

**Ministry of Finance**

**A Directive Providing for Channel Two Finance**

**Administration for the Health Sector**

**Number 979 /2024**

**January, 2024**

**Addis Ababa**

**Health Sector Channel Two Finance Administration Directive**  
**Number 979 /2024**

Whereas it is found to be vital to improve the financial management system and use of funds from development partners in implementing development plans in the health sector.

Whereas establishing a solid channel two financial management system and internal control system that helps to ensure the budget is used properly and for the intended purpose, and the money transferred to the regional health bureaus and other implementers can be utilized in a timely manner so that it is possible to generate more resources by developing a cost-effective and efficient financial management system.

Whereas the need to develop a system of procedures that enable different Implementers using Channel two finance to deliver quality and up-to-date performance reporting, promoting transparency and accountability, while extending an integrated operation between program and finance management to achieve a system that can able to produce the desired results;

Now therefore, the Ministry of Finance issued this directive in accordance with Article 75 of the Federal Government's Financial Administration Proclamation No. 648/2009.

## Part One

### General

#### 1. Short Title

This directive may be cited as “Health Sector Channel Two Finance Administration Directive Number 979/2024”

#### 2. Definitions

For the purpose of this directive, unless the context otherwise requires:

- 1/ **“Channel Two Finance”** means money directly deposited to the Ministry of Health account by the development partners and is managed by the Ministry of Health;
- 2/ **“The Health Sector’s Sustainable Development Goals Performance Fund (SDG PF)”** means a channel two financing mechanism used as a pool fund collected from different development partners to finance the priority of health sector programs by the Ministry.
- 3/ **“Institutions”** means the governmental and non-governmental organisations to whom channel two finance is transferred;
- 4/ **“Ministry and Minister”** means the Ministry of Health and the Minister respectively;
- 5/ **“The Top Leadership”** includes the minister or minister Deeta;
- 6/ **“Departments”** mean different departments that are structured under the Ministry;
- 7/ **“Regions”** means any region established under Article 47 of the Constitution, including the Addis Ababa and Dire Dawa City Administration;
- 8/ **“The Finance Bureau”** means the Finance Bureau of Regional and City Governments;
- 9/ **“Person”** means any natural person or a body that is legally entitled as a person;
- 10/ The term defined under the Federal Government's Financial Administration Proclamation No. 648/2009 (as amended) and interpreted by the Financial Administration Regulation carries the meaning given by these laws in this directive.
- 11/ Any expression expressed in the male gender also includes a woman.

### **3. Scope of Application**

This directive shall apply to Channel two finance, various departments of the Ministry of Health and the regions and other implementing institutions where channel two finance is transferred.

## **Part Two**

### **Channel Two Finance Administration**

#### **4. Allocation of Channel-2 Finance**

1. While the Ministry of Health prepares an annual budget and allocation of budget to regional health bureaus, it shall take in to consideration the health sector indicative and core plan, the implementation of the past year's performance, the House of Federation formula/ratio, disease burden, community health emergencies, the status of affected community segments, and/or other criteria.
2. While the implementation budget for the health sector's Sustainable Development Goals /SDG PF/ is allocated, the main focus should be medical equipment and supplies.

#### **5. Budget Revision and Transfer**

1. The top leadership may undertake a budget transfer or review if the Ministry received additional monetary support from partners during the budget year, if the allocated budget is not implemented within the planned time or if there is a shift in the priorities.
2. If the budget transferred to regional health bureaus or other implementing entities are not used or saved within the planned period for different reasons, the regions or other implementers might reprogram a maximum of 10% of the funds and should be used for related purposes of the project.
3. Regional health bureaus or implementers must notify the Ministry about the reprogramming of the budget under sub-article (2) of this article.
4. Without prejudice to what is prescribed under sub-article (2) of this Article, regional health bureaus or implementers must obtain the Ministry's permission to reprogram more than 10 per cent.

