

# Public Financial Management & Sustainable Finance Joint Working Group

## Terms of Reference

### Background

During the technical session of the Effective Development Cooperation Taskforce with Joint & Technical Working Group Co-Chairs held at the Addis Ababa Hilton Hotel on April 5<sup>th</sup>, 2023, H.E. the State Minister of Finance Semereta Sewasew underscored the importance of activating and reinforcing the Government of Ethiopia and Development Partner Group dialogue structure, based on the 100 Day Joint Plan of Action approved in late 2022 by Heads of Agencies and the Government, which included a set of proposed actions for both Development Partner Group Members and the Government to address identified weaknesses in the current approach.

The Government's Ten Year Development Plan, Homegrown Economic Reform Agenda, Digital Ethiopia Strategy, and Nationally Determined Contributions all, similarly, underscore the importance of improving both intra-governmental and government-development partner coordination, particularly in the domain of public financial management and sustainable finance, given the significant and catalytical role expected of the Government in the realization of these objectives. Despite commendable improvements in the public financial management apparatus, further coordinated, holistic, and synergistic investment is needed to ensure that public financial management systems are capable of supporting the Government in realizing its ambitious reform agenda.

In 2013, a Public Finance Management Sector Working Group (PFMP-SWG) was established, with a primary focus on assuring that all public financial management reform programs were sufficiently coordinated and to create a platform for information sharing and joint review on Government and donor reforms in public financial management, procurement, and financial transparency and accountability. Against this backdrop, and in-line with the 100 Day Joint Plan of Action, this Terms of Reference builds on the PFMP-SWG and articulates its new scope, membership, principles, purpose, tasks, working modalities, and accountability and reporting expectations of the Public Financial Management and Sustainable Finance Joint Working Group (hereafter JWG), which will, along with the Macroeconomic Working Group, contribute to the objectives of the Macroeconomy and Development Financing Pillar of the Effective Development Cooperation Task Force (EDCTF).

### Scope of Public Financial Management and Sustainable Finance

The Joint Working Group recognizes the broad scope of public financial management and sustainable finance, and its transversal and cross-cutting nature across Government and Development Partner operations in Ethiopia. In-line with the draft Public Financial Management Strategy, which uses the Public Expenditure and Financial Accountability (PEFA) framework to structure its reform agenda, the scope of topics covered by the JWG include:

- **Budget reliability**, including issues relating to aggregate and compositional revenue and expenditure outturns;
- **Transparency of public finances**, including issues relating to budget classification, budget documentation, central government operations outside of financial reports, transfers to

subnational governments, performance information for service delivery, and public access to fiscal information;

- **Management of assets and liabilities**, including fiscal risk reporting (relating to SoEs, subnational governments, contingent liabilities and other fiscal risks), public investment management, public asset management, and debt management;
- **Policy-based fiscal strategy and budgeting**, including macroeconomic and fiscal forecasting, fiscal strategy articulation, implementation, and reporting, revenue policy, medium-term perspectives in expenditure budgeting, the budget preparation process, and legislative scrutiny of budgets;
- **Predictability and control in budget execution**, including revenue administration, accounting for revenue, predictability of in-year resource allocations, expenditure arrears, payroll controls, procurement, internal controls on non-salary expenditure, and internal audit. This will also include deep-dives into the timeliness of budget allocations at sectoral levels.;
- **Accounting and reporting**, including International Financial Reporting Standards, International Public Sector Accounting Standards, the accounting profession and regulatory function, financial data integrity, in-year budget reports, and annual financial reports;
- **External scrutiny and audit**, including external audit, legislative scrutiny of external audit reports, fraud, and anti-corruption; and
- **Cross-cutting issues**, including GovTech, financial management information systems, gender-responsive budgeting, climate-responsive public financial management, professionalization and financial management literacy, and fiscal federalism.

In addition to the scope above, the JWG shall deep-dive into public financial management and sustainable finance issues at the sectoral level, coordinating closely with the relevant pillar and joint/sector working groups of the EDCTF coordination architecture.

## Membership

The JWG includes representatives of the Government of Ethiopia and Development Partners.

Members of the JWG from the Government of Ethiopia include:

1. Expenditure Management & Control Reform Program Directorate
2. Fiscal Policy Directorate
3. Budget Preparation and Administration Directorate
4. Government Accounts Directorate
5. Channel One Program Coordinating Directorate
6. Information Systems Project Office
7. Inspection Directorate
8. Debt Management Unit
9. Ministry of Revenue Representative (specific directorate to be identified)
10. Procurement and Property Administration Agency Representative
11. Accounting and Audit Board of Ethiopia Representative
12. Federal Ethics and Anti-Corruption Commission Representative
13. Office of the Federal Auditor General Representative (specific directorate to be identified)
14. Head of the Government Expenditure, Administration and Control Affairs Standing Committee
15. Head of the Plan, Budget and Finance Affairs Standing Committee

All Development Partners providing support for public financial management and sustainable financing shall be members of the JWG. From time to time, Development Partners who do not directly support public financial management and sustainable financing activities, but whose sectoral-level investments may be impacted by reform developments, shall be invited to attend.

