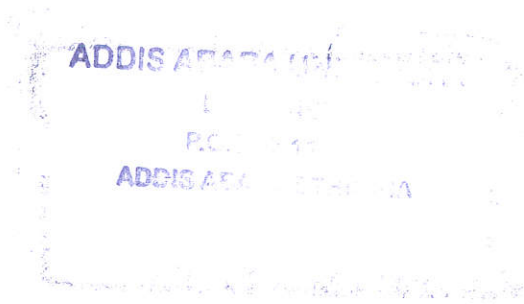


**A STUDY OF PRACTICES, PROBLEMS AND  
PROSPECTS OF COST-CENTER BUDGETING  
IN ADDIS ABABA UNIVERSITY**

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## ABBREVIATIONS AND ACRONYMS

|       |  |
|-------|--|
| AAU   | Addis Ababa University                           |
| BI    | Budgetary Institution                            |
| BIS   | Budget Information System                        |
| BRDM  | Budget Reform Design Manual                      |
| BRP   | Budget Reform Program                            |
| CCB   | Cost Center Budgeting                            |
| CPR   | Council of People's Representatives              |
| CSR   | Civil Service Reform                             |
| CSRP  | Civil Service Reform Program                     |
| CTA   | Central Treasury Account                         |
| EDF   | European Development Fund                        |
| EFY   | Ethiopian Fiscal Year                            |
| ESAA  | Education Statistics Annual Abstracts            |
| ESDP  | Education Sector Development Program             |
| ETP   | Education and Training Policy                    |
| FDRE  | Federal Democratic Republic of Ethiopia          |
| FGE   | Federal Government of Ethiopia                   |
| FTE   | Full Time Equivalent                             |
| HEP   | Higher Education Proclamation                    |
| HESI  | Higher Education Strategy Institute              |
| MDG   | Millennium Development Goal                      |
| MEDaC | Ministry of Economic Development and Cooperation |
| MEFF  | Medium Economic and Fiscal Framework             |
| MoE   | Ministry of Education                            |
| MoF   | Ministry of Finance                              |
| MoFED | Ministry of Finance and Economic Development     |
| PB    | Public Body                                      |
| PBO   | Planning and Budget Office                       |
| PEP   | Public Expenditure Program                       |
| QRAA  | Quality and Relevance Assurance Agency           |
| TGE   | Transitional Government of Ethiopia              |
| TIN   | Tax Identification Number                        |
| UK    | United Kingdom                                   |
| US    | United States                                    |
| VPBD  | Vice President for Business and Development      |

## ABSTRACT

*Higher education and training in Ethiopia has started over 50 years ago, but still remains highly underdeveloped, poorly connected with national development requirements, and hardly meet international standards. Recognizing these limitations, the Ethiopian government has introduced several policy and strategy provisions and major reform initiatives. This study was, therefore, aimed at assessing the practice, problems and prospects of cost-center budgeting of Addis Ababa University during the year 2001-2006, in relation to the CSRP of the BRP, and HEP that introduced new provisions relate to administrative and financial autonomy of institutions.*

*The study was conducted in all of the available sub-agencies of the university. Based on this, sixteen Budget Staffs, ten Finance/Budget Heads, nine Deans of Sub-agencies, two Planning and Budget Officers and the Vice President for Business and Development of AAU; and two Officers from Ministry of Finance and Economic Development, and one Officer from Ministry of Education were taken as actual sources of information. The information was collected through questionnaire, interview and from the documents. The data obtained were analyzed mainly using percentage. In some parts, especially for interview results, a purely qualitative discussion was employed.*

*The results of this study indicate that the growth and importance of the AAU has displayed changes in the last five years. Resources marshaled by the university are indeed immense both in relative and absolute terms. Moreover, due to the scope and diversity of service activities in some academic programs, proper management of financial affairs is more complex than ever. However, the budget systems of the university do not fully show these sound financial management practices. As a result, agencies do not clearly know their authorities over budget management and over funds from various sources. The existing cost-center budgeting practice of the university cannot envisage a sufficient basis for measuring the autonomy and performance of the budgetary agency or a program, nor can it be employed to the decentralization of budgetary management to the sub-agencies of the university. Furthermore, recurrent and capital budgets are not budgeted and executed together—the two types of budgets are not linked by cost-centers. The budget preparation system of the university was mostly incremental in its approach, and not developed and adopted through participatory budgeting. As well, the unevenness of the budget structure of the university, delayed budget proposal and reports, lack of trained and qualified staff at both levels were the major problems that need commensurate emphasis to the particular attributes of the AAU's financial management.*

