Dear Readers,

It’s now been two years since the first issue of **THE BOTTOM LINE**, the DSA Project’s newsletter aimed at disseminating informative articles about the implementation of the various reform activities being carried-out at federal and in regions under the Expenditure Management and Control Sub-Program of the Civil Service Reform Program.

We hope our efforts to make this newsletter interesting, informative and pleasantly readable are successful. Your comments and suggestions are always welcome. **THE BOTTOM LINE** would also like to encourage our readers to participate by sending us articles on reform activities and sharing experiences.

Our best wishes for this New Year and may 2006 bring further success to our work!

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**DEVELOPING BUDGET PLANNING—**

**The DSA Approach**

It is not possible to improve the quality of public expenditures without first ensuring that the accounts and budget systems provide a strong platform for improved allocations. Improving the allocative and technical efficiency of the budget requires strong systems of both management and information. Therefore, the strategy of reform recommended by the DSA Project emphasizes the development and completion of improved ways of managing and recording transactions before embarking on the planning reform.

The budget planning reform improves the quality and content of the financial systems to achieve better outcomes. Making budgets on a policy rather than an incremental basis is at the heart of a budget planning reform. A key objective of Phase 4 of the DSA Project is to ensure that the development of regional economic policies are supported by regional budgets. Budget planning will also promote performance in resource allocation as performance indicators will be introduced with the wereda transfers.

The transaction reforms improve the efficiency of financial management while the budget planning reform improve its quality. Both are needed. Decentralization of financial management to weredas has significantly increased the complexity of financial management in regions. Regions need to provide general purpose grants to weredas that are equitable and appropriate, and, weredas in turn need to effectively allocate these grants. Regions also need to allocate special purpose...
**MOFED ASSESSMENT OF THE REFORM IMPLEMENTATION AT REGIONS AND AT FEDERAL LEVELS**

The scope of the reform activities carried-out by the DSA Project has significantly increased in Phase 4. The new budget system has now been implemented nation-wide – with the Somali region struggling to cope with the demands of reform implementation, devolution of the financial management to weredas and its lack of capacity in terms of resources and infrastructure. The accounts reform has been introduced earlier at the Federal level, Addis Ababa, Tigray, SNNPR and Amhara regions and is now being implemented in Oromia, Benishangul Gumuz, Dire Dawa and Harari regions. Somali, Afar and Gambela regions are scheduled to introduce the reform in FY1999.

The implementation of the budget reform is closely linked with the implementation of the expenditure planning and resource allocation tasks. Extensive work was carried-out in this area in SNNP, Amhara, Oromia as well as Tigray regions.

To better coordinate the implementation of the nation-wide reform, MOFED has set up the EMCP Coordination Office. In the last three years, three different senior government staff have been assigned as Head of the Coordination Office. The current head is Ato Mussa Mohammed, former head of the Oromia Bureau of Finance and Economic Development.

MOFED has now planned an assessment program with the objective to “evaluate the reforms implementation at federal and in regions (zones and weredas) and propose “ways” for the acceleration and completion of the reform implementation process – to facilitate the inclusion of these reform activities as regular MOFED activities”.

For the Project, this assessment means a long awaited review by MOFED of the progress in implementation of the reforms to assess the impact, depth and penetration of the reforms at all levels of government, and to identify remaining weaknesses either in coverage or financial management capacity. The Project is also aware of significant planned increases in public expenditure in coming years, particularly at sub-regional level, and of the increased demands that will now be made on the reformed budget planning, accounting and IT systems at all levels of government.

The Project also believes that it is appropriate during Phase 4 to review the sustainability of the reforms at various levels of government, and the nature and extent of further assistance that may be required. This review should include an assessment of capacity of different levels of government to maintain and sustain the reforms in planning, budget, accounting and IT support systems.

