

Wax and Gold

A Decade of Financial Reform in Ethiopia

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Outline of the Presentation

- Snapshot
- Setting
- Achievements
- Significance
- Sustainability

Snapshot

DSA Project

- Nation-wide reform of budget, accounts, budget planning, information systems
- 12+ years (1995 through 2007)
- Cost (\$34.5 million)
 - 5 phases
 - \$2.8/\$1.5 million
 - \$3.8 million
 - \$7 million
 - \$14.7 million
 - \$4.7 million
- Funders
 - USAID throughout
 - Irish Aid in phases 3, 4, 5
 - Netherlands Aid in Phase 4, 5.
- Staffing (63 currently)
 - 5 expatriates
 - 32 Ethiopian professional staff
 - 26 Ethiopia support staff

Snapshot Ethiopia

- *Population* (80+ million)
Second most populous country in Africa
- **Size** (it matters)
Twice the size of Texas
One region (Oromia--25 million) the 5th
largest country in Africa

(Comparison with the international PFM model)

New Zealand—20 million people, 60 million sheep

Macro Setting

Four horsemen of the apocalypse
conquest, war, famine/plague, death



May you live in interesting times...

- 2 wars

 - Eritrea 1998-2000

 - Somali 2006-?

- 3 famines

 - one a '50 year' event—13 million people at risk

- 2 elections (2005-'difficult')

- 1 near coup

- Plagues

 - HIV/aids; malaria, cholera, and 11 other debilitating diseases

Setting Poverty

- One of poorest country in the world
(UNDP Human Development Indicators—(99 of 103 developing countries)
 - Food
 - 9 million or 11% of the population does not have income to eat
 - Half the population lives on less than 2.5 cents of food a day
 - Half the rural population do not consume enough calories to contribute to agriculture production
 - Many Civil servants are down to two meals a day
 - Isolation
 - Under urbanized (85% of the population in rural areas)
 - Half the population lives a two walk from an all-weather road
 - Lowest use of cell phones in the world

Setting

Poverty Indicators

Indicator	Eth	Sub-Africa	LDCs
GNP per capita (USD)	100	480	420
Life expectancy at birth (years)	43	47	59
Infant mortality (per 1000 live births)	107	92	77
Child malnutrition (% of children under 5)	47	32	43
AIDS prevalence rate (% of adults)	10.8	8.6	
Access to improved water source (% of pop)	30	43	64
Illiteracy (% of population age 15+)	62	38	38
Gross school enrollment rate (% of school-age population)	57	78	96

Setting

Productivity of Agriculture

*Output, Input and Total Factor Productivity
per worker in agriculture as a % share of US levels*

	Output	Land	Fertilizer	Tractors	Livestock	<i>TFP</i>
Bangladesh	0.92	0.47	0.50	0.01	1.98	24.39
Cameroon	1.11	3.15	0.15	0.01	4.64	15.2
Ethiopia	0.47	.88	0.10	0.01	7.80	8.82

Setting Institutional

Devolution

One of the most comprehensive in Africa

✓ Definition (Textbook vs Operational Definition)

- Revenue (no discretion)
no tax assignment to sub-regional governments
- Expenditure (discretion)
block grants (80%+ of region expenditure) to sub-regions

✓ Requires (Complementary capacity at center and locale) (U.C. Berkeley: Project on Managing Decentralization) Proxmire Postulate (bumble bees should not fly)

✓ Structure

- 1992: 9 regions/2 admin areas, 68 zones, 534 districts
- 2001-2007: 9 regions/2 admin areas, 74 zones, 723 districts¹⁰

Setting Policy

- *Foreign Aid*

- ✓ Massive

- 34% of total resources, 80%+ of discretionary expenditure

- ✓ Uncertain (Whipsawing)

- committed: not disbursed/reduced

- withdrawn: conditionalities

- ramped up (doubling): MDG's—MTG's

- ramped down (war/elections)

