by many as being the most openly contested in the country’s political history. The elections generated unprecedented interest and turnout was by far higher than in previous elections. The ruling party won the elections but with a significantly reduced majority in parliament.\(^{11}\) While NEBE’s conduct of the elections is judged to have significantly improved, its impartiality was nevertheless questioned by opposition parties. The opposition in Ethiopia has often complained of harassment and intimidation and what they perceive as the absence of a level playing field in the electoral process. The Government has since the elections, undertaken measures to further enhance the democratization process.

3.4.2 Local Empowerment: Annex II describes the decentralized governance structure of Ethiopia. The woreda council is the main representative body at the local level, and its decisions directly affect the welfare of citizens and local communities. However, the dual accountability to

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\(^{10}\) The draft law has drawn elements from the experiences of other countries, such as South Africa that have enacted similar laws.

\(^{11}\) The final results declared in September, 2005 showed that (CUD/UEDF) alliance had won 109 seats of the 547 seats compared to 12 seats in the previous election.
which the woreda council is subjected has been questioned by some for relegating community accountability to a secondary level, thereby undermining communities’ needs and interests. It has been argued that such dual accountability also limits the independence of the local council, implying that the autonomy of the woreda is not fully respected. In a governance study carried out in 2003, about 44% of experts interviewed believed that mechanisms for local accountability were rarely effective and efficient while about 36% believed that they were not effective and efficient.

3.4.3 Fiscal Decentralization and Basic Service Delivery: Regional Governments and woredas have been assigned spending responsibilities for the provision of basic services. However, their revenue mobilization capacity is not sufficient to enable them discharge their mandates effectively. Regions on average generate 20 percent of their revenues from own sources, and yet are responsible for financing about 80 percent of expenditure on basic services. To address the vertical fiscal imbalance, the Government has overtime developed an inter-governmental fiscal framework. The framework provides for transfer of subsidies to sub-national entities to enable them meet their assigned responsibilities. Inter-governmental fiscal transfers also seek to achieve wider equity objectives and to promote political stability. Fiscal transfers to regions, the bulk of which are in form of non-conditional grants, account for 30 percent of the federal budget. The distribution of the federal regional block grants is determined on the basis of a formula approved by the second house of the Federal Parliament, the House of Federation. This has been subsequently reviewed to place more weight on per capita expenditure needs and revenue generation capacity. As block grants constitute the major source of financing basic services in Ethiopia, the challenge is ensuring that the transfer of fiscal resources to regions and woredas is transparent and adheres to the agreed formula to reduce opportunities for political elite capture.

3.4.4 Civil Society & Social Accountability: The activities of Civil Society Organizations (CSOs) in Ethiopia are governed by the law pertaining to member based voluntary associations. CSOs in Ethiopia were mainly engaged in humanitarian activities, but as their focus in the early 1990s shifted towards advocacy activities, tension in civil society-government relationship emerged. The uneasy relationship partly stems from the Government’s concern about the apparent lack of transparency in the funding and activities of CSOs. Many CSOs rely on donor financing. The post-election events increased mutual suspicion and threatened to halt the progress made to expand space for non-state actors. Generally, CSOs in Ethiopia lack the capacity and resources needed to effectively influence public policy. Yet some of them have proved extremely effective in the areas of advocacy, for example HIV and gender rights. The government has committed, in the PASDEP to promote CSO participation in the development process through capacity building and other interventions. The Government completed the draft of a new CSO law early 2008. Consultations over the draft CSO law have taken place, but the draft law has proved to be highly controversial. Although the motivation of the law is to ensure that CSOs are properly regulated, many local and international NGOs view it as highly restrictive. The Government has reaffirmed that the CSO law has incorporated relevant international experience and serves the interest of the country.

3.4.5 Gender Participation & Empowerment: The Constitution of Ethiopia adopted in 1995 guarantees women equal rights with men and provides for affirmative action to remedy gender inequities. Ethiopia has ratified the UN Charter on Human Rights and the Convention on the Elimination of All forms of Discrimination against Women (CEDAW) and National Action Plan for Gender. The creation of a Ministry of Women Affairs reflects the underlying the political commitment to gender equity. Despite these measures, serious gender inequities remain. Gender

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12 Conditional grants finance federally mandated programmes. These include the PSCAP, the Productive Safety Net Programme, and the Food Security Programme.
inequities are partially rooted in tradition, and have been perpetuated by lack of awareness. Spheres in which gender inequity persist include the civil service. It is estimated that out of the total labour force employed in the civil service, 40 percent are women. Of these, 71% are employed in lower level and low paying jobs. To address this imbalance, the Federal Civil Service Proclamation provides for specific actions to promote the rights of the women, including affirmative actions. Women are also grossly under represented in political decision making structures. Prior to the 2005 General Elections, the ruling party took a deliberate decision to raise the number of reserved parliamentary seats for women to one third. Out of the 534 seats in the HOPR, 117 are held by women. This represents an increase in representation from 13 to 31 percent.

3.5 Freedom of the media

3.5.1 The Ethiopian constitution guarantees freedom of the media. Consistent with the constitution, Ethiopia has opened space for the development of private print and electronic media. There has been an increase in the number of private newspapers in Ethiopia since the media was liberalized. Press freedom has proven to be a highly contentious issue. A new press bill that was drafted a couple of years came under strong criticism inside and outside the country because it was perceived as too restrictive on the private media. The law has been amended based on international best practices, and the legislation was passed by Parliament. Some analysts still maintain that the new Law is restrictive. One concern is over the heavy penalties that will be imposed on owners of newspapers breaking the law. The importance of a free press in enhancing transparency and providing the public with the means of holding the executive accountable cannot be overemphasized. Although Ethiopia is committed to press freedom as enshrined in its constitution, the challenge is to ensure that the press operates freely.