The (MOFED) EMCP Technical Committee has tasked several teams of its officials and DSA advisors to carry out a review of the coverage and effectiveness of the reforms at all levels of government. The terms of reference for the review teams and required questionnaires have now been completed. The formation of the assessment teams has also been finalized involving MOFED staff from the budget, accounts and IT departments and DSA advisors. The assessment program is scheduled to start on January 9, 2006.
As a result of the recent restructuring of government in all regions, there are now many new officials occupying senior positions at region, zone and wereda levels. Many of these are not familiar with the reforms in recent years, including reforms in expenditure planning, budgeting and government accounting.

One specific feature of the reform is the single pool system and procedures. The reasons behind the creation and operation of the single pool system is still not very clear to many senior officials at wereda and zone levels.

The Project in cooperation with regional BOFEDs has designed and is delivering awareness workshops – based on agendas specific to each region.

A reform implementation awareness workshop on the budget and accounts reforms was organized at the Dire Dawa Administrative Council on December 2nd, 2005. Participants were Cabinet members, Bureau Heads, Commissioners, Administration and Finance Heads, Team leaders and Auditors of different public bodies of the Administrative Council.

A similar workshop discussing issues about the implementation of the budget and accounts reforms as well as the operations of the single pool system was conducted in Assosa, Benishangul Gumuz region, on December 18th, 2005. The workshop involved over 250 wereda, zone and region participants including the President of the region and Council members.

SNNPR BOFED has also planned similar workshops for approximately four or five officials from each wereda. This would mean a total of up to five hundred senior officials from weredas.

Similar workshops are planned in Gambella and Afar regions as well. In Somali region, discussions were held with the Bureau of Finance and Economic Development on the need for a consultative awareness workshop to Cabinet members. The workshop in Jijiga will discuss the need for significant support and supervision of the budget reform and budget execution process required at wereda and region levels by senior officials. The workshops planned in Gambella, Afar and Somali regions will also discuss the various constraints faced in terms of staff availability and capacity, poor infrastructure and accessibility as well as the need for significant budgetary support to weredas to enable them to operate the various reforms being implemented.
Introduction

The experience of the region with the design of intergovernmental transfer is not a rich one. The region has tried to exercise the allocation of block grants to weredas / district level since 2002/3 based on a formula mainly derived from the Federal grant formula. Considering the weaknesses of the previous formula, the Regional State of Oromiya adopted a new grant formula for its resource allocation among its 200 weredas and 36 urban administrations. The new formula is applied this year and it is the first time for the region to exercise. The formula is different from the previous one in its methodology and approach. The new formula considers the actual expenditure and budget needs of the concerned bodies. Generally, limitation of the previous formula and strengths of the new one is seen below.

Limitations of the previous formula

The policy variables incorporated in the previous (federal based) formula were difficult to manipulate as per the requirement of the regional/ national development policies, strategies and priorities. Limitations of the previous formula among others are:

- Parameters used in the formula do not indicate expenditure need of weredas to provide standardized public services
- It does not address equity issues well
- It is simply based on incremental budget allocation without recognizing the services delivered and does not give due attention to the expenditure assignment of weredas

- It is not explicitly related to the main sector needs
- It does not explicitly show the relationship between financial performance and government policies, goals and objectives
- It does not favor efficient and equitable utilization of resources
- It does not encourage planning

Understanding problems of the previous formula used for the years 2002/3, 2003/4 and 2004/5, it was designed to develop a new approach and formula.

Objectives to adopt the new formula

The fundamental objective to adopt the new formula is to improve resource allocation made to weredas. Adoption of this formula is specifically:

- To implement the regional development policies, strategies and priorities
- To ensure that the budget allocation is more economical and need based
- To make the recurrent budget institutional centered/service delivered and capital budget infrastructure deficit centered
- To encourage equity, adequacy and comprehensiveness
- To discourage irrational manipulation of budget allocation

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grants to weredas (e.g. food security, HIV/AIDS) and these need to be incorporated in the transfer formulas and in turn in wereda budgets. Wereda budgets make up the largest percentage of the total regional expenditures and the utilization of those resources has the most immediate impact on the population.