Setting Policy

Foreign Aid & Government Policy

Crowded Agenda

<i>Government Agenda</i>	<i>Foreign Aid Agenda</i>
Devolution (first stage)	SDPs (Sector Development Programs)
Devolution (second stage)	PRSPs (Poverty Reduction Strategy Programs (implement MDGs/MTGs)
Civil Service Reform	PSCAP (Public Sector Capacity program)
Political Consolidation	PSNP (Productive Safety Net Program)

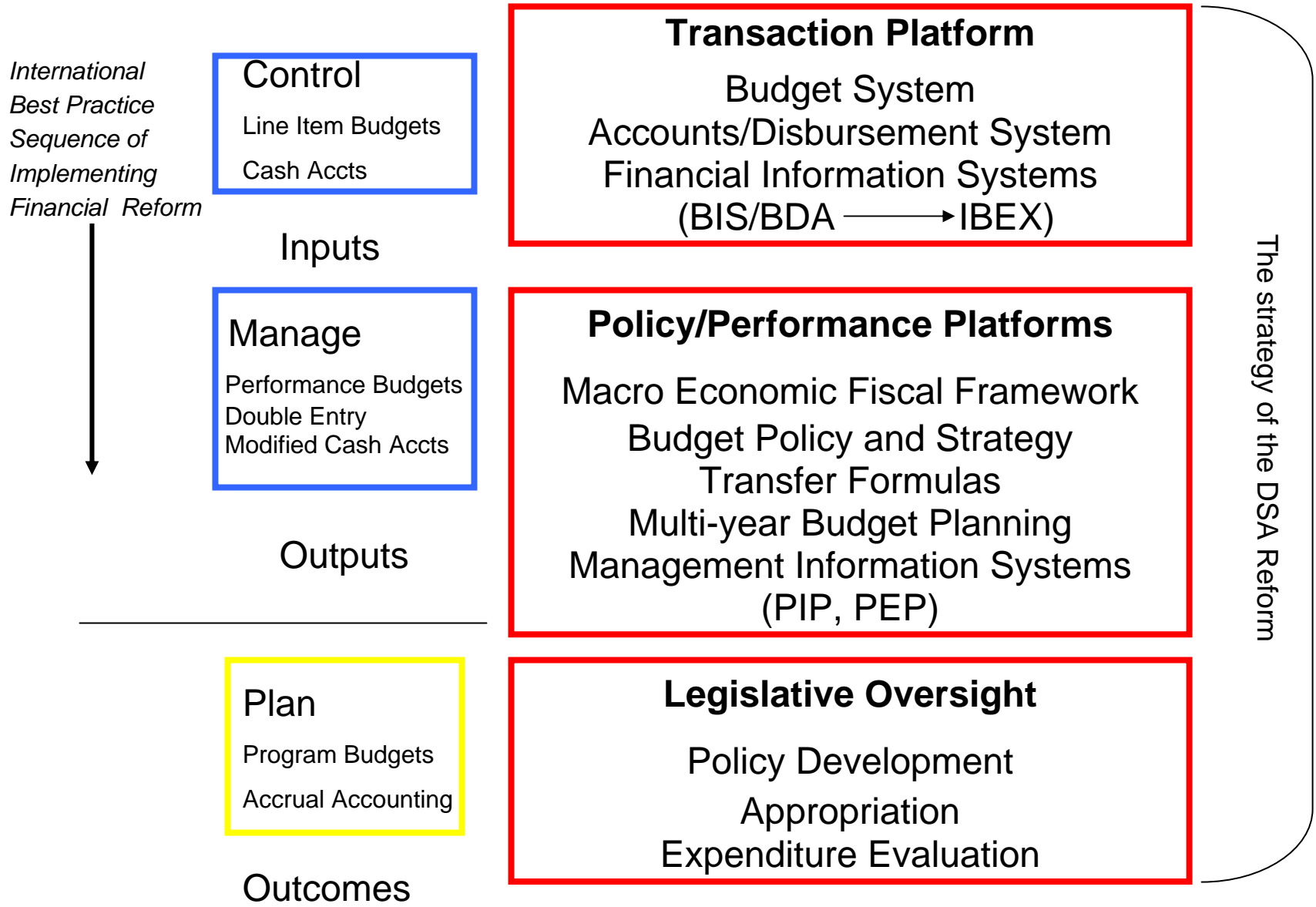
Setting

Pre-Project Status of Financial Management

- Budget
 - ✓ Financial calendar ad hoc
 - ✓ Budget classification (inconsistent/changing)
 - ✓ Chart of accounts (multiple/confusing)
- Accounts
 - ✓ 6 year backlog
- Budget planning
 - ✓ None
- Financial information systems
 - ✓ Out of date erratically performing legacy (mainframe/cobol)
 - ✓ Budgets produced on spreadsheets
 - ✓ Virtually no financial reports