A JWG Secretariat shall be appointed based on a joint decision by the Government and Development Partner members.

The JWG may, from time to time, invite relevant representatives of the Government and/or Development Partners to participate in JWG meetings, depending on the nature of the session.

## Principles

The JWG will be guided by and promote the globally agreed principles on aid effectiveness, including the Paris Declaration on Aid Effectiveness (2005), the Accra Agenda for Action (2008), and the Busan Global Partnership for Effective Development Cooperation (2011). Accordingly, the JWG will be guided by the following key principles:

- **National Ownership and Government Leadership:** The JWG will support the Government of Ethiopia in playing a leading role in coordination efforts and in the implementation of its development agenda;
- **Mutual Accountability:** The JWG shall inculcate a culture of mutual accountability between the GoE and DPs, through the implementation of national commitments and with a view towards improving development effectiveness through the realization of results;
- **Inclusiveness:** The JWG will reflect on the extent to which different stakeholders are engaged and contribute to the development process, including civil society, the private sector, and emerging DPs;
- **Transparency:** JWG members shall engage in policy dialogue and share information in a transparency manner, with a view towards improving the effectiveness of development cooperation efforts;
- **Coordination:** The JWG shall seek to enhance complementarity and address identified gaps in the reform agenda, and, moreover, work to avoid the duplication of effort and the creation of parallel structures which undermine the efficacy of development reforms; and
- **Focus on Delivery:** The JWG will embed a culture of results-orientation, ensuring that its dialogue and deliberations result in specific, measurable, achievable, relevant, and time-bound actions for its membership to undertake.

## Purpose

The purpose of the JWG is to:

- To serve as a forum for dialogue on coordination of development aid and government-financed reforms in Ethiopia relating to Public Financial Management and Sustainable Finance, in order to ensure its effectiveness and impact on achieving the Government's national priorities articulated in its Ten Year Development Plan, its Homegrown Economic Reform Agenda, its Digital Ethiopia Strategy, and international commitments towards meeting the Sustainable Development Goals and Nationally Determined Contributions;

- To harmonize Development Partners' program, project, and budget support to Ethiopia, with a particular emphasis on initiatives to strengthen Public Financial Management capacity and with regards to sustainable financing, to avoid duplication and foster aid effectiveness;
- To support the high-level Head of Agencies forum in the technical areas of public financial management and sustainable financing;
- To monitor and assist the Government in the implementation of its reform agenda;
- To provide a forum for policy dialogue on broader development cooperation and cross-government issues, in the context of Public Financial Management and Sustainable Finance reforms;
- To foster the alignment of Development Partners' interventions with the Government of Ethiopia's national and sectoral strategic and action plans, to ensure that the planning, budgeting and implementation of the budget, program, and projects are aligned and synergistically reinforce each other;
- To review the progress made in the fulfilment of the commitments undertaken by Development Partners with regards to aid harmonization and effectiveness;
- To provide a forum for review and dialogue on specific Public Financial Management and Sustainable Finance policy issues which may have cross-government implications on development cooperation and aid effectiveness, and cascade these where relevant to other Joint & Technical Working Groups;
- To share information on Government reforms, strategies, and programs as they relate to Public Financial Management and Sustainable Financing;
- To support the monitoring, learning, and evaluation of the use of financial aid and fiduciary risk management
- To harmonize PFM diagnostic exercises, including the Public Expenditure and Financial Accountability (PEFA) diagnostic, and other fiduciary assessments;
- To review the implementation status of on-going Government and DP efforts concerning public financial management and sustainable financing, and identify requirements for additional support from DPs, if any; and
- To act as a nodal point for the mobilization of additional support for PFM and financing reforms.