*In light of these findings, it is necessary to give due attention on contemporary financial management requirements. The university needs to re-define its responsibilities and competences paying particular attention to its role regarding the restructuring of the sub-agencies (budget mapping); shared responsibility, operational directives and controls, planning and programming, measuring the autonomy and performance of the budgetary agencies. In addition, financial management expertise will need to be strengthened at both levels in order to anticipate and manage effectively the implications of the recently announced shift to formula funding and block grant allocations for, and some policy and implementation issues, of cost sharing, need to be given also serious consideration.*

# CHAPTER ONE

## INTRODUCTION

### 1.1. Background of the Study

Higher education and training in Ethiopia has started over 50 years ago, but still remains highly underdeveloped. Access is still very low and the quality and relevance of the education and research activities of the institutions are not up to expected standards and levels. Besides, the system found itself regimented in its management, conservative in its intellectual orientation, limited in its autonomy, short of experienced doctorates among academic staff, concerned about declining educational quality, weak in its research output, and poorly connected with national development requirements and hardly meet international standards (World Bank, 2003b: vi). Recognizing these shortcomings, Ethiopia is currently engaged in a highly ambitious effort to realign its higher education system in order to contribute more directly to its national strategy for economic growth and poverty reduction.

The foundation for major reform has been provided by ratification of a new Higher Education Proclamation (HEP) by Parliament in June 2003. The policy and strategy of these reforms have targeted all levels: the overall system, the institutions, and the academic programs. At the institution level, for instance, this Proclamation has been awarded substantial autonomy to universities. Future recurrent funding will be provided in the form of block grants defined on the basis of a funding formula. University Boards and staff will choose their own institutional leaders, and non-academic staffs have been de-linked from the civil service. Strategic planning, income diversification, and information and communications technology development are being encouraged to meet the fiscal, space and instructional requirements of the on-going and planned expansion in enrollment (FDRE, 2003).

Previously, government routinely appointed university presidents and vice-presidents. All non-academic staffs were civil servants managed by the national civil service commission rather than by university executives. Line item budgets prevailed and institutional allocations were increased incrementally from one year to the next with little or no relation to enrollments or educational quality. Additional income generated by institutions was deducted from their government financial support, thereby creating a strong disincentive for income diversification. Students paid

no tuition fees, and also received free food and lodging as part of their university admission. Teshome stated in his assessment of the status and challenges of the country's higher education system as:

Full time students pay no significant tuition fees, although part-time and private students do so. Non-residential evening students are charged tuition of 30 to 50 Birr per credit hour, or 90–150 Birr for the normal three-credit course load taken each semester. Some institutions charge evening students additional fees of 26 to 58 Birr per credit hour for laboratory courses (Teshome, 2004:3).

The government has recognized this by indicating in the new HEP (FDRE, 2003) that cost sharing would be a key component for the future financing of tertiary education development. Accordingly, government introduced a university graduate tax in September 2003 designed to get back gradually the cost of meals and lodging, together with a small portion of tuition costs.

This cost-sharing initiative is an important example in light of projected budgetary shortfalls for the education sector. Research conducted for the Bank's Public Expenditure Review and Country Status Report suggested that the education sector as a whole may be facing a significant financing gap if Millennium Development Goal (MDG) and Education Sector Development Programs (ESDP) goals are to be achieved as planned (World Bank, 2003b: 30).

Within these parameters, any national tertiary system would be hard pressed to expand enrolments rapidly while maintaining levels of educational quality. The World Bank document stated this as:

Ethiopia faces a double challenge in that it seeks to accomplish this while also introducing major reforms in institutional governance, management and curriculum. If the bold vision contained in the new Higher Education Proclamation is to have any chance of success, the solution to this double challenge will have to be found in the financing strategy that underpins and supports these reforms. This financing strategy is currently comprised of (i) expanded private provision; (ii) increased cost-recovery; (iii) introduction of a funding formula; (iv) improved efficiency of resource use; and (v) increased donor contributions (World Bank 2003b: 31).