## **6. Budget Implementation Period and Notification of Refund**

1. The budget transferred to regional health bureaus, or implementers must be used in the same fiscal year in which the budget is transferred.
2. Budgets not utilized within the fiscal year must be reported to the Ministry at the end of budget years and should be returned or deducted from the budget allocated for the following year.
3. The refund or consideration for the next fiscal year to be made under sub-article 2 of this article is the cash balance at the bank or safe.
4. While the Ministry transfers funds to regions or implementers, it may consider the unutilized budget of the previous year.

## **7. Transfer of Funds**

1. Departments that request funds to be transferred to regional health bureaus or Implementers should:-
  - a) Fund transfer requests can be submitted and transferred only once a quarter.
  - b) Without prejudice to what is stated under "a" above, funds might be transferred if emergencies, unplanned situations, or campaigns happened,
  - c) Fund transfer might be allowed for rapid response when epidemics, floods, droughts or other public health emergencies are declared.
  - d) A fund transfer request under this article should state the amount of money to be transferred, detailed activities, source of funds, duration to be performed and liquidation period.
2. Subject to the provisions of sub-article 1 of this article, unless there is a force majeure situation and this is approved by the Top Leadership, it is not possible to transfer the budget from Miazia to Sene /fourth quarter/ of the Ethiopian fiscal year.
3. Funds for construction and other capital projects might be transferred only when approved by the Top Leadership, and the transfer should consider the unique nature of the projects.
4. The budget allocated under this directive, especially for the implementation of the Sustainable Development Goals in the health sector might transfer funds to Regional

Health Bureaus and implementers as per the Annex II annexed; however, the Ministry may grant special permission to additional Implementers when deemed necessary.

5. The regional health bureaus or Implementers to which the budget is allocated for the implementation of the Sustainable Development Goals of the health bureau are not allowed to transfer funds to Woreda.

## **8. Budget Transfer Criteria**

1. The amount and details of the budget transferred to regional health Bureaus or Implementers should be determined in accordance with the criteria set out in Annex-1 of this Directive.
2. According to the criteria, an evaluation will be held at the end of every quarter of the year; Ministry is responsible for compiling all relevant information to determine the status within the first two weeks of every quarter and should present it to the top leadership and management. The report should also be shared with the regional health bureaus.
3. The planned or budget funds to be transferred should be disbursed in accordance with the results of the criteria disclosed a to e of the following and per Annex I:-
  - a) A regional health office or Implementers that scores from 90% to 100% might receive 100% of the planned budget;
  - b) 75% of the planned budget might be released to the regional health office or Implementers that scored 75% - 89%;
  - c) A regional health office or Implementers that scored between 51% to 74% might receive up to 50% of the planned budget;
  - d) 25% of the proposed budget might be transferred to the regional health office or Implementers that scored between 50% to 25%;
  - e) Funds might not be transferred to the regional health office or Implementers if they scored below 25%.
4. Regional Health Office or Institute that has an unsettled balance for more than one year, and if there are no improvements over a year, the outstanding amount might be deducted from the following year's allocated budget.

## **Part Three**

### **Duties and Responsibilities of Implementers**

#### **9. Duties and Responsibilities of the Ministry**

The Ministry shall have the following duties and responsibilities:-

1. Prepare budget annual plan;
2. Involve regional health Bureaus in budget preparation and review;
3. Transfers funds to regional health Bureaus or Implementers in a timely manner;
4. Monitors the alignment of program performance and use of funds against the utilized funds;
5. Monitor the performance result and liquidation status of the regional health bureau and implementers that have received channel two funds
6. In accordance with the approved financial procedures of the Ministry of Finance, prepare financial management manual to improve the channel two financial management system and closely monitor its implementation;
7. Ensures that all program accounts are closed and audited prior to the fiscal year and that the audit report is submitted to donors in accordance with the agreed time;
8. Establish transparent procedures and notify the allocated budget to the concerned Implementers to be transferred to the Implementers each year. And monitor the allocated funds that are only used for the intended purpose in a timely manner.
9. Monitors the disbursement of funds from development partners to ensure that they transfer to the ministry's bank account on time and monitors any issues that may occur;
10. Prepares a budget plan in line with the government's development plans and budget cycle, aligned with the annual health sector plan and is responsible for identifying activities that might have budget gaps;
11. A memorandum of understanding (MoU) will be signed with all implementers in the first week of August every fiscal year of the allocated budget and assumed to be transferred to the regional health office and other Implementers within the fiscal year,