3.6 Combating Corruption

3.6.1 Although the prevalence of corruption in Ethiopia has been historically low, there is a perception that the problem is growing. The Economic Intelligence Unit 2007 Country Report for Ethiopia states that forces of economic liberalization and commercialization appear to have increased opportunities for corruption. Areas prone to rent seeking behaviour and corrupt practices include the allocation and leasing of urban land and transactions where rules and procedures are not clearly defined, or regulatory oversight over decisions is weak. The Government has recognized from the outset the need for vigilance, and for proactive actions to prevent corruption and promote high ethical standards in public administration. In 2001, the Federal Ethics and Anti-corruption Commission (FEAC) was established with the aim of curbing corrupt practices. Despite its limited organizational capacity, the Commission has successfully prosecuted high profile cases. In 2004 a number of senior government officials and senior management staff of the Commercial Bank of Ethiopia were prosecuted for abuse of office for personal gain. Corruption court cases, however, have tended to be slow, and some have questioned the independence of the FEAC. Moreover, there is a perception that some of the high profile corruption cases that are prosecuted are politically motivated. The Commission has also received good co-operation from

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13 The Bank’s Ethiopia Country Gender Profile, 2004 provides a detailed analysis of gender inequity in the public sector and in economic activities
14 The press bill contained provisions drawn from the penal and civil law. These clauses made false reporting a criminal offence
15 The FEAC publishes its performance reports on its web site: www.feac.gov.et
16 One of the high profile cases was the conviction of former deputy Prime Minister Tamrat Layne for abuse of authority through unlawful business deals.
the public despite the absence of whistle blower protection legislation. The whistle blower law is expected to be presented to Parliament soon. Existing Proclamations also require the Prime Minister, Ministers and other senior Government officials to declare their assets and liabilities and any conflict of interest that may arise in the policy making process. Under the laws, citizens have the right to seek information on the assets and liabilities of top Government officials and to seek redress through the court system for any wrong doing by the Government. The extent to which these rights are exercised in practice is, however, not clear. There is need for systematic monitoring of corruption trends in Ethiopia and the involvement of non-state actors in this process will be vital.

3.7. Legal and Justice System

3.7.1 Independence of the Judiciary: Article 78 of the Ethiopian Constitution provides for an independent judiciary. To ensure judicial autonomy, the President and Vice-President of the Supreme Court are appointed by Parliament upon nomination by the Prime Minister. The executive has no powers to remove them from office. The other judges are nominated by the Federal Judicial Administrative Council (FJAC) on the basis of transparent criteria and then recommended by the Prime Minister for appointment by the HoPR. There is a disciplinary code of conduct and rules by which the judges are governed. Constitutionally, judges cannot be removed from their duties until retirement except for violation of disciplinary rules or on grounds of gross incompetence or inefficiency or if found unfit to operate due to ill health. In all cases, the removal has to be sanctioned by a majority vote of the HoPR in the case of federal judges and by the state council in the case of state judges. Nevertheless, the independence of the judiciary in Ethiopia has been questioned by some observers. There is a perception that the autonomy of the judiciary in Ethiopia is weak. Yet in recent years, the judiciary has ruled against the government on major cases, such as those involving breach of the constitutional rights of the private press and the Ethiopian Human Rights Council. The judiciary had also overturned the decision of the NEBE to ban domestic election observers during the last General Elections. These judgements suggest that the Judiciary enjoys a degree of independence than is widely believed. The Government judicial reform has as its key objective the promotion of a professional and autonomous judiciary.

3.7.2 Effectiveness and Efficiency of the Judiciary: A Baseline Study of the justice system conducted in 2005 undertook a comprehensive assessment of the performance of judicial institutions, law making process, and the laws and regulations governing judicial institutions. The study identified numerous weaknesses and constraints: fragmentation and lack of clarity of legal norms; limited participation of stakeholders in the drafting process leading to lack of comprehension and mistrust between stakeholders and government officials; limited efficiency and effectiveness of court administration hampered by shortage of judges; outdated systems and procedures; shortage of support staff and lawyers and poor court infrastructure facilities. As a result of weak court administrative capacity, delays in the adjudication of cases are common. Weak access to legal services in turn renders the poor more vulnerable. The judicial capacity building actions, currently underway under the auspices of the PSCAP are expected to improve efficiency in the judicial system. Improvements are already evident several areas; for example in computerization of the judicial data base, which has resulted in the reduction in the backlog of court cases.

17 Under the Institutions Pillar of the 2007 Global Competitiveness Index, Ethiopia was ranked 117 out of 128 countries with respect to judicial independence.
3.8 Measuring Governance Performance

3.8.1 Worldwide Governance Indicators show that in 2006, Ethiopia’s performance in government effectiveness was relatively better than the rest of Sub-Sahara Africa. Ethiopia’s ranking on the control of corruption dimension was also higher than for Sub-Sahara Africa, and to some extent on the rule of law. Ethiopia’s percentile ranking on voice and accountability and regulatory quality, however, was lower. The following table depicts the trend in Ethiopia’s governance indicators since 1996. The comparisons and trends, however, ought to be interpreted with extreme caution because the indicators are largely based on perceptions and sample sizes are small. Moreover, country comparisons, whilst useful, do not take into account differences in country historical, social and political contexts.

