Decentralization Support Activity Project

The DSA project is implemented by Harvard University and funded by Development Cooperation Ireland (DCI), The Royal Netherlands Embassy and the United States Agency for International Development (USAID)
The DSA Project is providing technical assistance to the Government of Ethiopia’s Civil Service Reform in budgets, accounts and budget planning. The DSA Project is implemented by Harvard University and funded by Development Cooperation Ireland (DCI), the Netherlands Minister for Development Cooperation, and the United States Agency for International Development (USAID). The Project is currently in its fourth phase which runs from July 1, 2004 to November 30, 2006.

This brief is structured as follows:

(a) what are the objectives of the reform and what are the problems it addresses

(b) what is the project’s strategy of reform

(c) what is the scope of the reform

(d) what are its main technical achievements to date

(e) what are its deliverables to date

(f) what are its scheduled deliverables by the end of phase 4

What are the objectives of the reform and what are the problems it addresses

• The three objectives of the Budget, Accounts and Expenditure Planning reforms are:
  
  ▪ to strengthen the capacity of the public finance management system to manage public sector financial transactions;

  ▪ to improve the capacity of public sector managers to use information about financial transactions to permit better control;

  ▪ to develop, on the ‘platform’ of better accounting and financial management and control systems, better planning of the public sector so that budget allocations are driven by policy.

• The reasons that such a reform was required is as follows:

  ▪ the structure of the existing government accounting and budgeting systems does not provide an adequate technical base on which to improve the allocation of public resources;
• conditionalities of creditors (IMF, World Bank) require new features of financial management (e.g. consolidation of federal and regional budgets, details of pro-poor expenditure);

• requirements of new aid modalities such as direct budget support require budget planning that presents trends in sector allocations and prompt financial reporting;

• modernization of public sector financial systems is a major requirement for countries that wish to improve their credit ratings and attract foreign investment;

• the devolution of the public sector finances imposes significant new pressures on public sector financial management that the existing system could not cope with. If devolved units of government are to have more discretion over their spending decisions, the financial management systems must be able to provide an enhanced reporting and control platform that permits better planning of public resources within a strong information and control framework.

**What is the project’s strategy of reform**

Proper sequencing of the financial reform is absolutely critical to success. Figure 1 presents the project’s strategy of financial management reform in terms of sequence and content. The first task is to get the financial transaction platform (budget and accounting and disbursement systems) operating smoothly to ensure efficient financial control. An efficient transaction platform also provides the timely budget and accounts data for the policy/performance platform. The policy/performance platform has three objectives: (1) to shape budgetary allocations by policy, (2) to introduce accountability for financial resources and results, and (3) to promote efficiency.

The first step in the project’s strategy of financial reform was to improve the transaction platform specifically, to bring inputs of an activity together across the capital and recurrent budgets by cost center through a new budget classification and chart of accounts. Once the inputs of an activity are aggregated it is then possible to take the next step of specifying outputs and performance criteria annually and over the medium-term. In accounts, the project assisted the government in clearing a six year backlog to less than one year and reducing monthly expenditure reporting in regions to two months. The introduction of the modified cash double-entry bookkeeping system combined with widespread training and automation has achieved these objectives.

The project’s approach to reform in Ethiopia has been to pilot a reform first and only roll it out to other jurisdictions once the pilot has been well tested and improved upon through experience. A second principle has been to develop reforms that can be used across jurisdictions to promote coherence and integration. A third principle of the
The project is to empower government staff to do the reform and not substitute them with technical assistance staff. These are fundamental reforms and if they are to be sustained they must be managed by government staff. The pilot reform in the SNNP demonstrates that regional finance staff can manage these demanding reforms. Still, the scarcity of qualified finance staff who can be made available consistently over time to manage these reforms is a significant challenge. The experience of the reform has demonstrated the wisdom of these principles. While these principles may take longer in the ‘front-end’ pilot stage, wide-scale extension of the reforms (the ‘back-end’) can be rapid and relatively smooth.