Based on this, as a key part of its higher education reform, the Ministry of Education (MoE) introduced a funding formula that will provide incentives for institutional change in the search of reform goals. The new funding formula is intended to lay the foundation for the introduction of block grants as the future means of funding the universities.

The desire to introduce a new formula also is appropriate, since a dramatic change from a line-item budgeting system certainly will have unintended and unanticipated negative consequences within institutions that can best be addressed through a process of gradual implementation. Currently Addis Ababa University (AAU), for instance, has costs that are much higher than other institutions. If this were largely due to more expensive inputs, or more favorable service ratios, rather than being due to different program offerings, then going towards formula funding too quickly would be devastating to AAU. Since AAU is the premier university in Ethiopia, this would bear an unfortunate consequence.

The challenge, of course, is in whether the universities currently have the capacity to collect such information. This seems unlikely, and institutions should be aware that capacity building in the structure and processes is a critical task for years to come to achieve their goals and objectives. Specifically moving from a line-item budgeting system towards one that offers block grants to institutions on the basis of a funding formula is a very worthwhile goal. One way to do this is to use the current cost center budgeting as a guide for future base funding. In other words, funding distribution across the various institutions would be based on the current performance of the institutions; especially, number of students admitted and graduated, the quality of education, research, and their ability to generate additional income. This would encourage institutional acceptance of a new funding system even as it evolves to incorporate more steering mechanisms to achieve the goals of performance, efficiency, innovation, etc.

Furthermore, the current financial management system using cost center budgets have several benefits. Some of the major benefits, as indicated in the Budget Reform Design Manual (BRDM), are: First, cost center budgeting promotes accountability for inputs and outputs by assigning specific responsibility for budgets to an institution's sub-agencies (sub-units) and tasks. It required institutions to map their budget to their organizational sub-agencies and activities, which if done thoroughly, would require a reassessment of their goals and how they are organized to achieve those goals. A second benefit of cost center budgets was that they provide the total cost for each sub-agency and activity of an institution so that decision makers can better understand the tradeoffs of funding different sub-agencies and or activities. Finally, cost center budgets facilitate the linkage of recurrent and capital expenditures by sub-agency and activity that promotes better balance in expenditure (MoF and MEDaC, 2001: 1-2)

Eventually, these institutional development mechanisms are fundamental to any future reform. This will be a great leverage for fundamental transformation and continue to be a sustained effort in modernizing the financial management system. The presence of modernized system, basically in international standards, is needed in Ethiopia. In the researcher's opinion, the Government of Ethiopia is in the right track with its Higher Education Reform Program, particularly its emphasis on financial and administrative autonomy of Higher Education Institutions. From the outset the reform program is a challenging task. This budget reform is also not in a "take it or leave it" situation it is a choice between leaving the existing unreformed system in place and adopting a new budgeting approach. This study, therefore, attempts to make **an assessment into the practices, problems, and prospects of the existing cost-center budgeting system by taking the case of Addis Ababa University**. Its main focus lies in pointing out the existing budgeting practices and problems, and the prospects that would allow for a smoother implementation of a formula funding approach within the cost relativities between sub-units of the organization.

## **1.2. Statement of the Problem**

Realizing the fact that education is a key to human development and the overall socio-economic development of Ethiopia, a comprehensive Education and Training Policy (ETP) was prepared and is being implemented. The policy has stressed issues of quality and relevance in educational programs; quality of teaching staff and facilities, namely: improvement of learning process towards a focus on students; improvement of management and leadership; introduction of financial diversification, including income generation and cost-sharing by students; and improvement in the system of evaluation, monitoring, autonomy and accountability (TGE, 1994: 33). Higher education policies and strategies were also designed and implemented with the same objective of fostering ensuring national development and competitiveness. Within the framework of the ETP and its strategy, the government and the higher education community have begun an intensive effort to design detailed strategies outlining the reform and the future direction of higher education in Ethiopia.