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<td>13.0</td>
<td>15.4</td>
<td>15.4</td>
<td>16.8</td>
</tr>
<tr>
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<td>21.6</td>
<td>13.0</td>
<td>13.0</td>
<td>7.2</td>
<td>5.3</td>
</tr>
<tr>
<td>Government Effectiveness</td>
<td>10.9</td>
<td>12.0</td>
<td>16.6</td>
<td>25.0</td>
<td>20.9</td>
<td>31.3</td>
</tr>
<tr>
<td>Regulatory Quality</td>
<td>5.9</td>
<td>15.6</td>
<td>13.2</td>
<td>17.1</td>
<td>16.6</td>
<td>21.0</td>
</tr>
<tr>
<td>Rule of Law</td>
<td>17.1</td>
<td>26.7</td>
<td>24.8</td>
<td>27.1</td>
<td>23.3</td>
<td>24.0</td>
</tr>
<tr>
<td>Control of Corruption</td>
<td>7.3</td>
<td>33.5</td>
<td>38.8</td>
<td>29.6</td>
<td>26.2</td>
<td>36.9</td>
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4. GOVERNMENT’S MEDIUM-TERM GOVERNANCE AGENDA

The GOE has developed an agenda to address the governance challenges highlighted in this CGP. The agenda reflects a commitment to an open, transparent, and democratic governance that respects rights of all of its citizens, as enshrined in the Constitution. The thrust of the agenda as set out in the PASDEP is briefly described below.

4.1 Civil Service Reform: The focus is on building core state capacity by: (i) strengthening the medium term expenditure planning and budgeting process; (ii) improving staffing and incentives, (ii) setting service standards for responsiveness to the public; (iii) strengthening the legal frameworks for financial and human resource management; (iv) reorienting the civil service to strategic management issues; and (v) rolling out performance management systems to regions and woredas and building capacity for the delivery of public services.

4.2 Justice System Reform: The objective of the justice system reform programme is to ensure a fair, efficient and accessible system of justice delivered by competent and independent and accountable institutions. Reform priorities include capacity building of the judicial system; safeguarding the independence of the judiciary; and training of judges and lawyers. A study on the independence of the judiciary is planned as part of the on-going reform programme. Law enforcement agencies such as the Federal Prosecution Services will also be reformed and strengthened through training and adoption of modern systems and strengthening of accountability through the adoption of a code of conduct.

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18 The Global Index scores range from 0 to 100.
19 The Study on the Independence of the Judiciary would be completed in 2008
4.3 **District Level Decentralization**: Building on the progress made, the focus is on providing adequate staffing to woreda administration; strengthening participation (especially of women) in decision making and planning processes; improving the block grant allocation system; and strengthening local revenue mobilization capacity. Minimum service standards will be developed and implemented at the woreda level. These standards will be regularly disseminated to ensure results accountability.

4.4 **Urban Management and Development**: This component aims to deepen reform of municipal administration through legislative changes, human resource development and institutional capacity building in areas such as urban land lease management and registry.

4.5 **Participation**: The Government will create an enabling legal framework to support effective CSO participation. Government is also committed to electoral reform and to further strengthen the capacity of the NEBE in conducting elections. In addition, the law making and oversight capacity of legislators at both federal and regional and woreda levels will be enhanced to advance the democratic process.

4.6 **Human Rights and Free Media**: The Government is also committed to the safeguarding of human rights which are enshrined in the Federal Constitution. In this regard, both the HRC and the Ombudsman will be strengthened and awareness programmes expanded with a special focus on gender discrimination. The Government will in addition create an enabling environment for a free press by for example by liberalizing licensing requirements for private FM radio stations.

4.7 **Monitoring and Evaluation**: Ethiopia’s governance objectives, performance indicators and benchmarks are presented in the PASDEP Policy Matrix. The Matrix incorporates expected outputs, intermediary outcomes and outcomes relating to the various dimensions of governance. Progress on the various governance indicators will be monitored and reported through existing technical working groups, such as the PSCAP and this will feed into the annual PASDEP Progress Reports. The capacity to collect data and report on the progress is, however, weak. Building sufficient capacity, within the government and outside the government, to monitor progress against the governance indicators in the PASDEP will, therefore, be necessary.

**ASSESSMENT OF THE GOVERNANCE AGENDA**

4.8 The Government’s good governance agenda presented in the PASDEP is comprehensive and responds to the challenges related to accountability and transparency, participation, legal and judicial reform and public service delivery. The Governance reforms embodies strong country ownership, and are consistent with the Bank Group’s Good Governance Policy as well as the NEPAD Vision. In view of the broad scope of Ethiopia’s governance agenda, it is important to foster linkages between the various components to ensure impact. Although the Governance Package addresses the issue of CSO participation, greater attention to the demand side of governance is needed. In the final analysis, though, progress in improving governance will depend on the political will, incentives of the different actors, and adequacy of implementation capacity. Thus, the PASDEP’s focus on capacity building as a key pillar for state institutional transformation is commendable.