The planning work in SNNPR is the basis for proposed planning work in the other regions. SNNPR has been implementing the steps towards an improved budget planning system for over two years now. The intention is that the reform process will cascade to other regions as they become ready and that the DSA Project will provide support where needed.

The SNNPR BOFED has prepared a draft 1998-2000 PEP. SNNPR BOFED has also put together a performance based system that relates wereda allocations to policy objectives. Most of the weredas (99%) have accepted the performance agreements and have provided basic data on how their actual performance relates to their plans.

A summary report of the budget planning work with the SNNPR BOFED is available at the project office (P-68).

The Oromia BOFED has done considerable work in the preparation for the introduction of the needs based formula.

The Project’s work with the Oromia BOFED involved the review of the methodologies and data used for the transfer system. It was agreed that BOFED needs to begin a program of data improvement so that the 1999 data are of better quality. A major need in such exercises is accurate and timely data. At present, most of the data systems are census driven and therefore are late and not applicable to the budget. As opposed to statistical systems, which are based on census or surveys, which take time to collate and represent time slices in the past, information systems are directly used for management and therefore need to be timely, selective and relevant.

A summary report of the budget planning work with the Oromia BOFED is available at the project office (P-68).

Expenditure Planning Reform in regions – Next steps

A workshop was conducted in September 2005 involving regions involved in the planning reform to review the progress to date and contribute to improvements in the system. The objectives of the workshop was to learn from experiences so far and to finalize allocation and performance plans for the 1999 round, when bureaus and zones are brought into the bloc grant performance system. The discussions included the need for a performance structure that is consistent across all regions. The improvement of information was also a focus.

Documents presented by the Amhara, SNNPR and Oromia BOFEDs are available at the Project office (OR-46, 47, 48, 49, 50, 51).

In its next issues, THE BOTTOM LINE will review the work of the Amhara and Tigray regions in budget planning.
Meet Kassaw Wolde. He is the Head of the Accounts and Disbursement Department at the Bureau of Finance and Economic Development of the Amhara National Regional State.

A family man – he is the father of two little boys – and in his mid-thirties, Kassaw is a hard working, strong and committed person. A graduate of the Addis Ababa University (He received a BA Degree in Accounting in 1992) Kassaw was first employed by the Ministry of Finance and Economic Development in Addis Ababa in 1992. A year later he joined the Amhara BOFED and worked for three years in different positions at zones and weredas before his current assignment. Kassaw was assigned as Head of the Accounts and Disbursement Department at the Amhara BOFED in April 1996.

His colleagues and supervisors speak highly of Ato Kassaw Wolde. He played a vital role in the implementation of the accounts reform in Amhara region. Commenting about Ato Kassaw’s contributions to the success of the accounts reform in the region, Ato Mekbib Alemou, Deputy Bureau Head of the Amhara BOFED said that “Kassaw is viewed as the eye of the accounts reform”. The accounts reform was introduced in Amhara region in FY96. As Head of the accounts reform team of the region, he was involved in the day to day management of the reform implementation. He is also a member of the core accounts training team. He conducted various training programs at region, zone and wereda levels. Kassaw and his team worked hard in supporting the 106 weredas and 10 zones in the region with the implementation of the accounts reform. The wereda accounts are consolidated at zone level and the region-wide accounts consolidation is done at BOFED using the DSA designed BDA 3 (B) system. Kassaw monitors the smooth operations of the system at BOFED as well as at all 10 zones in the region.

Currently Kassaw and his team are working on the closing of the FY97 accounts. The region plans to close FY97 before the end of FY98. If Kassaw and his team complete the closing of FY97 accounts by the end of FY98, Amhara region will have reduced their backlog to only a year. Good luck to Kassaw and his team in their hard work!

