DSA
Report of Project Activities: July 1st to September 31st, 1997

Project Report: Q-2

Decentralization Support Activity Project
Ministry of Finance
&
Ministry of Economy Development and Cooperation
Addis Ababa
I. CORE ACTIVITIES

A. Accounts Reform

- Professor Jim Yardley’s Consultancy

Jim Yardley of Virginia Tech University arrived on June 22nd for a two month consultancy to refine the project’s training strategy in accounts. During his consultancy, Jim visited four regions (Amhara, Southern, Gambela and Oromia) and six federal bodies (the Ministries of Agriculture, Health, Education, Natural Resources and the Disaster Prevention Preparedness Commission, and the Central Statistics). Jim also reviewed the Final Report of the Coopers and Lybrand Study on “Ethiopia: National Accounts and Audit Development Programme.”

Jim prepared five reports during his consultancy (reports A-1 to A-5). While Jim made numerous recommendations the most important related to the next steps in accounts training. The work in the regions indicated that region and sub-region staff know how to do their jobs but do not understand what they are doing. They are thus unable to convey to decision makers accounting information. As the regions move to self-accounting, the capacity of the accounts staff to understand and convey accounts information becomes essential. The immediate training task for accounts then is not on-the-job-training (which is continuously being provided by the accounts department of the Ministry of Finance) but specialist capacity training. These conclusions helped shaped the training strategy outlined in the DSA project’s terms of reference for accounts, budget, and financial planning and are elaborated in the September 10th training strategy (section ID).

Jim’s terms of reference included consulting with the Ethiopian Civil Service College (ECSC) on their current training program and revising the DSA/Civil Service Reform’s accounts strategy. While initial meetings were held with the ECSC, the College did not facilitate follow-up. The proposed collaboration with this consultancy did not materialize but has resumed in the development of the training strategy (section ID).

- Organization of the Accounts Module Preparation

One of the objectives of Jim Yardley’s consultancy was to develop training materials in accounts in consultation with the ECSC. This collaboration did not materialize and Jim was able to only outline the content of the accounts specialist capacity training. After
Jim’s departure, meetings were convened with the ECSC to resume the collaboration. It was planned to send the head of the accounts department of the Ministry of Finance and the Dean of the Faculty of Business to Virginia Tech to work with Jim Yardley and his colleagues on the specialist capacity training modules in accounts. This trip was organized during this reporting period.

- Design team meetings begun

During the reporting period, the accounts design team was formed. A work plan was prepared for two phases of the accounts reform: revision and expansion. The design team is currently acquiring all of the accounts forms and preparing a preliminary description of the accounts process.

- Recruitment of an accounting advisor resumed

International recruitment of the accounts advisor was resumed during the reporting period. The project reissued advertisements and chief of party and the project backstopper in Cambridge renewed phone recruitment for the position. The terms of reference for the position is demanding including: public sector experience, operational experience in developing countries and experience with developing accounting training programs. The project has received numerous leads and there are a few promising candidates who meet the demanding criteria. The search will be closed in early December and an individual will be selected for an assessment consultancy sometime in January-February. If the individual proves acceptable, they should be in post by May.

B. Budget Reform

- Preparation of Version 1 of the Budget Manual

With 1990 budget prepared, the budget design team renewed its work schedule. Meetings were held with the Ministry of Health in particular on the preparation of both the capital and recurrent budget. A draft of Version 1 of the Budget Manual was prepared and was being reviewed by the budget design team by the end of the reporting period. Version 1 of the Budget Manual focuses on budget preparation and provides numerous recommendations that will be reviewed by the MoF’s steering committee and by federal and regional finance officers. While there are a number of recommendations in the budget manual perhaps the principal recommendation is ending the practice of pre-ceiling budgeting and using the pre-ceiling period to do program review, unit costing, and establish expenditure priorities through the PIP/PEP planning process. There are also recommendations to improve the coordination of recurrent and capital expenditure preparation so to improve expenditure composition.

Work on Version 2 of the Budget Manual is scheduled to begin in December and will focus on expenditure codes, chart of accounts and budget formats.
C. Public Investment/Expenditure Reform

- Preparation of the PIP Macro Frame

During the reporting period, the PIP design team developed an outline for a macro frame that will frame the Public Investment Program (report P-2). The macro frame and the PIP constitute a Medium Term Expenditure Framework (MTEF). Discussions were held with the macro planning department on the preparation of the macro frame. The outline of the macro frame recommended three elements: (1) Macro analysis (a GDP projection and a fiscal plan); (2) Strategic Framework (government development policies); and, (3) Strategic Allocation (resource allocation on a three year basis by sector and region from the federal level—indicative planning figures). The macro frame is to be completed by November.

