

THE BOTTOM LINE

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A monthly newsletter on EMCP reform activities in the Federal and Regional Governments

Dear Readers,

The introduction of the budget reform in Afar, Gambella, Somali, Dire Dawa and Harari regions has started with the training of budget staff at wereda, zone and region levels. Currently these regions, except for the Somali region, have prepared their budgets and are finalizing the approval process.



The introduction of the accounts reform in Oromia and Benishangul Gumuz regions has now started. In Oromia, training of over 4,000 accounts staff in the new accounting system is currently underway. The level 2 training program for 270 wereda and zone trainers was conducted at 14 zone sites. The Level 3 training program for over 4,500 wereda, zone and region staff is currently underway at 236 wereda and 14 zone sites as well as in Addis Ababa for accountants from region sector bureaus.

An estimated 550 wereda, zone and region accounts staff in Benishangul Gumuz region also started the level 3 accounts training program at three zone sites and at the Benishangul Gumuz Regional Management Institute, in Assossa.

Currently, all regions have implemented the budget reform and also automated the budget preparation process. With the exception of Afar, Gambella and Somali regions scheduled to implement the accounts reform in FY1999, all regions have now implemented or are implementing the new accounts system as well as the automation of the accounting procedures.

With Ethiopian New Year at the end of the week, The Bottom Line wishes all of you involved in reform implementation at region as well as federal level, a **Very Happy New Year!** Thank you for all your support.

Enjoy **THE BOTTOM LINE**



Happy New Year!



THE FY1998 BUDGET PROCESS

The Federal Government issued provisional subsidies to regions in May 2005. MOFED completed the preparation of the FY1998 Federal budget during the second quarter of 2005. The Federal Recommended Budget for FY1998 was produced, printed and delivered to Parliament on time. The Budget Summary was issued on June 1st, 2005, and the draft Negarit Gazette, on June 7th, 2005.

The SNNP, Tigray, Afar and Amhara regions have their ceilings and subsidies approved by their respective regional councils and the approved subsidies have been sent to weredas.

In Oromia region, the budget hearing with the region sector bureaus was completed by mid-June. The Regional Cabinet endorsed the FY1998 recommended budget proposed by BOFED and passed it to the House of the Speaker for approval by the Regional Council.

Harar, Dire Dawa and Benishangul Gumuz regions also have their FY1998 regional budgets ready for discussion with the regional Cabinet.

The FY1998 budgets for Addis Ababa, and Gambela regions are still under preparation. In Somali region, training has yet to be delivered ■

In this edition....

The first article is on the budget process and status of the budget reform in the regions and at the Federal level. This issue of The Bottom Line also includes a review of the status of accounts and expenditure planning reforms in regions and at Federal level.

A schedule of key reform tasks for FY1998 and a list of recent documents issued by the project are also featured.

This month, The People Page went to Oromia and discovered a veteran in the business of public finance. Discover our person of the month on page 3.

The budget, accounts and planning reforms under EMCP—update

What are the 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.

- *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 and 'second stage' financial devolution to weredas. The new Budget Classification adheres to international standards as well as the financial data requirements of international development partners.

- *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. Currently, the backlog in accounts is reduced from six years to one and a half years.

- *development of a new accounting system*

The modernization of the accounting system involves a fundamental change to the way transactions are recorded, so that a more complete picture of expenditure is provided.

- a modified cash basis of accounting is in place of the previous cash basis of accounting. This reform, which is ongoing, is crucial, *inter alia*, for improved reporting and transparency.
- a change from single entry to double entry accounting, which is the central requirement for improved financial control, and for keeping accounts current.

- *development of management accounting system*

The project has designed a management accounting system which is based on the requirements of the federal government, the four large regions, and development partners. Management accounting improves planning and management and meets the data requirements of development partners (e.g. JBAR, Fiduciary Assessment, Direct Budget Support, PRSP).

- *federal disbursement system*

The federal government has introduced a new zero balance disbursement

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the region. He was also actively involved in the development, design and translation of the accounts manuals for the region.

His constant support and delivery of training to regional staff on the closure of accounts has resulted in the closure of EY 1994, FY 1995 accounts and the near closure of FY 1996 accounts. Last year, the Oromia Bureau of

The People Page is delighted to present this month Ato Thomas Dagga, Inspection Team Leader (formerly Accounts Team Leader) from the Oromia Bureau of Finance and Economic Development. He is a cheerful, composed, mature and friendly personality.

Finance and Economic Development presented him with the well deserved award of "Star Worker"

Ato Thomas, currently in his late 40s, is married and has three children.

Ato Thomas has a Diploma in Accounting from Kotebe Teachers Training College. In 1980, he joined the Ministry of Finance and Economic Development as Inspector and served for 14 years before moving to the Oromia Bureau of Finance and Economic Development, as Accounts Team Leader.