What is the scope of the reform

- The reform is designed to integrate all elements of public sector financial management and planning into a coherent framework, sequenced in a way that is compatible with the implementation capacity of the different levels of government.

- The reform is designed to work at all levels of government: federal, regional, and sub-regional.
• This is an integrated reform composed of three components: Accounts and Budgeting on one hand, and Planning on the other. In addition, an extensive in-service training program on financial management has been developed.

What are its main technical achievements to date

Accounts and Budgeting
• design and implementation of a completely new Chart of Accounts
  A Chart of Accounts is the foundation of any public finance system. It permits accounting (the management and recording of financial transactions) and allocation decisions (what should public money be spent on?) to be integrated and related to government priorities. This involved a complete overhaul of the financial system and took several years to complete. All subsequent reform activities derive from the Chart of Accounts.

• development of a new budget classification
  On the basis of the new Chart of Accounts the structure of budget in relation to the (changing) structure of government was fundamentally overhauled, and the process is still going on in the regional roll-outs. The budget classification adheres to international standards (e.g. Classification of Government Functions—COFOG) as well as the financial data requirements of international development partners (e.g. Joint Budget and Aid Review, Fiduciary Assessment).

• reduction of the backlog in accounts
  Timeliness is a necessary characteristic of useful financial information. Information that is not timely has very limited use for decision-making. When the project began, the government accounts were six years in arrears. Financial reports for EFY 1983 were issued in EFY 1989. The project documented the existing accounting system and developed a training program for accountants at all levels of government. Currently, the backlog in accounts is less than one year and three of the four largest regions are currently able to report monthly wereda level expenditures within two months.

• development of a new accounting system
  The new Chart of Accounts provides the framework for a new accounting system. In addition, the modernization of the accounting system involves a fundamental change to the way transactions are recorded, so that a more complete picture of expenditures can be provided. In particular, the accounts reform has introduced
• a modified-cash accounting system in place of the previous cash accounting system (meaning that full information will be available on commitments of cash as well as actual spending of cash). This reform, which is ongoing, is crucial, inter alia, for fiscal deficit management;

• a change from single-entry to double-entry accounting and from cash to modified cash, which is the central requirement for improved financial control, and for keeping accounts current.

• development of new technical systems for reporting and expenditure management

Improved transactions management requires improved reporting:-

• a new computerized Budget Information System (BIS) has been developed, and is continuously being improved for use by federal and regional governments. A BIS is critical in a devolved state, in order that the consolidated budgets of the country can be aggregated for macro management purposes. The computer system has several features: it operates in multiple local languages, it facilitates the preparation and production of the annual budget documents, it produces the budget notifications, and it provides the baseline budget for the BDA system.

Improved transactions management requires better ways of disbursing and accounting for government resources:

• the Budget Disbursement and Accounting system (BDA) has been significantly upgraded in order to manage the disbursements of the Treasury Department and all accounting transactions and reports;
• the BDA facilitates the management of the new double-entry accounting system and also allows the consolidation of single and double-entry accounts.
• the BDA enables federal and regional treasury offices to maintain accounts and disbursements against an up-to-date adjusted budget which ensures budgetary control.

The DSA project has developed a significant upgrade of the BIS/BDA systems with the Integrated Budget Expenditure (IBEX) system. IBEX incorporates and extends the functionality of the BIS/BDA systems and significantly expands the technical platform. IBEX operates on the MS SQL Server database, uses third party security (‘Siteminder’) and is web-enabled which allows it to operate on both local and wide area networks. Once the government’s WEREDANET WAN is operational, IBEX will provide virtual capability to manage budget and accounts at all levels of government.
Planning
• development of more effective ways to plan public resource utilization in a devolved state.

The characteristics of the country’s planning systems have changed from sectoral to spatial systems (block subsidies from the federal government to the regional governments and now block subsidies from regional to wereda governments). This single fact informs the need for and design of, the planning reform.
The Chart of Accounts has been designed in such a way as to provide maximum flexibility in designing the methodologies and structures of public sector planning.