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20 For instance court administration reform needs to be harmonized with reform of law enforcement agencies. Similarly, strategic planning reforms needs to go in tandem with budget reform to impact on overall public sector performance.
The PASDEP Governance agenda is results-oriented, though some indicators are not specific and measurable. This is the case for those indicators dealing with human rights awareness and democratization. The lack of baseline data for many of the indicators is also likely to complicate the monitoring process. Clearly, it would be necessary to refine and improve the indicators as the PASDEP evolves. However, in doing so, there ought to be no illusion that improvement in all dimensions of governance in Ethiopia can occur simultaneously, or even within a short period of time. While quick gains in some aspects of governance are possible (e.g. PFM), improvements on others are likely to be gradual (e.g. social accountability) given Ethiopia’s unique historical, political and social contexts. Annex V presents the perceived risks to the implementation of the Government’s governance agenda.

5. **EXISTING DONOR SUPPORT FOR GOVERNANCE AND COORDINATION MECHANISM**

5.1 Development partners are actively engaged in supporting the government’s good governance initiatives, through: (i) policy dialogue and capacity building under PSCAP and (ii) the Protection of Basic Services Programme. The governance dialogue has centred around the PASDEP Governance Matrix covering the following broad thematic areas: Improved Public Institutional Performance: Democratization and Good Governance; and Public Financial Management.

5.2 **Coordination Mechanism**: Development partners recognize that the dialogue around governance issues and respective interventions need to be well coordinated and harmonized. A technical working group on governance exists within the Development Assistance Group. Its objective is to facilitate harmonization and coordination of donor governance activities. The Governance Working Group is linked to other existing governance fora, such as the EU Good governance task force, sub-groups of the Ambassadors Group (human rights and elections) and thematic groups on PSCAP and justice system reform. The work of the Technical Working Group feeds into the joint Government-DAG policy dialogue structures, including the high level forum.

5.3 There has been significant progress in harmonization amongst donors, consistent with the Paris Declaration on Aid Effectiveness and Harmonization. This was further demonstrated in the manner in which development partners collectively responded to the post election events and challenges in Ethiopia. The post election political crisis prompted donors to reflect on how best to engage the Government on governance issues taking into consideration social and political realities of the country and the range of actors involved.

5.4 The PSCAP is the largest framework for development partner support to good governance activities in Ethiopia; and is led by the World Bank. The Government and donors have developed the Democratic Institutions Programme to focus support on accountability institutions, such as OFAG and FEAC. Annex VI provides a list of donors that are involved in supporting Good Governance Programmes and their areas of intervention. The donor mapping reflects to some extent, the comparative advantage of donors working in the area of governance. Thus, while bilateral donors and EU have a mandate to support democratization and respect for human rights, the World Bank and the Bank are limited to non-political aspects of governance, particularly economic governance.

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21 Governance indicators in areas such as democratization and human rights involve perceptions, and are inherently qualitative in nature.
6. BANK SUPPORT FOR GOOD GOVERNANCE

6.1 The Bank Group is mandated to support good governance in RMCs as part of its development mandate. The Bank’s direct support for good governance in Ethiopia has been delivered through **policy based adjustment lending and the Direct Budget Support (Poverty Reduction Support Loan)**. Those reforms involved the enactment of new laws (penal and family laws); improvement in the budget planning process and reduction in the backlog of audit reports. The governance component of the subsequent operation, the PRSL, focused on procurement reform and adoption of a new Inter-governmental Fiscal Transfer Formula. Currently, the Bank is providing support for the PBS in form of earmarked budget support. The PBS has important governance aspects, related to local service delivery, local empowerment, accountability and fiscal transparency. It is pertinent to note that the Bank has also been supporting good governance indirectly by ensuring that project executing agencies comply with its procurement rules and fiduciary requirements. At the same time, the Bank is encouraging stakeholder participation in the design of projects, implementation, and in monitoring and evaluation.

6.2 Nevertheless, the Bank needs to deepen substantially its engagement on governance issues in Ethiopia and add value to the dialogue process. Doing so will require strengthening its capacity for governance work at the country level, preferably by providing a governance expert in the Ethiopia Field Office. Given the broad scope of Ethiopia’s governance agenda, the Bank needs to establish strategic entry points and prioritize its interventions carefully taking into account: (i) the 2007-2010 Strategic Directions and Plan in the realm of governance; ii) its core development mandate, and (iii) its comparative advantage and capacity. Guided by these parameters, this CGP is reaffirming Decentralization and PFM capacity building as key pillars for Bank Group Governance support.

6.3 **Decentralization:** Decentralization is fundamental for the empowerment of citizens and enhancing the responsiveness and accountability of the state in the delivery of basic services. The Bank will support decentralization process through the provision of budgetary resources to regions and woredas to enable sub-national entities discharge their mandates of basic service delivery. The PBS will serve as the instrument for strengthening the ability of regions and woredas to respond to needs of citizens and local communities.

6.4 **Public Financial Management:** The focus on PFM is in line with the overall Bank Group Strategic Direction in Governance, which has an emphasis on promoting accountability and transparency in the management of public finances. Within PFM, support for procurement is recommended. The focus on procurement is vital in view of its importance for accountability and transparency. By strengthening the procurement capacity, the Bank would also be indirectly contributing to the fight against corruption. Bank capacity building support to OFAG and RAGs is also important to strengthen accountability. Bank support for PFM would be provided largely through the Protection of Basic Services Programme\(^{22}\). The demand side of financial accountability is also crucial. Bank support for PFM reform will, therefore, be complemented by interventions by other donors in the area of social accountability and fiscal transparency.