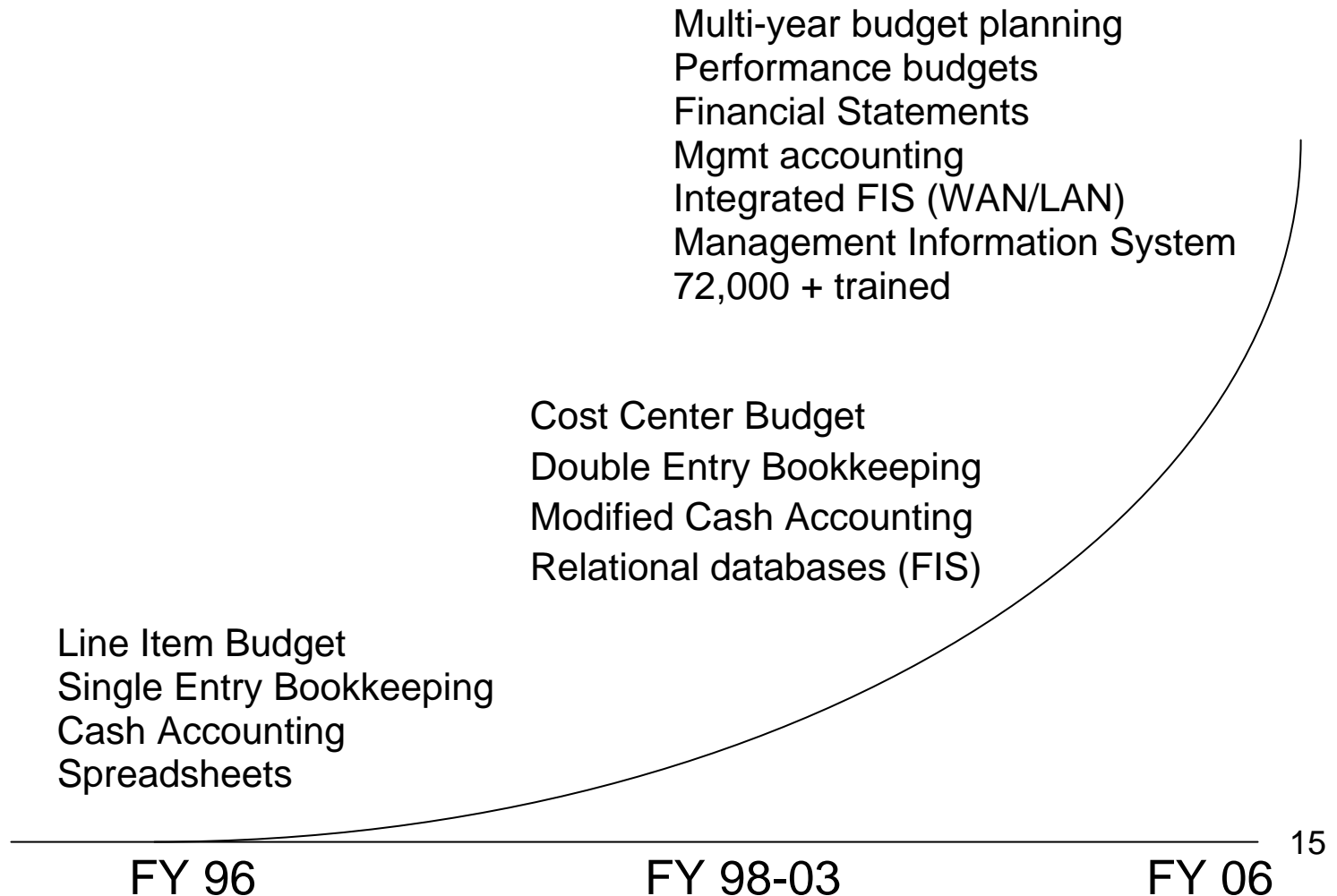
Strategy

The DSA Project's Approach to Public Financial Management Reform



Achievements

Evolutionary Approach to Reform



Achievements

Summary

- Change
 - ✓ Sophisticated public financial management system
- Performance
 - ✓ Backlog of accounts (6 years to 1 year)
 - ✓ Financial reporting (1 quarter 2 quarters lagged)
 - ✓ Nation-wide Consolidated financial statement (IMF conditionality)
 - ✓ Federal budget (6 weeks ahead of FY)
 - ✓ Budget processing (completed before FY starts)
 - ✓ Integrated Financial Information system (WAN capable—real time financial management at districts)

Achievements

Why It Worked

- Continuity of support
 - Financial
 - Operational Personnel
 - Senior Officials
- Integration of key components
 - Transaction platform (budget, accounts, disbursement, FIS)
 - Policy/Performance (mtef, fiscal transfer formulas, performance frameworks)
- Stability of the strategy
 - Clarity of direction (mid-course but not radical change)
- Circumspect about ‘international best practice’
 - Standards are guidelines
 - Immediate and interim goal is to get on a *path of reform*, not to implement ‘standards’ as end states. Standards can be approximated.
- Realistic time frames
- Incremental iterative strategy
- AND.....

Achievements

Why it Worked

Luck

“Luck is the Residue of Design”

- War
 - ✓ **Focus:** Kept multiple cooks out of the kitchen
 - ✓ **Small:** Delayed an IFMIS
 - ✓ **Time:** iteratively, collaboratively, adequately do the fundamentals
- Saints
 - ✓ State Minister of Finance (federal)
 - ✓ Bureau Head Finance (regional pilot)

Significance of the DSA reforms

- World's largest fiscal gap requires effective public financial management
- Facilitates the flow of extensive foreign aid