Ato Kassaw is currently studying for his Masters Degree in “Organizational Leadership Studies” with the Azusa Pacific University based in the United States. The Bottom Line wishes him success in his studies and career.
To establish stability and predictability of resource flow, etc

Quality dimensions of the new formula

The new formula is based on a unit cost approach to calculate recurrent needs and infrastructure deficit for the capital budget. This approach assists the recurrent budget (both salary and operational cost) to objectively be measured and ensures both efficiency in resource allocation and utilization through standardizing expenditure. It, therefore, needs standard distribution of service giving institutions that are currently being under or over utilized, and has a direct correlation with quality of the service being provided. The main quality of the unit cost (needs based) approach for grant formula preparation are described below.

1. The new formula considers the existing commitments and future service expansion requirement, addresses the relationship between financial performance and government policies, goals and objectives
2. Efficiently measure recurrent need of weredas
3. Addresses equity and fair allocation of the available resources

Major objectives of the workshop were:

1. Creating awareness on what the new formula is and its quality and difference from the previous formula
2. Aware the participants on the type of data to be collected
3. Aware and orient how to collect the data and fill it on the already prepared data collection format

Participants of the workshop

1. Agricultural and Rural Development Bureau, Education Bureau, Health Bureau and Water Resources Bureau Planning and Programming Department / Service head and planning experts
2. Zone BOFED department heads and planning and budget team leaders and
3. Zone Agricultural and Rural Development, Education and Health department planning and programming team leaders and planning experts.

On their return, experts from zone departments are to create awareness on the subject matter to relevant wereda experts so that better and quality data is expected that will create a better database for future application of the formula. It is further expected that weaknesses due to poor quality data will be minimized and improved.

Resource persons

Resource persons were experts from the BOFED and were:

1. Ato Birhanu Dirirsa, D/Bureau Head
2. Ato Teshome Negussi, Head, Policy Analysis & Macro Planning Department
3. Ato Fikadu Abebe, Team Leader, Policy Analysis & Regional Development Strategy
GIVEN the increasing demands on the government’s finance channel (channel I), especially at the wereda level, the DSA project conducted an assessment of wereda financial management capacity. New policy initiatives (e.g., productive safety nets, food security, special purpose grants) and the ramping up of finance to front line service delivery requires improved financial management in weredas.

A detailed questionnaire was prepared for the wereda capacity assessment programs conducted in the above mentioned regions (M-59). Each region selected five weredas and two zones to whom the assessment form was distributed and completed and from which two delegates were invited to attend a workshop discussing the results.

Workshops discussing the findings of the assessment programs were conducted in each region. 23 participants from 5 region sector bureaus, 8 weredas and 10 zones in Oromia attended a workshop in Addis Ababa, on December 8, 2005, discussing the wereda capacity of the region. In Amhara, 16 participants from 2 region sector bureaus, 10 weredas and 4 zones attended the workshop, conducted in Lalibela, bugna wereda, North Wello zone, on December 10, 2005.

A similar workshop was conducted for 11 participants from 2 region sector bureaus and 9 weredas in Mekelle, Tigray region, on December 13, 2005.

The workshops’ main agenda included:
- Discussions on the background to the assessment: budget support; anticipated increase in donor funding;
- Ability of weredas and zones to manage this increased funding; presentation of findings from other recent studies;
- Clarifications on the assessment forms – responses to questions or ambiguities;
- Formation of small groups to finalize completion of the assessment forms;
- Discussions on other capacity issues - not covered by the assessment forms - which may constrain the ability of weredas and zones to absorb and manage increased funding levels;

The project is currently compiling a report on its findings. The report will be issued in the new year.

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**THE BOTTOM LINE**

Successfully manage a decentralized financial system, that is the bottom line of EMCP.

Please participate by sending us brief and informative articles on the reform.

Your comments, suggestions are most welcome!