The main components of the planning reform are:-

- The development of a new Financial Calendar. The Financial Calendar defines the sequences of planning and the obligations of the different departments of government within that sequence. It is the critical link between planning and budgeting. A new calendar has been proposed but it has not yet been formally endorsed—that lack of endorsement acts as a brake on the planning reform.

- Improvement of the macroeconomic planning systems, within the Macroeconomic and Fiscal Framework (MEFF). The process has been designed, but formal political endorsement has yet to be given—that lack of endorsement holds back the planning reforms.

- Improvement of the fiscal transfer system (regional subsidy). The transfer is a core element in the PEP, and the system is in need of some adjustment to make it compatible with the needs of regions and weredas.

- Development of a wereda block grant system. The Project is currently working extensively with the planning groups in the regions on the development of a needs based wereda grant. Some regions will use this for the 1996 budget cycle.

- Integrating sectoral development perspectives with integrated area planning. This should change the way Sectoral Development Programs (SDPs) are made, influence PRSP methodologies, and develop new ways of planning within weredas.

- Introduction of performance budgeting. The Project has introduced performance agreements in the SNNP weredas which require them to prepare by sector performance objectives and targets in advance of the receipt of their block grants. The performance agreements also require weredas to present a three year plan of their sectoral allocations. The project is also starting to introduce performance budgeting in federal ministries.
Development of regional competitive economic strategies. The regional Bureaus of Finance and Economic Development have the responsibility to coordinate economic strategy as well as manage public finances. The Project conducted in the SNNP region a pilot study on regional economic competitiveness with the objective of promoting policy driven allocation.

In-Service Training Program in Financial Management

development of a training strategy
The project has extensive experience in designing and implementing in-service training in financial management. In September 1997 the DSA project developed a proposal for delivering in-service training in financial management. This proposal was endorsed by the Prime Minister and the cabinet and USAID provided additional funding for the DSA project to implement the program. The strategy was based on building a partnership of regional (Regional Management Institutes) and federal (ECSC) training institutions to deliver the in-service training.

implementation of the training strategy
The project has trained to date 41,771 government staff in financial management and an additional 22,221 are scheduled to be trained during the balance of the current phase.

What are its deliverables to date
The following are the achievements to date of the project in assisting the government’s reform:

- new budget system operating in the federal government, the four large regions, one small region (Beneshangul/Gumuz), and one administrative area (Addis Ababa)
- new accounts system operating in the federal government, three large regions, and one administrative area (Addis Ababa)
- automation of budget and accounts in 62 federal public bodies, at regional and zone levels in the four largest regions, at the regional level in one small region (Beneshangul/Gumuz) and one administrative area (Addis Ababa).
- upgrade of the BIS system to IBEX and introduction in the Ministry of Finance and Addis Ababa
- implementation of all of the budget planning components in the SNNP region and partial implementation in Amhara and Oromia regions.
What are its scheduled deliverables by the end of phase 4

By the end of Phase 4 the following activities are to be delivered:

- All federal public bodies, regions, and administrative areas operate the new cost center budgeting system.
- All federal public bodies, regions and administrative areas operate the new double-entry bookkeeping system and modified-cash basis of accounting.
- A budget planning system which promotes policy and performance based allocation of public expenditure fully operating in the federal government and one pilot region and underway in other regions.
- A financial reporting system is introduced in the federal government, regional governments, and administrative areas.
- Performance measures (objectives and targets) introduced in the budgeting system of the federal government and select regional governments.
- Management accounting operates in select regions.
- An appropriate disbursement and cash management system (including a single treasury system) operates in the four largest regions and their sub-regional governments.
- The budget and accounts systems are automated:
  - in all regional and zonal finance institutions (of the four large regions), at BOFEDs in the small regions, in the BOFEDs and sub-cities of the two administrative areas and select federal public bodies
  - in the finance institutions of the four large regions using the new Information and Communications Technology (ICT) infrastructure.
- The disbursement system is automated in regional finance institutions.
- Approximately 28,502 staff trained in the budget, accounts and budget planning reforms.
- The procedures and management of these systems institutionalized in Government