- Approval of the Public Investment Program Advisor

Following the previous steering committee, the terms of reference for the Public Investment Advisor were modified. In August, MEDAC approved Roger Hughes to serve as the PIP advisor. The project negotiated Roger’s contract and he is scheduled to arrive November 29th.

D. Training

1. In-Country Training

   The project refined the in-country training strategy outlined in the project’s original terms of reference. The September 10th Draft entitled “The Training Strategy for Accounts, Budget, and Financial Planning Under Civil Service Reform,” (report T-1) outlines the proposed training program. The strategy proposes the development of a partnership of institutions to deliver financial management training which is both focused on the operational needs yet also provides a conceptual foundation. The proposed partnership would be lead by the Ethiopian Civil Service College (ECSC) and would include the Ministries of Finance and Economic Development and Cooperation, the Regional Management Institutes (RMIs), the Regional Finance and Planning and Economic Development Bureaus and the DSA project. Five types of training have been identified including: basic job training, policy workshops, procedural training, specialist capacity training, and training of trainers. The strategy outlines different roles for the different partners. The ECSC would take the lead in developing curriculum and certification as well as training the resource staff of the RMIs. The RMIs would deliver procedural and specialist capacity training. The Ministry of Finance and the Ministry of Economic and Development Cooperation would deliver the policy workshops and design the procedural training based on the reforms being introduced into the respective core areas of accounts, budgets, and financial planning. The Regional Finance and Planning and Economic Development Bureaus would deliver the basic job training.
Extensive discussions have been held with the ECSC and they are strongly committed to the strategy and believe it is a core task of the College to provide leadership in government financial management training. The College is proceeding to recruit additional staff so to be able to implement this strategy. The strategy was also presented to the Prime Minister’s Office and was strongly endorsed.

With institutional commitment at the federal level to implement the strategy, plans were made during the reporting period to send a team to those regions with management institutes to present the strategy and assess local capacity and commitment.

After this initial assessment is completed, it is proposed to expand the training strategy into a detailed training plan. Plan preparation would be done in December-January for discussion in February in a meeting of the ECSC, the directors of the RMIs and the Regional Finance and Planning Bureaus.

2. External Training

During the reporting period two staff members attended overseas training programs. Demmelash Alem, head of the budget design team, attended the summer Budget Workshop at Harvard University. Melaku Kifle, head of the PIP design team, attended the summer Harvard University Program in Project Investment and Appraisal Management. The evaluation of their training was done by the training office at the USAID mission in Ethiopia. Both participants gave high marks to the training programs.

The head of accounts will travel to the United States in December to work at Virginia Tech on the specialist capacity training modules for accounts. Prior to this work, he will take a study tour of the U.S. federal government accounting system and two state government’s accounting systems. This study tour has been arranged collaboratively by the project and Jim Yardley at Virginia Tech.

E. Policy Support to the Prime Minister’s Office

Policy advising to Minister Gebre-ab Newai in the Prime Minister’s office is one of the activities of the DSA project. This activity is implemented with short term consultants.

- Professor Dwight Perkins visit

In August, Professor Dwight Perkins of the Economics Department of Harvard University and HIID, visited Addis for two weeks. Dwight is the head of the DSA project’s policy group and this long-scheduled visit was designed to outline the areas of assistance between the Prime Minister’s Office and the DSA project in economic policy. Three areas of need were identified: the development of a policy unit within the PMO, the development of simple macro model for policy making and short term consultancies on selected macro economic issues. Dwight spent a good portion of the consultancy reviewing the data resources that will be needed for the macro model and met with government staff involved in macro economic modeling.
Since the Perkins consultancy, work has begun on all three areas of assistance. To develop the macro model, Dwight has formed an economic modeling group from the Economics Department and HIID at Harvard University. Malcolm McPherson of HIID will head the modeling effort. A search is underway to identify a promising doctoral candidate in economics who could work over a period of time in Ethiopia to gather the data and work with government staff currently involved in macroeconomic projections.

To provide select macro economic policy assistance, Richard Goldman was identified to work on grain exports and Professor David Lindauer of Tufts University and HIID to work on productivity issues. The Goldman consultancy was organized during this reporting period.

Development of the PMO macro economic policy group is a longer term initiative and will be coordinated with the development and introduction of the macro model.

II. ASSISTANCE TO OTHER NON-CORE ACTIVITIES

- **Financial Information System (FIS)**

  The project continues to assist and advise the MoF on the Civil Service Reform FIS project. Specifically, the project was asked to identified additional firms for short listing for the bid to prepare the system spec. The chief of party contacted four international firms which have exemplary reputations in developing public sector information systems. The firms were: IBM, Anderson Consulting, Arthur Anderson, and the Barents Group of KPMG. Only one of these firms, Barents, expressed interest and a capability statement was faxed to the chief of party. The head of the FIS project was provided this capability statement. The chief of party has provided both the head of the FIS Project and the coordinator of the European Union with background materials including his own publications on the issues involved in large scale automation projects.