\(^{22}\) PBS II will a significant PFM capacity building component. The Bank is amongst the donors that will finance this component.
6.5 **Dialogue & Analytic Work:** Annex V presents the broad framework for Bank Group governance dialogue and monitoring process based on the CGP assessment and the PASDEP Governance Matrix. The key issues the Bank will give attention to include the following:

- Improved timeliness and quality of fiscal reporting at federal and sub-national levels to enhance accountability and transparency;
- Enhanced procurement capacity and regulatory oversight to enhance transparency and improve the control environment;
- External audit capacity and mechanisms for follow up of audit recommendations;
- Legislative oversight of the budget and audits to ensure checks and balances;
- Civil Service Reform (including performance management systems and pay reform strategy).

6.6 Dialogue on governance reforms would be informed by relevant analytic and diagnostic work undertaken by the Bank alone, or jointly with other development partners. Specifically, the Bank plans to support the next PEFA and the next CPAR. A sectoral governance review in a key infrastructure sector will also be considered. This would help deepen the knowledge of specific sector governance issues, including corruption risks.

### 7. CONCLUSION AND RECOMMENDATIONS

7.1 Since 1992 Ethiopia has embarked upon major policy and institutional reform initiatives aimed at accelerating growth and reducing poverty. Governance has been a key part of these reforms. This CGP has identified strengths and weaknesses in Ethiopia’s existing governance system. On the positive side, the country has made remarkable progress in decentralization and the developmental role of the state has been significantly enhanced. The quality of public financial management has improved and the amount of fiscal resources transferred to sub-national governments has increased significantly. The major challenges that need to be addressed to secure major gains in governance include promoting civil society participation; improving access to information to enhance transparency; strengthening the capacity and independence of the judiciary and other key accountability institutions. The CGP has also highlighted the need to consolidate the democratization process building on the remarkable progress achieved in decentralization.

7.2 The CGP has found that the governance agenda in the PASDEP represents an appropriate response to the country’s challenges. It is, however, crucial that demand for good governance is enhanced by moving forward the social accountability agenda.

7.3 This CGP has identified the scope, options, and opportunities for Bank support for Ethiopia good governance programmes in the context of the PASDEP and MDGs. The recommended strategic areas for Bank support: are decentralization and PFM reform.
Annex I DESCRIPTION OF ETHIOPIA’S GOVERNANCE STRUCTURE

Constitution

The Federal constitution of 1994 guarantees the fundamental rights and freedoms of the people. These include the right to life, liberty, privacy, and freedom of religion, the right of assembly, demonstration, and petition, freedom of association, freedom of movement, rights of women, rights of nations, nationalities, and peoples, and the rights to property and development, and a clean environment. The Constitution provides for a multi-party electoral system to promote political choice and guarantee the democratic rights of the Ethiopian people.

The Legislature

The legislative organ is composed of two houses: the House of Federation (HF) and the House of Peoples’ Representatives (HoPR). Both houses are elected for five-year terms on the basis of universal suffrage. As in other democracies, Parliament serves as the primary mechanism for accountability. The constitution provides for a HoPR with 546, of which twenty are reserved for minority nationalities to ensure a more inclusive political representation. The HF is composed of representatives of nations, nationalities, and peoples, who are elected by the states. Each nation, nationality, and peoples is represented by at least one member. The HF is empowered to: interpret the Constitution, decide on issues related to secession, promote equality among nations, nationalities, and peoples, resolve misunderstandings arising between states and determine the division of revenues derived from the joint federal state tax sources and federal subsidies to be provided to states.

Executive Branch

Under the Federal Constitution, executive power is vested in the Prime Minister, who is the chief executive of the government and presides over the Council of Ministers. The leader of the majority party or coalition of parties in the House of Peoples’ Representative (HoPR) is elected Prime Minister. The HoPR approves members of the Prime Minister’s cabinet who are mostly members of the HoPR, with a small number appointed from outside. The Prime Minister and the Council of Ministers are directly accountable to the HoPR. The Prime Minister is the chairperson of the Council of Ministers and the Commander-in-Chief of the national armed forces. The Executive branch in Ethiopia executes laws and implements policies, rules and regulations of government. The Prime Minister ensures the implementation of the laws, policies, directives, and decisions adopted by the HoPR.

Local Government

The federal constitution provides for a four-tier decentralization framework consisting of regions (or states), zones (cluster of districts), woredas (or districts) and kebeles (wards or neighbourhoods). Ethiopia has nine regions, which are: Oromia, Amhara, Southern Nations Nationalities and Peoples (SNNP), Tigray, Somalia, Afar, Benishangul-Gumuz, Gambella, and Harari, plus the two municipal cities (urban administrations) of Addis Ababa and Dire Diwa. The first five regions account for over 88% of the country’s population and 82% of its surface area. In practice, the two city municipalities of Addis Ababa and Dire Diwa are considered as regions. Generally, zones (except for SNNP and part of Amhara) do not constitute administrative structures. There exist political representational bodies at sub-national tiers. These comprise the regional, woreda and kebele councils.
The Judiciary

