DSA
Report of Project Activities:
February 10th to June 30th, 1997

Project Report: Q-1

Decentralization Support Activity Project
Ministry of Finance
&
Ministry of Economy Development and Cooperation
Addis Ababa
DECENTRALIZATION SUPPORT ACTIVITY PROJECT

REPORT OF PROJECT ACTIVITIES
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I. INTRODUCTION

This is the first quarterly report of the Decentralization Support Activity (DSA) Project. The project began on February 10th with the arrival of the chief of party. A three month contract and budget was provided to initiate the project while the full project contract was finalized. This initial contract confined support to providing the chief of party. On May 6th the project contract was signed.

II. CORE ACTIVITIES

A. Public Investment/Expenditure Reform

A reform design team was assembled under the chair of Melaku Kifle, Head of the Capital Budget Department. The design team included members from other departments of MEDAC and the head of the budget design team from the MOF. The team was charged with developing the PIP/PEP. Meetings were held weekly and on a regular basis. The initial objective was to make the design team aware of the content and scope of a PIP/PEP. This review was broadened to look at the relationship of planning and budgeting. The team viewed the planning and capital budgeting process within MEDAC, within line ministries and at the regional and sub-regional levels through a trip to SNNPR. A draft report on planning processes was prepared by the design team.

A three week consultancy by Roger Hughes furthered the design process and a draft of a PIP/PEP was prepared and circulated to department heads for discussion. The design team reviewed the PIP design document in detail over a month’s time and revisions were incorporated into a final design. Unfortunately, the Financial Regulations have stated that the PIP is to be a three rather than a five year exercise. The MEDAC has decided to make the PIP/PEP a five year exercise so that it is coterminous with the other plans (SIPs and regional plans). Officials in MEDAC suggest that the three year frame outlined in the financial regulations is not a difficult obstacle and that implementation can proceed on a five year basis.

Since the bulk of the capital budget is externally financed, the chief of party met with the heads of the bilateral and multilateral aid departments in MEDAC. The objective of these meetings was to improve the PIP/PEP data on externally funded projects. The timing was appropriate because USAID had just loaned the two departments computer equipment to automate their project monitoring. The departments had also recently prepared a new project monitoring system requested by the Prime Minister’s Office. While there have been several meetings progress in developing a project data base is very
slow. The heads of the multi- and bilateral departments are very busy and have not had time to discuss in details the information requirements of their proposed data base. The DSA project may assist these departments in both defining their requirements but also ensuring that the data gathered also meets the needs of the PIP.

With the PIP design document completed, the design team deliberated on how the reform should be implemented. The team recommended that a policy paper be prepared which would describe the reform and make senior policymakers aware of it content. A policy paper was drafted reviewed, revised, and sent to the Vice Minister responsible for implementing the PIP. While senior officials in MEDAC feel that a policy paper is not needed for authorizing the PIP because a PIP is already authorized and is part of the PFP, a similar paper is needed to make senior government officials aware of the reform. The existing policy paper awaits circulation to senior staff.

The PIP is part of a Medium Term Expenditure Framework (MTEF) which is a short to medium term planning framework. An MTEF has several components including a macro frame, a PIP and in some cases Sectoral Investment Programs (SIPs). All of these components are needed but the most important component is the macro frame. The macro frame defines the resource envelop available for public planning and budgeting. Specifically, a macro frame projects the total economic envelop, the amount available to the public sector, how the resources are to be allocated between sectors, and government levels, and finally provides multi-year (five) Indicative Planning Figures to the principal spending agents—line ministries at the federal level and regions. The essence of the planning reform is to provide IPF’s or ceiling based planning.

An effective PIP cannot be implemented without a macro frame. The absence of a macro frame is the principal technical obstacle for implementing the PIP reform. The design team has prepared an outline of the macro frame but the design team as currently constituted does not have the skills to prepare a macro frame. MEDAC is currently considering how the macro frame can be prepared. For the PIP/PEP to be effectively implemented it needs to have an institutional home in MEDAC. The requirements of a PIP/PEP means that the home has to able to coordinate the activities of other departments. The intra-ministry organizational issues of the PIP still need to be worked out.