- **Donor Data Base for MEDAC**

  In the previous reporting period, the chief of party worked with multi-lateral and bi-lateral aid departments of MEDAC to discuss the development of a data base which would capture donor commitments and disbursements. This data is a high priority and the Prime Minister’s Office recently requested MEDAC to develop manual systems for capturing this data. USAID has loaned these departments microcomputer hardware for use in automating the work of the departments. Because of the demanding schedules of the heads of the two departments little progress was made during the reporting period to further the discussions of these systems. USAID did have a consultant in country who did review the possibility of developing the donor data base. The chief of party met with the consultant and discussed with him at length the need for such information and how it fit with the work of the accounts and budget activities of the DSA project.
Next steps. The DSA project proposes to discuss with the heads of the multilateral and bilateral departments of MEDAC in more detail, the information requirements of the departments. These requirements would then be reviewed in terms of the specific needs of the PIP and the budget reforms of the DSA Project. The project would then work with the MEDAC bilateral and multilateral departments in developing a proposal to USAID for funding the development of a donor data base. This additional work would require the development of a system spec and then the coding of a system.

- **Development of a Performance Monitoring Plan with USAID**

The chief of party prepared with Dr. Stevens Tucker, the USAID/Ethiopia Democracy and Governance program officer a Performance Monitoring Plan to monitor the impact of the DSA project (report M-1). The principal intermediate results concerned the promotion of deconcentrated fiscal federalism. The two sub-intermediate results concerned the three products (accounts, budgets, financial planning) and the processes for promoting fiscal federalism.

- **Briefing Donors on CSR financial management reforms and reviewing the Public Expenditure Review**

The chief of party has been requested by numerous international donor agencies to brief them on the reforms in financial planning, budgeting and accounts. The World Bank has asked for several meetings especially with its teams working on the sector investment programs. The chief of party provided a detailed review of the World Bank’s Public Expenditure Review.

**III. OUTSTANDING ISSUES**

- **Request to add aid and cash management to the project**

In August a meeting chaired by Dr. Kebede was held in the Prime Minister’s Office concerning the scope of the DSA project. The purpose of the meeting was to clarify certain proposed activities of the DSA project and request additional activities of the project. The specific request was to add aid management to the terms of reference of the PIP/PEP activity and to add cash management to the Accounts activity of the DSA project. The chief of party noted that aid management was listed under the DSA project’s terms of reference for budget and that a PIP/PEP is a tool for donor management. Including aid management under the planning activity was therefore implied in a PIP reform. The project initiative to develop a donor data base with additional resources of USAID funding that are outside the DSA’s budget further indicates a commitment to building aid management capacity in MEDAC.

Cash management was not in the terms of reference of the project’s accounts activity and is a significant undertaking. The initial terms of reference for a cash management project recommended a level of effort larger than the entire two year DSA project. The project has agreed to fund a consultant to prepare a new terms of reference for a cash
management project. Upon completion of the terms of reference, the DSA project will work with the Ministry of Finance and the Head of the Accounts Design Team to assess what if any cash management tasks could be accomodated within the DSA accounts project.

- **Clarification of the planning reform**

In the previous project steering committee meeting, the chief of party raised the potential problem of the duplication of the CSR’s PIP/PEP planning reform and the World Bank’s SIP planning reform. At the time, the committee agreed that the reforms were complementary, that the PFP required the Government to prepare a PIP, and that preparations for the PIP/PEP should proceed. Despite this consensus the World Bank continues to question the CSR planning reform in the Public Expenditure Review and most recently to other donors in the Donor Assistance Group.

Two issues. First, do senior government policy makers dealing with these other donor planning initiatives understand the proposed CSR planning and budget reforms? Second, should senior government policy makers explain these reforms in detail to the donors so to address donor concerns and confusion about government’s financial management reforms?

- **Procedural issues**

It is recommended that minutes be taken of the principal decisions of the project steering committee. The next meeting of the DSA project steering committee is scheduled for: 9 A.M., February 6, 1998, Vice Minister’s Office, Ministry of Finance.
ANNEX 1

PROJECT REPORTS

A. Accounts Reform

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B. Budget Reform

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C. Public Investment/Expenditure Reform

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D. Policy Advice to the Prime Ministers Office

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E. **Training Strategy for Accounts, Budgets, Public Investment/Expenditure Planning**

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F. **Miscellaneous Reports**

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