The document, '*Future Directions of Higher Education in Ethiopia*', identified the major challenges and problems of the higher education sector as: (a) Lack of clarity in vision and mission, (b) Problems of quality and relevance of programs of studies and research, (c) Lack of clear program and institutional evaluation mechanisms, (d) Financial and resource constraints, (e)

Lack of alternative ventures in resource mobilization in addition to the public purse, (f) Inefficiency in resource utilization, and (g) Poor quality and commitment of the leadership of the sector at all levels. The document stressed the importance of properly tackling these major challenges in the subsequent activities of higher education expansion and reform (MoE, 1997: 84).

Mainly in financial management, at the country level, the system of finance in general and budget in particular, has gone several stages of development with subsequent influences from abroad. In the face of such influences, a lot of improvements were made in the budgetary system to meet the need and concerns of the government (Paulos, 1990:3-6).

However, there are still several deficiencies in the budget structure and processes that the cost-center budgeting system addressed to make budget more effective. Some of the major deficiencies of the budget system are: (1) Institutions do not map their budgets to programs and sub-agencies accurately and consistently, and then Individuals and agencies not held responsible for inputs and outputs—lack of specific accountability for funds. (2) Separation of the capital and recurrent budgets preparation—prepared by separate institutions and are often at different times. (3) Budgets are not systematically prepared and shaped by resource-based plans that establish priorities.

In the opinion of the researcher, AAU has not yet fully implemented the cost-center budgeting systems that addressed the above stated deficiencies. This, then, calls the need for investigating the actual reform, upon which the cost-center budgeting system of the organization is based.

Correspondingly, the study attempts to identify the gap between what is demanded and what has been structured and processed (practiced). To this end, some of the questions that this study seeks to answer are:

1. How does this “Cost Center Budgeting” or “Financial Decentralization”, in the university’s financial management, work in practice?
  - a) Are budgets “Mapped” to the organization (making the institutions and individuals responsible for inputs and out puts)?
  - b) Do budgetary institutions (sub-units of the organization) have administrative and financial autonomy?

- c) Are budgets prepared and executed in compliance with the Reform Program Guidelines and Directives?
  - d) Are the recurrent and capital budgets of the university administered together?
  - e) Are the revised decentralized processes for recording, controlling, and reporting budgeted expenditures properly implemented?
  - f) Are there adequate and trained budget/accounting staffs to perform the new budget and accounting practices?
2. What are the main problems encountered in implementing this cost center budgeting system and other components of the reform programs?
  3. What are the prospects of Cost-center Budgeting system to the implementation of the two major provisions of the HEP (Formula Funding and Cost-sharing)?

By way of answering these questions, it remains to be seen whether or not the practice of the AAU is in conformity with the reform program.

### **1.3. Objectives of the Study**

The general objective of this study is to assess the practice, problems and prospects of cost-center budgeting of AAU in relation to the Civil Service Reform Program (CSRP) of the BRDM, and Higher Education Reform that introduced new provisions relate to administrative and financial autonomy of institutions. Thus, the specific research objectives of this study are formulated as follows:

1. To examine whether or not the existing budget mapping, to the organization's sub-agencies and/or sub-units, is in conformity with the reform program.
2. To assess whether the sub-agencies (sub-units of the organization) have administrative and financial autonomy or not.
3. To ascertain whether or not the budgets are prepared and executed in compliance with the Reform Program Guidelines and Directives.
4. To examine whether or not the revised decentralized processes for recording, controlling, and reporting budgeted expenditures are properly implemented.

5. To ascertain whether there are adequate and trained budget/accounting staffs to perform the new budget and accounting practices or not.
6. To identify the main problems encountered in implementing this cost center budgeting system and other components of the reform programs.
7. To assess the prospects that the system has for a smoother implementation of a formula-funding and cost sharing approach within the cost relativities between sub-units of the organization.

In order to investigate the above stated purposes several areas of activities are incorporated in the study. That is on how budgets are structured, processed, and controlled by identifying the various sources of finance and its related problem.

#### **1.4. Significance of the Study**

In light of the above conjectures, it is imperative to assess the structure and process of the budget reform of AAU so as to identify the strength and weaknesses characterizing it. Therefore, it may draw the attention of decision makers to these serious tasks and urges them to institutionalize the reform program that would help to modernize their budgeting system. It is hoped that improving the existing budget system through research outcomes will help the institutions to meet their predetermined objectives.