The Constitution provides for a three tier Federal and State Court System. At the federal level, the court system is comprised of the Federal First Instance Courts, Federal High Courts and the Federal Supreme Court. This structure is replicated at the state level. The judicial system also comprises of religious (Sharia), customary and social and municipal courts. Federal courts have jurisdiction over cases arising under the constitution, federal laws and international treaties. Supreme federal judicial authority is vested in the Federal Supreme Court. The prime minister proposes to the HoPR nominees for the President and Vice President of the Federal Supreme Court. The remaining judges are appointed by the HoPR from among the nominees presented by the Federal Judicial administrative Council (FJAC). Judges at the state level are appointed in the same manner after nomination by the state president and the state Judicial Commission.. City courts also exist as in the case of Addis Ababa. City courts are either First instance or Appellate courts. The city charter also establishes Kebele social courts. There are other bodies with judicial powers. These are: labor relations board, civil service tribunal, tax appeal commission and urban land clearance matters appeal commission. The constitution also provides for the Federal Judicial Administration Commission (FJAC) whose function is to select judges for appointment, establish conditions of services and enforce discipline among judges. Regional governments have their own Judicial Administration Commissions.

Law Enforcement

The Judiciary system is supported by law enforcement institutions at both the federal and state level. These include the police at federal and regional level, the Public Prosecution Service, the Penitentiary System, the Ethiopia Customs Authority, the Ethiopia Inland Revenue Authority, and the Federal Ethics and Anti-Corruption Commission. The activities of the law enforcement agencies are guided by the constitution and various proclamations and regulations.
Each level of governance shown above, except kebeles has a tripartite structure of
- Council
- Executive cabinet,
- Sector bureaus (offices)
Annex III  HIGHLIGHTS OF ACHIEVEMENTS IN PUBLIC FINANCIAL MANAGEMENT REFORM AND CHALLENGES

1. Legal Framework
   - The legal framework covering budgeting, accounting, audit & procurement streamlined/reformed.
   - The laws and regulations are embodied in the Federal Government Financial Administration Proclamation 17/1997
   - Procurement Proclamation passed in 2004 (Proclamation No. 430/2005)

2. Accounts Reforms
   - Accounts backlog reduced from two to one year for most regions accounting for over 90% of the budget.
   - Zero balance cash management system.
   - Computerized accounting system (IBEX) introduced and rolled out to some regions’
   - Double entry accounting system implemented in all but emerging regions.
   - New chart of accounts adopted.
   Challenges: IT software issues and weak human capacity (shortage of accountants). To be addressed under PBS and PSCAP.

3. Budget Reforms
   - Cost center-based budget structure implemented.
   - Training module on the new budget manual prepared and training given at federal and regional levels.
   - Progress made in incorporating off-budget items in the budget such as food aid and global health funds.
   - Budget Information System and Budget Disbursement & Accounting System rolled out to regions and zones
   - Integrated Budget and Expenditure Programme (IBEX) developed
   - Performance budgeting introduced as a pilot initiative
   Challenges: Standardization of Budget Information Systems and weak capacity at decentralized level; need to roll out IBEX to woredas

4. Internal Audit
   - Standards Manual prepared and distributed to regions.
   - Internal auditing training module prepared and training given.
   - Internal audit reporting samples distributed to regions and federal offices.
   Challenges: Weak capacity; internal audit not professionalized.

5. Cash and Disbursement Management
   - Cash management implementation strategy completed.
   - Cash management of federal offices and one BOFED evaluated.
   - Cash management and payment guidelines prepared and training provided.
   Challenges: Additional training on cash management and further studies on more appropriate treasury approaches for decentralized institutions required.
6. IFMIS
- IFMIS project strategy completed.
- Funds approved and MCB included IFMIS in 2006/7 plan.
- Training given on BDA3/B accounting program but further training required. Linking BDA3/B to DSA project program still to be done.

*Challenges:* Purchase of LAN and WAN software for data center and supporting the migration of regions from the old accounting package to the new, required. Link with IBEX not clear

7. Procurement
- Federal Procurement Law passed in 2005
- Procurement directives issues
- Federal Public Procurement Agency established
- Standard bidding documents issued

*Challenges:* weak capacity; weak autonomy of the procurement regulatory agency; weak implementation of some reforms (e.g. appeal mechanisms and procurement audits not implemented). Capacity building activities planned under PBS II and PSCAP
## Annex IV  FORESEEABLE RISKS TO ETHIOPIA’S GOOD GOVERNANCE PROGRAMME IMPLEMENTATION