A second constraint to implementing the PIP/PEP is the level of technical assistance available. The design team has recognized that full time technical assistance is required to initiate this reform. To date the project chief of party has provided the principal assistance along with a three week consultancy by Roger Hughes. This level of effort is insufficient to rapidly implement the PIP/PEP. The project terms of reference proposed a full time PIP/PEP advisor and it is recommended that Roger Hughes be confirmed as this advisor as soon as possible. This technical assistance will not only benefit the PIP/PEP reform it will also free up the project chief of party who is the budget advisor to concentrate on the budget reform.
Ideally the PIP/PEP should be implemented at the beginning of the Fiscal Year according to the Financial Management Calendar prepared by the design team. Delays in preparing the macro frame will push the scheduled implementation back until early September. MEDAC has also proposed that the PIP reform be piloted at the Federal level this year and introduced selectively next year to the regions.

The financial planning exercise proposed under the Civil Service Service Reform focused on a PIP/PEP and did not address the broader planning reform of introducing the entire MTEF. It was assumed that MEDAC had the capacity to prepare a macro frame. This assumption has yet to be confirmed and poses a risk to the PIP/PEP reform if the capacity is not available.

Further, the Government has recently introduced Sectoral Investment Programs. While this initiative has been done principally by the Federal line ministries with the direction of the Prime Minister’s Office, it too involves reform of planning. Whether line ministries and MEDAC have the capacity to absorb both reforms simultaneously is an issue that should be considered.

The central issue, however, is the coherence of the reform of planning. The government needs to implement an effective and coordinated MTEF. The MTEF will provide a multi-year financial planning framework that will guide annual budget decisions and link resources to policy. The question is how to implement the MTEF and whether this will be done wholly or in part under the CSR.

External training for the PIP/PEP design team has begun. The project manager, for PIP/PEP, Melaku Kifle, is attending an eight week workshop in Project Investment and Appraisal Management at Harvard University.

B. Budget Reform

As with the PIP/PEP reform, a budget design team was assembled and chaired by Demmelash Alem who serves in the budget department. The initial objective of the budget design team was to acquaint themselves with the budget processes of the coordinating federal ministries (MOF and MEDAC), the federal line ministries, the regions and the sub-regions. The design team was composed of six members from the MOF and two from the MEDAC. Line ministries and regions were not represented.

The team began its work by reviewing the budget systems they currently work on at the MOF and the MEDAC. This review was extended to line ministries by visits to the Ministries of Education and Health. Two field trips to the SNNPR and Region 3 provided an understanding of region and sub-region process. The analysis done at all levels did not focus simply on process. Specific issues of the budget reform were directly addressed including: adequacy of recurrent and capital budget codes, the budget calendar, and training requirements. The team is currently preparing the budget process. This process document provides the design team’s baseline for developing further budget reforms. The analysis has also generated several specific recommendations. One of the
striking features about the budgeting process is how varied it is especially as a result of regionalization.

The work of the budget design did not proceed as quickly as planned. Roughly one-third of the weekly meetings were canceled because staff had commitments in the preparation of the ET 1990 recurrent or capital budget or because they had commitments to the other Civil Service Reforms being implemented especially in the Ministry of Finance. Three of the eight team members have been pulled from the team or reassigned to other duties. The budget advisor was also unavailable at times for he was working with MEDAC on the PIP reform. The project document had assumed that the fourth quarter of the financial year would be a difficult time to implement budget reform because of the operational demands of the budget cycle.

Despite these obstacles the remaining team members have gained a comprehensive and sophisticated insight into the recurrent and capital budget processes. They also see how the specific reforms (budget codes and calendar) fit into the process and what the training needs of budget staff. The design of these specific reforms can now proceed with insight.