The study is, therefore, significant as:

1. It will inform the institutions, involved in implementing decentralized financial activities, about the status of the existing system; and way of improving accountability, autonomy and innovativeness to strengthen their management and administration.
2. It will provide inputs to the current Strategic Planning process of the university on timely structural changes of administration, which may need revision to meet new demands, to address new challenges and to make use of the newly introduced provision of administrative and financial autonomy of agencies.
3. It will provide context and detailed assessment of cost-center budgeting processes for making procedural recommendations for implementation of the budget reform program.

4. It will identify problems that affect decentralized educational budget allocation and utilization, and bring the problems to the attention of concerned bodies as well as recommend some solutions to alleviate the problems.
5. It will provide a better understanding and awareness and share of experiences among various public institutions about a smoother implementation of a formula funding and cost-sharing approach.
6. It will open ways for subsequent research activities wider in scope and depth including the different levels and aspects of the reform program.

### **1.5. Delimitations of the Study**

The Budget Reform of the Expenditure Management and Control Program of the Civil Service Reform introduced Cost-center Budgeting practice at the federal level in the Ethiopian Fiscal Year (EFY) 1994. To address its objectives, related with our sector (Education), this research study was focused on Federal Government universities that have been implementing the newly introduced budgeting system since the academic year 2001/2002.

The reason for delimiting the study to AAU is that: First, it is the premier university in Ethiopia, which has costs that are much higher than other institutions. Second, it hosts more departments, faculties, and colleges restructured into ten sub-agencies (cost-centers), in compliance with the Budget Reform Program (BRP), than others. Finally, a dramatic change from a line-item budgeting system towards formula funding too quickly would be devastating predominantly to AAU due to its more expensive inputs, or more favorable service ratios. This in return, requires further investigation on the existing budgeting practice of the university. The study, therefore, is delimited to assess the practice, problems, and prospects of AAU's cost-center budgeting system from 2001 to 2006.

Furthermore, the Budget Reform involves two actions, that is, change of processes and structures. To this end, the overall budget processes (how the budget is prepared and implemented) and structures (how the budget is mapped to programs and sub-agencies) were the boundaries of the investigation.

Lastly, this study was done using information obtained from the representative/available sample of official bodies of MoE and Ministry of Finance and Economic Development (MoFED); and

officers, deans, finance or budget heads, and budget staffs of the university. This is because these officials, officers and staffs are directly or indirectly involved in the processes and structures of the budgets.

## **1.6. Limitations of the Study**

This study suffered from some problems especially regarding gathering relevant data for the analysis. The reason was that officers were not available to provide the required information needed by the researcher. Particularly, Ministry officers and deans of sub-agencies were frequently unavailable at their respective offices to conduct the interview and/or to fill in the questionnaire, even with appointment. Moreover, most of the respondents failed to fully answer some of the questions but these notwithstanding, I supplemented this with information via phone interviews and email correspondence to secure as much information needed to find relevant answers to the problem.

## **1.7. Research Design and Methodology**

### **1.7.1. Data Source and Instrument**

#### **1.7.1.1. Data Sources**

The data utilized in this study can be divided into two categories. The primary data was gathered through structured survey questionnaire. The information so collected covers a range of variables including the mapping, planning, preparation, and execution of the university budget; the budget control mechanism, methods of internal revenue collection and reporting; and budget related problems and prospects in relation to the new provisions made by CSRP of BRDM, and HEP. MoFED and MoE as well as AAU and its Sub-agencies, such as: Main Campus, Faculty of Business and Economics, Faculty of Technology (Northern Campus), Faculty of Science, Faculty of Technology (Southern Campus), Faculty of Medicine, Faculty of Veterinary Medicine, Black Lion Comprehensive Specialized Hospital, College of Commerce, School of Journalism and Communication, are the relevant institutions involved in the process. Selected top Managements and Officers of the university, who are responsible for management and execution of the finance/budget, were also included.

The other source of data was information and/or statistics contained in recent MoE, and MoFED and AAU documents. A literature survey also identified other relevant references. All of these are listed in the bibliography. These sources were enriched by primary data collection, by site visits, and by conversations with key participants in the reform program, and heads of various budget centers at AAU, who at present are in their respective positions.