## Tasks

On a routine basis, the priority tasks of the JWG shall be to:

- Review the progress of public financial management and sustainable finance-related reform programs, discuss all fiduciary assessments, and articulate actions to continuously and incrementally improve the efficacy of these reform initiatives;
- Work in close coordination with other JWGs to address public financial management and sustainable finance issues at sectoral levels;
- Monitor and evaluate public financial management and sustainable finance-related program support provided by Development Partners, with a view towards identifying lessons learnt with a view towards informing future programming and proactively course-correcting existing interventions;
- Facilitate technical assessments, periodic fiduciary assessments, and other analytical work, ensuring that each of these has a clear value-add to the overall public financial management and

sustainable finance reform agenda and with a view towards avoiding duplication of effort with regards to analytical products;

- Support Development Partners in ensuring that data contained in the Aid Information Management System is timely, comprehensive, and accurate, with regards to both budget and disbursement data
- Foster dialogue on harmonization of donor procedures on the use of country systems; and
- Review progress on the financial transparency and accountability agenda.

More specifically, on an annual basis, the JWG shall:

- Discuss the findings of the Annual Audit Report, the Executive's Management Response to Audit Recommendations, and identify additional reform actions necessary to address these;
- Discuss the Annual Budget, with a particular emphasis on the policy linkages, macroeconomic assumptions, reform priorities, and fiscal risks contained therein, with a view towards supporting the Government in mobilization technical assistance and financing necessary to realize its annual objectives;
- Review the Medium-Term Fiscal Framework, with a view towards ensuring its alignment with the Government's long-term policy objectives;
- Review the Annual Financial Statements, with a view towards identifying reform opportunities;
- Review progress made by the Government with regards to improving both public participation across the JWG Scope, and in improving the publication and dissemination of Government and DP reports and data within the purview of the Scope;
- Review the implementation status of the PFM reform strategy;
- Discuss annual plans of PFM and Sustainable Finance reform programs, and review implementation progress against these plans;
- Review the implementation status of national reform agendas, as they relate to the Scope; and
- Coordinate with other JWGs to ensure that both planned DP support and disbursement against existing programs is captured with the Government's Aid Information Management System.

Additionally, on at least a quarterly basis, the JWG shall:

- Discuss any planned analytical work to support the public financial management and sustainable finance reform agenda;
- Present findings of any recently concluded analytical work in support of the public financial management and sustainable finance reform agenda;
- Hold follow-up discussions on findings and agreed actions from the annual discussion topics discussed above;
- Provide a light-touch update on the implementation status of on-going initiatives; and
- Discuss opportunities for addressing cross-cutting issues within the Scope of the JWG.

## Working Modalities

The working modalities of the JWG shall be as follows:

- The Ministry of Finance hosts the JWG;
- The Minister of State for Public Finance at the MoF will chair the JWG;
- One Development Partner, selected by the Development Partner members, will co-chair the JWG;
- The JWG shall meet quarterly;

- All communications to the JWG, including the agreed agenda, minutes, information sharing and scheduling of meetings shall be through the Chair;
- The agenda for meetings shall include dialogue, coordination, work planning, and reporting on issues JWG's scope definition of public financial management and sustainable finance;
- The outcomes of meetings shall be prepared by the JWG Secretariat and shared based on the accountability and reporting section articulated below;
- The JWG will liaise with the EDCTF as appropriate through its Chair and Co-Chair, and raise public financial management, sustainable financing, or cross-sectoral issues of interest for the High Level Forum;
- The Chair, Co-Chair, and Secretariat of the JWG will meet quarterly to review progress of the function of the JWG, and ensure coordination with other JWGs;
- To prepare for and discuss major activities of the JWG, both the Government and the Development Partners may establish separate Working Groups (the Government Working Group (GWG) and the Development Partners Working Group (DWG)). Minutes from the GWG and DWG meetings should be shared with the JWG Chair, Co-Chair and Secretariat;
- Ad-hoc Technical Sub-Working Groups may be created from time to time to address needs identified by the JWG, and can be dissolved following completion of the identified task. At the current time, four (4) Technical Sub-Working Groups will be established and report to the JWG, covering the domains of procurement, accountancy and audit reform, oversight (OFAG and Parliament), and revenue.

### Accountability and Reporting

The JWG shall be directly accountable to the State Minister of Public Finance at the Ministry of Finance, through the Effective Development Cooperation Taskforce (EDCTF) and the Development Finance Pillar.

The JWG Secretariat shall prepare minutes for each session, and, once approved by the Chair, transmit these to the EDCTF for onward transmission to the High-Level Forum Secretariat.

On an annual basis, prior to the commencement of the fiscal year and in-line with the EDCTF's annual action plan preparation process, the JWG shall prepare and transmit its annual action plan to the EDCTF for consolidation.

Additionally, on a quarterly basis, the JWG shall prepare a quarterly report summarizing the policy dialogue, planned and implemented actions and results, and forward-looking action plans. These quarterly reports will be used to feed into both the annual DPG joint analysis document, as well as the annual Government of Ethiopia's Annual Periodic Review process for the national development plan.