<table>
<thead>
<tr>
<th>Governance Components</th>
<th>Impact</th>
<th>Likelihood over short term</th>
<th>Likelihood over medium</th>
<th>Likelihood over the long</th>
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<tr>
<td><strong>Accountability and Effectiveness in Public</strong></td>
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<tr>
<td>Reversal in PFM improvement</td>
<td>High</td>
<td>Low</td>
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<tr>
<td>Slippage and reversal in civil service reform</td>
<td>Medium</td>
<td>Low</td>
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<tr>
<td>Public enterprise management deteriorates</td>
<td>Medium</td>
<td>Low</td>
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<td>Progress in regulatory reform stalls</td>
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<td><strong>Information Disclosure and Press Freedom</strong></td>
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<tr>
<td>Reversal in improvement in information disclosure and</td>
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<td>Press Freedom curtailed over a long period</td>
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<td><strong>Participation</strong></td>
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<td>Further empowerment and devolution of authority to</td>
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<td>Reversal in the increasing trend in Federal-Regional</td>
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<td>Opening up of space to civil society reversed</td>
<td>High</td>
<td>Low</td>
<td>Medium</td>
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<tr>
<td>Opening up of political space to opposition reversed</td>
<td>High</td>
<td>Medium</td>
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<td><strong>Fight against Corruption</strong></td>
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<td>Anti-corruption agenda stalls/FEAC autonomy</td>
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<td><strong>Judiciary</strong></td>
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<td>Justice Reform Programme stalls and independence of</td>
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<td>Theme/Objectives/Issues</td>
<td>Actions</td>
<td>Expected Outputs /Outcomes</td>
<td>Dialogue Forum</td>
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<tr>
<td><strong>A. To improve Public Finance Management to enhance accountability and transparency</strong></td>
<td>Budget &amp; accounting systems require further improvements to enhance accountability and transparency in the management of public finances.</td>
<td>Build capacity in all regions. All regions to adopt the computerized budgeting and accounting systems (the IBEX and BDA). IFMIS adopted in pilot budgetary institutions Adopt and Implement PEFA Action Plan</td>
<td>Timely closure of accounts and improved quality of fiscal reports. No backlog of accounts and audits at federal and regional level.</td>
<td>Public Financial Management Committee (PFMC) &amp; PBS Joint Implementation Support &amp; JBAR Missions</td>
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<td>Weak procurement capacity and oversight</td>
<td>Build procurement capacity. Tighten enforcement of procurement laws and regulations and undertake regular procurement performance reviews/audits</td>
<td>Enhanced transparency, integrity, and efficiency in the procurement process</td>
<td>PFMC/PSCAP Group</td>
<td></td>
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<td>External Audit capacity needs strengthening at both federal and regional level to enhance transparency and accountability</td>
<td>Strengthen capacity of both OFAG and ORAG</td>
<td>Improved audit coverage of both federal and regional accounts from 50%</td>
<td>PFMC/PASCAP reviews/PBS Missions</td>
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<tr>
<td>Issue</td>
<td>Action</td>
<td>Result</td>
<td>Group</td>
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<tr>
<td>Weak follow up of audit recommendations</td>
<td>Strengthen mechanisms for follow up of implementation of audit recommendations</td>
<td>Improved legislative fiscal oversight.</td>
<td>DAG Governance Technical Working Group</td>
<td></td>
</tr>
<tr>
<td>Weak legislative oversight over the budget and audits can potentially weaken executive accountability.</td>
<td>Build capacity and incentives for legislators to review budgets and follow up audit recommendations</td>
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<tr>
<td>B. To improve effectiveness, efficiency and accountability in public service delivery and regulatory quality</td>
<td>Undertake pay reform; Increase number of institutions adopting performance management systems Set minimum public service delivery standards and institutionalize performance monitoring as a strategic management tool Ensure autonomy of civil service</td>
<td>Enhanced public service delivery as measured by client satisfaction surveys Improved regulatory quality leading to further easing of the regulatory burden High ethical standards and improved confidence in the civil service</td>
<td>PSCAP Group and DAG Governance Technical Group, PSCAP Group and DAG Governance Technical Group</td>
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<tr>
<td>Civil service Reform needs to be deepened to improve service delivery to citizens and firms and to further enhance the business regulatory environment</td>
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</tbody>
</table>
### C. Promote a democratic, accountable and responsible federalism, ensuring citizen participation and participation

<table>
<thead>
<tr>
<th>Weak stakeholder participation hinders transparency and accountability. Issues relate to capacity and lack of clarity in legal framework</th>
<th>Provide an enabling legislative environment for CSO participation. Build capacity of CSOs and communities. Implement pilot projects under PBS</th>
<th>Enhanced CSO and community participation in development process. Enhanced capacity of CSOs to monitor budgets and service delivery and hold service providers accountable</th>
<th>DAG Governance Technical Working Group/PASDEP Annual Report/PBS Reviews/PSCAP Group</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Encourage civil society participation in JBARs</strong></td>
<td><strong>Build capacity of woredas in planning, decision making, budgeting and human resource management; Increase inter-government fiscal transfers to support service delivery; Strengthen local accountability mechanisms</strong></td>
<td><strong>Improved access and coverage of basic services</strong></td>
<td><strong>PSCAP Group/PBS/PASDEP APR</strong></td>
</tr>
<tr>
<td><strong>Distribute resources across regions and woredas equitably, and in accordance with approved formulae</strong></td>
<td><strong>Improved responsiveness in service delivery in terms of quality</strong></td>
<td><strong>Enhanced efficiency in spending on basic services</strong></td>
<td><strong>PSCAP/PBS</strong></td>
</tr>
<tr>
<td><strong>Enhanced CSO and community participation in development process</strong></td>
<td><strong>PSCAP JRIS/JBAR Missions and PSCAP</strong></td>
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</tbody>
</table>
## D. Strengthen fight against Corruption

<table>
<thead>
<tr>
<th>Build Capacity of FEAC at federal and regional level and conduct regular corruption surveys</th>
<th>Reduction in the incidence of corruption</th>
<th>DAG Governance Technical Working Group</th>
</tr>
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<tbody>
<tr>
<td>Enhanced CSO and citizenry participation in monitoring corruption at local level (including Pass whistleblower legislation)</td>
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</tbody>
</table>