You can reach us at:

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THE FOLLOWING MESSAGE WAS SENT TO US BY ATO TESFAYE BERHANU, HEAD GOVERNMENT PROPERTY ADMINISTRATION DEPARTMENT, MOFED. THE BOTTOM LINE THANKS ATO TESFAYE FOR SHARING WITH US INFORMATION ON ACTIVITIES DONE SO FAR IN AN EFFORT TO ESTABLISH A PROPERTY MANAGEMENT SYSTEM IN THE COUNTRY.

In his e-mail, Ato Tesfaye commented that “the system related to government property management has not yet been implemented and that he feels it is a neglected area”. The Bottom Line would like to inform our readers on this occasion that a manual, which deals with the government property management, was developed earlier by the DSA Project in 2001/2002. However, due to a change of scope of work in the following years, the project focused on the implementation of the budget, accounts and expenditure planning reforms in regions and at federal. The work on Property Management System is no longer in the project’s scope of work.

Please also note that Ato Tesfaye’s e-mail message was edited for formatting purposes.

Property Management System – Current Status

In general, property acquisitions, administration, control and disposal in budgetary institutions is very weak and there is no well-developed system that can handle the management of government property. To address this issue, MOFED intends to revise and finalize the property management manual; develop a property management-training module, and conduct a series of training on the revised manual in federal budgetary institutions. MOFED is trying to perform these activities with the fund secured from the World Bank under Capacity Building for Decentralized Service Delivery Project (CBDSD).

A six-member team of experts composed of the Central Accounts Department, Property Administration Department and Expenditure Management and Control Sub-Program Coordination Office (EMCP) was established to jointly coordinate the tasks of preparing a new property management manual. The team works very closely and has an overall responsibility of setting directions and monitoring the process.

The Property Administration Department is a newly established work unit in the Ministry and hence the experience of other countries on property management exercises is very vital to strengthen its effectiveness. The unit also hopes that the DSA Project will share its experiences on the subject.
The following is a list of recent documents available from the DSA Project for distribution. A major objective of this newsletter is to make Federal and Regional finance officials aware of the concepts and lessons of the reform.

**ACCOUNTS**
- Civil Service Reform Program: Directives from BOFED to Region Sector Bureaus on Accounts Reform (A-128)
- Civil Service Reform Program: Directives from BOFED to Region Sector Bureaus on Accounts Reform [OROMIFFA VERSION] (A-129)
- Federal Democratic Republic of Ethiopia: EFY1996 Budgetary Revenue & Expenditure (A-130)
- Civil Service Reform Program: Federal Accounts Reform—Consolidation of Countrywide Budget/Accounts for EFY 1994 (A-132)
- SNNP Region Accounting System — Refresher Training Materials (T-291)

**BUDGET**
- Budget Reform Manual: Volume II—Training Module Accounting and Reporting; A guide for Somali Region—Set of Forms (T-290)

**MISCELLANEOUS REPORTS**
- Civil Service Reform Program: Action Plans for Reform in the Federal and Regional Governments (M-58)
- Civil Service Reform Program: Assessment of the Regional Financial System (M-59)
- Awareness workshop on the implementation of Budget and Accounts Reforms at the Dire Dawa Administrative Council—December 2nd, 2005 (M-60)
- Awareness workshop on the implementation of Budget and Accounts Reforms in Benishangul Gumuz Region — December 18th, 2005 (M-61)
- Awareness workshop on the implementation of EMCP Reform Projects in Somali Region — December 27th, 2005 (M-62)

**OUTSIDE REPORTS INVOLVING THE DSA PROJECT**
- Summary report on Grant Formula Orientation Workshop in the regional state of Oroima—Held in Modjo town from Nov. 26-27, 2005) (OR-54)

**INFORMATION TECHNOLOGY (IT)**
- Budget Disbursement and Accounts System—BDA 3(B): Budget Adjustment, Transaction Register and Monthly Report Exercises (IT-BDA-38)
- Integrated Budget and Expenditure System (IBEX) Accounts Module—User’s Manual (IT-IBEX-7)

HAPPY NEW YEAR