12. Coordinates the preparation, forecasting and estimating of medical equipment and supplies to be procured during the fiscal year; and notifies to Ethiopian Pharmaceutical Supply Service;

#### **10. Duties and Responsibilities of the Ethiopian Pharmaceutical Supply Service**

The Ethiopian Pharmaceutical Supply Service shall have the following duties and responsibilities:-

1. According to the procurement plan submitted by the Ministry, requests release of budget when the procurement service is on the step of a purchase order (PO);
2. The service should liquidate the transferred funds within six to nine months with complete supporting documents
3. Submit monthly reconciliation of funds transferred for the procurement of medical equipment, supplies and related items and report status updates to the Ministry.
4. Submit detailed procurement process and status report, which includes tender process, letter of credit, completed and partial shipment, procurement process not yet started every three months;
5. Submit within a month details of documents or a summary of duties and tax covered by the Ministry for procurement made with program funding;
6. The procurement process is required to be closed by submitting bank documents within one month of completion to avoid delinquency;
7. Delivery reports for the procurement of program fund items should be provided to the Ministry every quarter, and the report should be in line with the distribution list submitted by the Ministry.

#### **11. Duties and Responsibilities of Regional Health Bureaus and Implementers**

Regional Health Bureaus and Implementers shall have the following duties and responsibilities:

1. Design and implement transparent and accountable procedures to improve the gaps observed in Channel Two financial management system;



2. Ensure that funds are used only for the intended purpose and in accordance with the plan;
3. Liquidated funds transferred from Channel two within six months from the date of transfer;
4. Subject to the above provision of article 11 sub-article 3, funds transferred for construction and capital item procurement should be liquidated as per the project schedules;
5. Provide monthly accurate financial and program reports supported by complete documents.
6. Provide quarterly financial and physical reports against the annual plan to the Ministry;
7. Record all channel; two transferred funds and provide monthly reconciled financial reports that comprise bank reconciliation, trial balance and account receivables schedules;
8. Transfer of funds from the health sector for the implementation of the Sustainable Development Goals is not allowed to disburse to zones and Woredas; However, all planned activities that the Woredas and Zones should carry out should not be compromised;
9. Subject to the above provision of Article No. 11 sub-article 8 , regional health Bureaus may transfer funds to hospitals or professional development centres under their jurisdiction; however, they are fully responsible and accountable for monitoring the proper utilization of funds they transferred, achieving the desired results, and liquidate in accordance with the above provision of article 11 sub-article 3;
10. Provide necessary oversight and support when program and financial audits are conducted through internal and external auditors; following the audit report, they are obliged to prepare an action plan for the corrective action within one month and submit a corrective action report every three months.

#### **Part Four**

#### **Miscellaneous Provisions**

## **12. Duty to Co-operate**

Pursuant to Article 3 of this Directive, any party to whom this directive applies shall be obliged to cooperate in the enforcement of this directive.

## **13. Non-applicability**

Any directive or practice that conflicts with this Directive shall not apply to the matters covered herein.

## **14. Effective Date**

This directive shall be effective from the date of its registration by the Ministry of Justice and its uploading on the website of the Ministry of Finance.