#### **1.7.1.2. Data Gathering Tools**

In this study different sets of questionnaires were used for securing the required information from selected respondents of the university. In order to see whether or not the model in the budget reform design manual and higher education reform provisions is the one under practice, the content of the questionnaire items were framed in accordance with the basic objectives and strategies of the reform program. To this effect, a questionnaire consisting of sufficient items were developed and distributed to selected respondents, such as: deans of sub-agencies, heads of finance/budget, budget staffs that have directly budget related duties. The sets of questionnaires consisted of close-ended and few open-ended items. In order to make the respondents comfortable in responding, they were instructed to write the responses either in Amharic or in English.

The second instrument used in the study was structured interview. This instrument was employed to collect information from the MoE, MoFED, and Top Management and Officers of the university. Interview was conducted with the concerned officials to obtain pertinent information about the new provisions made in HEP and budget reform program of the federal public bodies such as education sector and the attention given to the implementations of these reforms. The researcher himself conducted the interview.

Prior to dispatching the final questionnaire for respondents of the study, it was pre-tested in one of the sub-agencies (that is, the Main Campus). The selection of this agency was purposive since the Main Campus is the one, which consists of larger number of sub-sub-units (colleges, faculties, and departments) and better establishment other than others. The objective of pre-testing the questionnaire was to ensure the appropriateness of the instrument. The questionnaires were thus distributed to those personnel who work at the Main Campus Planning and Budget Office in order to receive constructive comments based on the purposes of the study. Based on

the result of the pretest study, the researcher modified five questions, to be clear and easily understandable by the respondents; discarded twelve question items which were duplicated; reorganized and delete three open-ended questions in some parts of the questionnaire; and the other forty question items remain as they were and dispatched to respondents of the study as a final questionnaire.

### 1.7.2. Sampling Design

The Addis Ababa University consists of ten Sub-agencies with a total of three colleges, eight faculties, about a hundred academic departments, institutions and schools in ten campuses. Hence, to investigate the practice, problems, and prospects of cost-center budgeting system of the university and its sub-agencies need, the study was conducted on all of the available ten sub-agencies. These were selected using availability-sampling technique. That is, the researcher selected these available agencies of the university based on their budget structure and classification, including the newly incorporated college and faculties (sub-agencies) into the budget of the university e.g., the Black Lion Comprehensive Specialized Hospital, College of Commerce, and School of Journalism and Communication. The same sampling procedure was employed to select the respondents. The groups of the respondents were one top management, two planning and budget officers; and nine deans, ten finance/budget heads, and sixteen budget staffs of sub-agencies.

**Table 1: Distribution of the Respondents**

| Respondents                                 | Ministry |          | Addis Ababa University |                          |              | Total     |
|---|----------|----------|------------------------|--------------------------|--------------|-----------|
|   | MoE      | MoFED    | Top Management         | Planning & Budget Office | Sub-agencies |           |
| Ministry of Education Officers              | 1        |          |                        |                          |              | 1         |
| MoFED Officers                              |          | 2        |                        |                          |              | 2         |
| Vise President for Business and Development |          |          | 1                      |                          |              | 1         |
| Planning and Budget Officers                |          |          |                        | 2                        |              | 2         |
| Deans of Sub-agencies                       |          |          |                        |                          | 9            | 9         |
| Finance/Budget Heads                        |          |          |                        |                          | 10           | 10        |
| Budget Staffs                               |          |          |                        |                          | 16           | 16        |
| <b>Total</b>                                | <b>1</b> | <b>2</b> | <b>1</b>               | <b>2</b>                 | <b>35</b>    | <b>41</b> |

Moreover, officers, at the ministry level, who are responsible for developing and/or implementing the new provisions of Higher Education Institution (at Ministry of Education) and various

versions of the reform manual and provisions (at Ministry of Finance and Economic Development and Ministry of Education), were included. From these officers information were obtained by way of interview made in their respective offices in order to get first hand information.

### 1.7.3. Methods of Data Analysis

The method employed in the present study includes primarily descriptive statistical methods of analysis. The data obtained using the survey questionnaires were analyzed using percentages and simple mathematical methods. The qualitative data obtained through interview with ministry officers, top management, planning and budget officers, and executive bodies involved directly or indirectly in the planning, execution, and decision making of this educational finance/budget was also analyzed in the study. Thus, the statistical tools mainly used were percentage and frequency.