THE BOTTOM LINE salutes him and wishes him the very best in his future endeavors. ■

Celebrating his silver jubilee in Government, Ato Thomas has played a major role in the design and implementation of public finance reforms of the country. He was part of the Account Reform Team at the Ministry of Finance and Economic Development and later a member of the Oromia Accounts Reform Team. He was instrumental in the implementation of the Single Treasury/Single Pool System in



Ato Thomas Dagga with participants of the Accounts Training Program for Oromia region core trainers, July 2005

The budget, accounts and planning reforms under EMCP—update

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system. The project is developing a software to meet the demands of the new system.

- *single treasury system*

To improve public financial management the project developed a single pool system that redefined how the government disbursed, accounted and reported funds. The single pool accords with international best practice of a single treasury system (STS) which means that treasury funds are managed through a single bank account and all accounting and reporting is done at a single location. The system has improved the efficiency and effectiveness of reporting, the use of scarce human resources, service delivery, improved cash management and has tightened control across sectors. The introduction of the single pool has been a major factor in ensuring that weredas are able to submit monthly expenditure reports promptly (within two months).

- *nation-wide consolidated budget and accounts*

The Budget Classification system has been standardized across jurisdictions and with the automated budget and accounting systems permits the rapid nation-wide consolidation of budgets and accounts. A key conditionality by the IMF is the preparation of a nation-wide consolidated budget. A consolidated budget permits development partners who are moving to budget support to monitor sector allocations in terms of plan and actuals.

Expenditure 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.*
- Improvement of the macroeconomic planning systems, within the *Macroeconomic and Fiscal Framework (MEFF)*. The MEFF is a rolling three-year projection of fiscal aggregates the first year of which defines the upcoming fiscal year's revenue, expenditure, and deficit target.
- Development of a *wereda block grant system*. 'Second stage' financial devolution to weredas required a transfer system for giving block grants to weredas which are now the principal level of service delivery. The project

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The budget, accounts and planning reforms under EMCP—update

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developed a needs-based unit-cost transfer formula which has greatly improved the equity and efficiency of allocations to weredas. This new transfer system has also provided the basis of introducing performance into wereda level allocation as well as medium-term expenditure planning.

- 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 sector allocations. Other regions are adopting this methodology. 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 and better coordination of region-wide economic development.
- 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. ■

What are the deliverables to date?

- A new cost-center budget system is operating at the Federal government and Amhara, Tigray, Oromia, SNNP, Addis Ababa and Benishangul Gumuz regions. The budget reform has started in Afar, Gambela, Harari, Dire Dawa and Somali regions as well.
- A new accounts system is operating at the Federal government and in Amhara, Tigray, SNNP and Addis Ababa regions; The accounts reform is scheduled to be introduced in Oromia, Benishangul Gumuz, Dire Dawa and Harari regions this fiscal year.
- The automation of the budget and accounts reforms is being accelerated countrywide. At the Federal level, **96** reporting units have BDA installed for processing their accounts. **129** of them have BIS installed for the processing of their budgets as well. BIS and BDA are also currently operating at **54 regional, wereda and zone level sites** in Amhara, Tigray, SNNP and Oromia regions and at region level only in the Benishangul Gumuz region. In addition to MOFED, IBEX is operating in Addis Ababa's **10 sub-cities** and the regional Finance and Economic Development Bureau, connected by a wide area network system. The automation of the budget system has also started in Harari, Dire Dawa and Afar regions. The rollout of the BDA system in Harari, Dire Dawa and Afar regions as well as the rollout of both the BDA and BIS systems in Somali and Gambela regions will be carried out as soon as the funding and contracting issues are addressed.

Schedule of key reform tasks for FY1998

(Reference: May 17 Government Proposal, page 11-12)

<i>Activity</i>	<i>FY 98: Tasks</i>
A. Introduce Budget and Accounts 1. Oromia and Amhara 2. Small regions 3. Administrative areas	(1.1) Oromia accounts reform (2.1) Benishangul Gumuz accounts reform (2.2) Harari accounts preparation (2.3) Afar, Gambela and Somali budget preparation (2.4) Afar, Gambela and Somali budget execution (3.1) Dire Dawa accounts reform
B. Support Budget and Accounts	(1) Development of Financial Statements (2) Assist Federal reforms (3) Assist SNNPR accounts reform (2) Assist Amhara budget reform (3) Assist Amhara accounts reform (4) Assist Oromia budget reform (5) Assist Benishangul/G budget reform (6) Assist Harari budget reform (7) Assist Addis Ababa budget reform (9) Assist Addis Ababa accounts reform (10) Assist Dire Dawa budget reform
D. Develop Budget Planning Regional reform	(1.1) Develop a macro economic fiscal framework (MEFF) (1.2) Develop a Management Information System (MIS) (1.3) Revenue planning and tax assignments to weredas (1.4) Training of technical staff (1.5) Training of wereda council members (1.6) Develop/deliver awareness training in budget planning for policy makers at pilot BOFED

The budget, accounts and planning reforms under EMCP—update

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 project developed a program for delivering in-service training in financial management. This program was endorsed by the Prime Minister and the cabinet and additional funding was provided to the 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.