**Ahmed Shide**  
**EFDRE Minter of Finance**  
**January /2024**

**Annex 1: Evaluation Criteria**

<b>S.N</b>	<b>Performance Measurement Criteria</b>	<b>Score out of 100%</b>	<b>Result</b>
<b>1.</b>	<b>Liquidated from long outstanding balance aged more than two year.</b>	<b>35%</b>	
a	Liquidated 100% outstanding balance within three months	35%	
b	Liquidated 75% and above of the outstanding balance within three months	25%	
c	Liquidated from 50% to 74% of the outstanding balance within three months	15%	
d	Liquidated from 25% to 49% of the outstanding balance within three months	10%	
e	Liquidated below 25% of the outstanding balance within three months	0	
<b>2</b>	<b>Liquidated from long outstanding balance aged from one to two year.</b>	<b>30%</b>	
a	Liquidated 100% outstanding balance within three months	30%	
b	Liquidated 75% and above of the outstanding balance within three months	25%	
c	Liquidated from 50% to 74% of the outstanding balance within three months	15%	
d	Liquidated from 25% to 49% of the outstanding balance within three months	10%	
e	Liquidated below 25% of the outstanding balance within three months	0	
<b>3.</b>	<b>Liquidated from transferred and liquidated with in the budget year</b>	<b>25%</b>	
a	Liquidated 100% outstanding balance within three months	25%	
b	Liquidated 75% and above of the outstanding balance within three months	20%	

S.N	Performance Measurement Criteria	Score out of 100%	Result
c	Liquidated from 50% to 74% of the outstanding balance within three months	15%	
d	Liquidated from 25% to 49% of the outstanding balance within three months	10%	
e	Liquidated below 25% of the outstanding balance within three months	0	
4	Timely submission of monthly reconciled financial report, reconciled statement of account, Trial Balance, Receivable and Payable Schedule, and other relevant reports	10%	
<b>Cummulative Results</b>		100%	

**Appendix 2: List of Regional Health Bureaus and Executors to whom budget will be released**

	<b>Name of State or Implementers</b>
<b>A</b>	<b>Health Bureaus of regional and city governments</b>
1	Tigray Health Bureau
2	Afar Health Bureau
3	Amhara Health Bureau
4	Oromia Health Bureau
5	Somali Health Bureau
6	Binshangul Gumuz Health Bureau
7	Southern Etthiopia Health Bureau
8	Gambella Health Bureau
9	Harari Health Bureau
10	Sidama Health Bureau
11	South West Peoples Health Bureau
12	Central Ethiopia Health Bureau
12	Addis Ababa City Health Bureau
13	Dredawa City Administration Health Bureau
	<b>Federal Hospitals and Agencies</b>
1	Ethiopian Medicine Supply Service
2	Ethiopian Health Insurance Service
3	Ethiopian Food and Drug Authority
4	Institute of Public Health of Ethiopia
5	Armar Hanson Research Institute
6	Ethiopian Blood and Tissue Bank
7	Alert Hospita
8	St. Paul's Millennium Medical College
9	Emmanuel Hospital
10	Saint Peter's Hospital
11	Ethiopian Prosthetic and Organ Support Service
12	Eka Kotebe General Hospital
	<b>Universities Offering Medical Education</b>
1	Adama General Hospital Medical College
2	Adama Hospital Medical College
3	Addis Ababa University
4	Adigrat University

5	Axum University
6	Ambo University
7	Arba Source University
8	Arsi Univ
9	Bahadur University
10	Debre Birhan University
11	Debre Markos University
12	Debretabor University
13	Defense University
14	Delaware University
15	Dr. Dawa University
16	Gondar University
17	Haromaya University
18	Hawassa University
19	Giga Giga University
20	Jimma University
21	Medalabu University
22	Mekele University
23	Balance Tapi University
24	Salale University
25	Welga University
26	St. Paul's Millennium Medical College
27	Wachamo University
28	Wolaita University
29	Delaware University
30	Wolo University
31	Wolkite University
32	Wolo University
33	Yekatit12 Hospital Medical College
34	Yirgalem Hospital Medical College