 - ✓ Ramping up for MDGs/MTGs
 - ✓ Direct Budget Support (DBS) Aid Modality (Protecting Basic Services) \$700 million + per annum
 - ✓ Donor/lenders concerned about Fiduciary Risk—need prompt financial statements

Sustainability

“On the basis of almost 40 years observing government reforms in many venues, this writer would argue that the failure to systematically evaluate what has been accomplished is one of the greatest threats to durable innovation in public management.”

[Allan Schick, “Opportunity, Strategy and Tactics in Reforming Public Management,” *OECD Journal of Budgeting*, 2002]

Sustainability requires an understanding of what exists, and what is being done, and then building on these achievements.

Sustainability

Principal Risk

- **TSUNAMI** –typical pattern of Foreign Aid
 - Much about ‘New Beginnings’ not ‘Happy Endings’ ...that continue.
 - Lack of **RESPECT** for what is done
 - A 12 year \$37 million reform should be embedded not replace
 - Challenge: Replace existing systems with ‘international best practice’
 - ✓ Duplicate and sophisticated computer systems
 - ✓ Sophisticated types of performance budgets
 - ✓ Accrual accounting
 - ✓ Complex treasury systems (zero treasury balance)
 - ✓ Tinkering with fiscal decentralization

My Prognosis

- **PLATEAU/HIGH BASE CAMP**
- We have lifted them to a new level of PFM that is quite sophisticated—they are not going back to the old ways
- Government will muddle through
- Proposed reforms—the ‘snows of Russia’ No need, no capacity, no commitment

And...Wax and Gold

The Real and the Apparent

Ethiopia has done a significant financial reform

Cultural Modesty Precludes Promotion

Over time they (and the foreigners) will appreciate

Maybe

Thank you for listening