## E. Judicial Reform

| Weak judicial system undermines rule of law and access to justice | Implement justice reform programme and build capacity of the judiciary through training of judges and lawyers and improved facilities and working systems | Rule of law strengthened Increased effectiveness and efficiency of the judiciary Reduced delays in enforcement of contracts and in the backlog of court cases | DAG Governance Technical Working Group and PSCAP Group |
Annex VI  MAPPING OF EXISTING DONOR GOVERNANCE INTERVENTIONS IN ETHIOPIA

**Areas of Donor Governance Support**

<table>
<thead>
<tr>
<th>Civil Service Reform (including public finance management reform)</th>
<th>District Level Decentralization &amp; Improvement in basic service delivery</th>
<th>Justice Sector Reform Programme &amp; Law enforcement</th>
<th>Tax System Reform Programme</th>
<th>Parliamentary Capacity Building, Electoral Reform &amp; Democratization</th>
<th>Civil Society Participation/Social Accountability Agenda</th>
<th>Human Rights &amp; Security/Conflict Resolution</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank</td>
<td>Support is via the PSCAP</td>
<td>PSCAP &amp; PBS/LIG</td>
<td>PSCAP</td>
<td>PSCAP</td>
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<td>AfDB</td>
<td>Mofed Capacity Building Programme</td>
<td>PBS</td>
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<tr>
<td>USAID</td>
<td>Support for Expenditure &amp; Accounting Reform under DSA</td>
<td>Support to Federal Police</td>
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<td>Support to House of Federation/ On going support for democracy and stability</td>
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<tr>
<td>EU</td>
<td>Support for PFM reform under EMCP/PSCAP</td>
<td>Woreda capacity building/PSCAP/PBS</td>
<td>Support to NEBE through pooled fund</td>
<td>Support through the Civil Society Fund</td>
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<td>DFID</td>
<td>Top Management, Freedom of information Act -</td>
<td>PSCAP/PBS</td>
<td>Tax/Reform and revenue agencies</td>
<td>DFID Partnership Fund</td>
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<td>Support to Human Rights Commission &amp; Conflict Management Project</td>
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<tr>
<td>UNDP</td>
<td>Decentralized Service Delivery</td>
<td></td>
<td>Tax Reform</td>
<td>Pooled fund assistance to elections</td>
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<td>Support to CSOs</td>
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<td>Canada</td>
<td>Support to Federal Auditor General</td>
<td>Court administration Reform</td>
<td>Support through PSCAP</td>
<td>Support to Parliamentary Committees</td>
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<td>Italy</td>
<td>Strengthening planning capacity in Tigray/Promia and Bene Shangul</td>
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<tr>
<td>Country</td>
<td>Support Details</td>
<td>Country</td>
<td>Support Details</td>
<td>Conflict Prevention</td>
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<td>Germany (GTZ/KFW)</td>
<td>Support for urban management/woreda/city benchmarking studies/PBS</td>
<td>Ireland Development Cooperation</td>
<td>Support to regional level PFM/planning reform (Tigray)</td>
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<td></td>
<td>PBS</td>
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<tr>
<td>Sweden</td>
<td>Support for civil service reform through PSCAP</td>
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<td>Support through PSCAP</td>
<td>Support for democracy</td>
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<td>Support for gender rights</td>
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<td>France</td>
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<td>Support to Justice Reform Programme</td>
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<tr>
<td>Netherlands</td>
<td>Support for budget &amp; accounting reform under DSA</td>
<td></td>
<td>Support through PSCAP</td>
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<tr>
<td></td>
<td>Decentralized service delivery at woreda level PBS</td>
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29
| Norway | Training of judges & Prosecutors | Training of justice sector officials in human rights/Support to HR NGOs |
Annex VII  

DESCRIPTION OF PSCAP

PSCAP is derived from the GOE’s National Capacity Building Programme developed in 1998. The PSCAP supports activities under two components: Federal and Regional. The activities are consolidated into six sub-programmes briefly described below:-

**Sub-programme 1-Civil Service Reform.** The objective of this sub-programme is to promote the development of an efficient, effective, transparent, ethical and accountable and performance oriented civil service. Support under this sub-programme includes; improving expenditure management and control; implementation of procurement reform; improving performance and public service delivery through the roll out of the Performance and Service Delivery Improvement Programme; the roll out of financial management information systems to regions; improving the governance of human resource management; improving accountability and transparency through parliamentary oversight, anti-corruption and strengthening systems for fiscal and output monitoring including adoption of service delivery report cards.

**Sub-Programme 2: District Level decentralization.** The objective of this sub-programme is to deepen the devolution of powers to the lower tiers of government and institutionalize the decision making processes at the grass root level with a view to promote good governance. Activities supported by PSCAP include training in participatory planning; technical assistance and woreda institutional and organizational development and development of woreda fiscal transfer mechanisms and revenue mobilization capacities.

**Sub-Programme 3-Justice system reform.** This is designed to promote the rule of law as well as the efficient and effective functions of the justice system. Activities include strengthening courts; training of judicial personnel, development of records and case management systems, and law reform.

**Sub-Programme 4.- Urban Management and Capacity Building.** This sub-programme aims to enhance the capacity of municipalities in the delivery of services and to enable them play an effective role in the development process. Activities include technical assistance for the development of urban development policies, financial and human resource management.

**Sub-Programme 5- Tax system reform.** The sub-programme supports activities to improve tax compliance and ensure equity and fairness in the tax system through reform and changes to the legislative framework governing tax administration, and rolling out of tax policy reforms to regions.
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