The budget design team has spent considerable time evaluating the options for capacity building training in budgeting. The team contacted the Civil Service College and has visited the facility several times. The College’s regional training programs are in the process of being designed and the budget team is reviewing the emerging design. The budget team is also reviewing the regional initiatives to build management institutes and provide budget training. In the next reporting period, the team proposes to convene a select group of trainers from the federal and regional levels to discuss needs and budget curriculum and course content.

External training of the budget design team has begun. The project manager, for budgets, Demmelash Alem, is attending a six week workshop in Budget Management at Harvard University.

C. Accounts Reform

The accounting reform is following the strategy outlined in the initial project terms of reference: the backlog of accounts is to be cleared before implementing procedural reform. The accounts department is following this strategy and has cleared the ET 1986 accounts and will close the ET 1987 in approximately three months. Significant progress is also being made in closing the ET 1988 accounts. The cleanup of the backlog is on schedule and this is a major achievement of the reform and will allow staff to turn to the procedural reform. The government has proceeded with developing several of the procedural reforms by hiring a consultant under UNDP financing. This consultant has prepared reforms in the following areas that were to be addressed by the project advisor: shelf life of documents, fixed assets, and stocks.
Considerable time was spent recruiting for the accounts advisor. The project criteria that the candidate have both extensive field experience in developing countries and public sector accounting experience have limited the pool of qualified applicants. Provision of technical assistance for the accounts project has been delayed because the government rejected the proposed candidate. Recruitment is proceeding.

As with the budget reform, the training strategy for building long term capacity in accounts is being examined. Professor James Yardley who designed the accounts reform a year arrived at the end of the reporting period for a two month consultancy to design the accounts training strategy.

In the short term, the project is supporting the ongoing efforts of the accounts department to assist regions in clearing the backlog. The assistance is both one of training and direct technical assistance from department staff.

External training for the head of the accounts has been identified but has been delayed because he has been involved in the managing the cleanup of the backlog and reviewing the accounts procedure and training reforms.

D. Policy Support to the Prime Minister’s Office

The chief of party met twice with Minister Newai of the Prime Minister’s Office to define the strategy for policy assistance. It was agreed that the project will provide support in the following areas: development of a macro model of the economy, develop a policy institution within the PMO, and initially provide policy advice in agricultural pricing. The chief of party has had extensive discussions with economists at Harvard on these requirements and short term advisors will arrive in August and October.

III. STRATEGIC ISSUES

- Management of the Civil Service Expenditure Reform and Management of Core Project Activities

One-half of the DSA’s project activities lie outside the Ministry of Finance. The PIP/PEP and capital budget reforms are to be implemented by planning not finance agencies. Recently the Ministry of Finance prepared a memorandum on how to manage the Expenditure Management and Control Reform of the Civil Service Reform. The principal weakness with the proposed management structure is that it does not address expenditure reforms that are to be implemented by other Ministries. The Public Investment/Expenditure Program is to be implemented by MEDAC yet MEDAC is not part of the Expenditure and Control Executive Committee. How will the Expenditure Control Executive Committee ensure that the reform to be implemented by MEDAC will be done? The PIP/PEP is a significant reform that requires commitment at the highest level. It requires government to prepare five year indicative planning figures for ministries and regions and requires a clear statement of policy. This reform requires broad ownership beyond the MEDAC project manager.
A similar issue emerges with the budget reform. Like the PIP/PEP, the capital budget is managed by planning not finance agencies. How can the management structure which does not include MEDAC implement this budget reform? It is proposed under the budget reform design document to integrate capital and recurrent budgets. This will require intense coordination between the finance and planning institutions. Again, it is recommended that MEDAC be part of the executive committee.

For both the PIP/PEP and capital budget reforms it is not clear what the procedure is to move recommendations of reform to adopted procedures. Will MEDAC for example issues a directive on PIP/PEP? Will a capital budget calendar be issued as a directive or an amendment to the financial law? Will there be separate directives for capital and recurrent budgets? It is not clear how the reforms are to be procedurally operationalized.