- *development of training materials*

The project has developed a comprehensive set of training materials which are based on the budget and accounting procedure manuals. These materials have been translated into Amharic, Oromiffa, Tigrigna and Somali languages.

- *implementation of the training strategy*

49,973 government staff have been trained to date in financial management and approximately 16,798 additional staff are scheduled to be trained over the balance of the current phase. ■

Executive Program in Public Financial Management at Harvard University

The Public Financial Management (PFM) course at Harvard is a program designed to strengthen the knowledge and skills of government officials and members of legislatures as well as senior officials in national and international institutions that have an interest in financial management.

This year, the DSA Project funded seven senior Ethiopian Government Officials from regional Finance and Economic Development Bureaus as well as the Ministry of Finance and Economic Development (MOFED), to attend the PFM course, scheduled from July 10th to 29th, 2005 ■



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Deputy Bureau Head, BOFED
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Ketema Tesema
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Berhanu Gamo
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Benishangul/G Regional State



Teferi Demeke
Social, Administration and General Service
Budget Department Head, MOFED

Documents Available

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 documents available on the reform and to rapidly disseminate the concepts and lessons of the reform.

ACCOUNTS

- Manual 3-H: Harari Region – Accounting System for Region Sector Bureaus", Volume I, Version 1.0 [AMHARIC VERSION] (A-117)
- Manual 3-H: Chart of Accounts for Harari Region, Volume II, Version 1.0 [AMHARIC VERSION] (A-118)
- Benishangul Gumuz Regional Government–Accounts Execution Forms [AMHARIC VERSION] (A-119)
- Manual 3-O: Oromia Region – Accounting System for Region Sector Bureaus, Volume I, Version 1.0 [OROMIFFA VERSION] (A-120)
- Manual 3-O: Oromia Region – Accounting System for the Department of Finance and Economic Development and the Office of Finance and Economic Development", Volume III, Version 1.0 [OROMIFFA VERSION] (A-121)
- Manual 3-A: Amhara Region – Accounting System for Region Sector Bureaus", Volume I, Version 1.0 [AMHARIC VERSION] (A-122)
- Manual 3-A: Chart of Accounts for Amhara Region, Volume 2.2, Version 1.0 [AMHARIC VERSION] (A-123)
- Harari Region Accounting System: Training Module for Region Sector Bureaus – Trainee version 1.0 [AMHARIC VERSION] (T-267)
- Harari Region Accounting System: Set of Forms for Region Sector Bureaus [AMHARIC VERSION] (T-268)
- Oromia Region Accounting System: Set of Forms for Region Sector Bureaus [OROMIFFA VERSION] (T-269)
- Oromia Region Accounting System: Set of Forms for the Department of Finance and Economic Development and the Office of Finance and Economic Development [OROMIFFA VERSION] (T-270)
- Oromia Region Accounting System: Training Module for Region Sector Bureaus – Trainee version 1.0 [OROMIFFA VERSION] (T-271)

- Oromia Region Accounting System: Training Module for the Department of Finance and Economic Development and the Office of Finance and Economic Development – Trainee version 1.0 [OROMIFFA VERSION] (T-272)
- Amhara Region Accounting System: Training Module for Region Sector Bureaus – Trainee version 1.0 [AMHARIC VERSION] (T-273)

BUDGET

- FY1998 Federal Recommended Budget – Volume I: Executive Summary of the Budget [AMHARIC VERSION] (B-192)
- FY1998 Federal Recommended Budget – Volume II: Analysis by Public Body [AMHARIC VERSION] (B-193)
- FY1998 Federal Recommended Budget – Volume IV: Analysis by Item of Expenditure [AMHARIC VERSION] (B-194)
- FY1998 Federal Negarit Gazeta [AMHARIC VERSION] (B-195)

PUBLIC INVESTMENT / EXPENDITURE REFORM

- Aide Memoire - SNNPR Wereda Transfers 1998" by Perran Penrose (P-69)

MISCELLANEOUS REPORTS

- Review of functionality of DSA applications; and, Report on treasury functional requirements to support drawing limits and zero based disbursement accounts (M-53)
- Index of Project Documents (M-54)
- Minutes of the Third Regional Financial Management Conference in SNNPR - Arbaminch, February 14th to 18th, 2005 (M-55)
- Civil Service Reform Program: Estimating the Current Revenue Potential for the SNNPR, Draft Document, James Warner (M-56)

PROJECT QUARTERLY REPORTS

- Report of Project Activities: January 1st to March 31st, 2004 (Q-32)
- Report of Project Activities: April 1st to June 30th, 2005 (Q-33)