The Ministry of Finance memorandum on the management of the Expenditure Control and Management Area is silent on the qualifications of the executive committee members. The value of these individuals will depend not only on their experience but also their position. Both PIP/PEP and budget reform require overlap at the highest level and requires active involvement of senior staff.

There is no provision for regional participation in this management structure. While recognizing the difficulty of including regional staff, they provide a critical perspective. The difficulties of including regional representatives will be more than compensated by a reform design that is relevant to regions. The lack of line ministry and regional participation in the design teams has delayed the work.

- **Reform Process**

Both the PIP/PEP and the budget reforms have adopted a design team approach. The design team approach involves assembling a group of government staff from relevant departments and having them study the existing processes and develop recommendations for reform. An important part of the reform is the development of the design team so that they have the analytic skills to do the reform work when the technical assistance staff departs. Perhaps most important, the design team approach involves understanding a problem before designing a solution instead of imposing a solution often from another country on a problem not understand. The design team approach is necessarily slow. It is also susceptible to staff being reassigned either temporarily or permanently. The budget project has experienced congestion with other reforms and loss of members. The PIP/PEP has not had such experience. Two serious limitations of both design teams is the lack of line ministry and regional participation.

Does the project steering committee have recommendations for improving the design team approach?

- **Relationships between Assistance Agencies**
Recently a bilateral assistance agency approached the budget department to discuss budget training. The agency also phoned the chief of party and asked if there was overlap of this initiative with the DSA project. There was because the reform was in too early a stage to have a fully designed training program. While recognizing that the MOF should use resource opportunities, there is still the issue of promoting coherence to the reform. The core activities of this project will continue to attract external assistance. The proposed training program was to design budget training programs in country. Developing budget training is one of the key activities of this project. Once the design is developed collaboratively amongst levels of the government, then it may make sense to expand the net of resources to implement the program.

**IV. ASSISTANCE TO OTHER NON-CORE ACTIVITIES**

The chief of party was involved in other areas of the reform besides the project’s core areas.

A. **Financial Information Systems (FIS)**

The chief of party assisted the Data Processing Department in designing a strategy for developing the EU funded FIS project under the Expenditure Management and Control area. The strategy is to separate the development of the spec from implementation of the system spec. The contractor that develops the spec would then be used to supervise its implementation. Two terms of reference were prepared for EU funding including one for the Emergency System Upgrade and a second terms of reference for the “Identification and Requirements Study for the Government of Ethiopia’s Financial Information System.” The project terms of reference specifies that the budget and accounts advisors will serve to write the system spec of the FIS systems so it was appropriate for the budget advisor to be involved.

B. **Financial law**

The budget advisor reviewed and commented on the financial law and regulations.

**V. PROJECT MANAGEMENT ISSUES**

During the reporting period, the chief of party devoted a considerable amount of time on administrative details necessary to make the DSA project operational. Since the project contract was not signed until May 6, much of this work could only be done by the chief
of party. Shortly after the contract was signed the project began to procure computer commodities, send staff for overseas training and confirm consultancies.

A. Procurement

The principal procurement of the reporting period was ten computer workstations and one laptop with accompanying printers and uninterruptible power supplies. The hardware has been procured and the computers have been delivered to the project. The printers and uninterruptible power supplies are in the process of being cleared. The project document specifies that three workstations are to be assigned to each area of the reform—PIP/PEP, accounts and budget. This assignment will be done shortly. The chief of party also procured office supplies and arrange for their shipment.

The project’s vehicles have arrived and are to be assigned to the project shortly. The management of these vehicles should be discussed ahead of time so that use is clear.

B. Administrative support

The project agreement provides for three local support staff including an administrator, driver and office assistant. In the absence of project vehicles, the project has temporarily hired a driver and vehicle. To manage the project office and files, an administrator experienced in USAID procedures has been recently hired on a probationary basis. This administrator will free the chief of party from some of his administrative duties and will allow him to concentrate on the reform.