### 1.8. Definition of Terms

|                              |  |
|------------------------------|--|
| <b>Allocated Budget</b>      | The budget of a sub-agency or sub-project that is allocated from the approved budget of a project or sub-agency. (MoFED, 2002: ix).  |
| <b>Approved Budget</b>       | The budget assigned to projects and sub-agencies within PBs; the entire federal government's portion of the appropriated budget is assigned and the approved budget is published in the Negarit Gazeta. (MoFED, 2002: ix).                                     |
| <b>Budgetary Institution</b> | A sub-agency or project that is allocated a budget (MoFED, 2002: ix)   |
| <b>Capital budget</b>        | An outlay on projects that result in the acquisition of or improvements to fixed assets, and includes expenditures made for consultancy service. (MoF and MEDaC, 1999: 4)  |
| <b>Chart of Accounts</b>     | A system of coding used by the financial management system to identify and classify financial entities and events. (MoFED, 2002: ix)   |
| <b>Commitment</b>            | Amount of budgeted funds that are reserved for a specific future expenditure. (MoFED, 2002: x).  |
| <b>Consolidated fund</b>     | All public funds that are on deposit at the credit of any public body where the bank account has been opened by the ministry under this proclamation; all public funds held in cash by public body pending disbursement; and all aid in kind. (FDRE, 1996: 1). |

|                         |  |
|-------------------------|--|
| <b>Cost Center</b>      | A management or responsibility unit. It is responsible to manage inputs to achieve outputs that contribute outcomes. (MoF and MEDaC, 1999: 4)  |
| <b>Cost Sharing</b>     | A shift in the burden of higher educational costs from an exclusive or nearly exclusive reliance on the government or taxpayer to some “shared” reliance by the family and/or the student. (Johnstone D, 2000: 1)  |
| <b>Disbursement</b>     | The release of any public money from the consolidated fund (FDRE, 1996: 2).  |
| <b>Fiscal year</b>      | The period beginning Hamle 1 <sup>st</sup> and ending Sene 30 <sup>th</sup> . (FDRE, 1996: 2)  |
| <b>Funding Formula</b>  | A calculation of per-student costs – i.e., recurrent expenditures per student including: instruction; research; physical plant operations; general management and services; student support and services– that is then applied to FTE enrollment figures to determine the allocation of funds. (World Bank, 2003a: 35) |
| <b>Mapping</b>          | Making the institutions and individuals of an organization responsible for inputs and outputs. (MoF and MEDaC, 1999: 5)  |
| <b>Program</b>          | The main objective of a PB as stated in its establishment law. (MoFED, 2002: XIII).  |
| <b>Project</b>          | A set of activities administered by a PB that receives an approved budget. (MoFED, 2002: ix)   |
| <b>Public body</b>      | An institution that has a legal mandate and receives a partial or complete budget directly from the respective finance and planning bodies, submits its final accounts directly to MoFED. (MoFED, 2002: XIII).   |
| <b>Recurrent budget</b> | All non-discretionary expenditures (legal obligations, debt payment, salary, and scheduled increments of salary, pensions); operating (rather than installation) and maintenance costs, and on going activities (for example research and training). (MoF and MEDaC, 1998: 21).  |
| <b>Sub-Agency</b>       | An administrative unit of a PB that receives an approved budget. (MoFED, 2002: XIV).   |
| <b>Sub-program</b>      | A subset of a program. (MoFED, 2002: xiv)  |
| <b>Sub-project</b>      | A subset of activities under a project that receives and allocated budget. (MoFED, 2002: xiv)  |
| <b>Sub-unit</b>         | A sub-sub-agency under a sub-agency that receives an allocated budget. (MoFED, 2002: xiv)  |

## **1.9. Organization of the Study**

The study has been organized into four chapters. Following this introductory part, that covers the background, problem statement, objectives, significance, delimitation and limitation of the study, research design and methodology employed in the study; chapter two covers review of related literature and explore some of the basic budgets and budgeting concepts and financial management in Higher Education. Presentation of results, analysis and discussion part is treated in chapter three. Finally, chapter four concludes the study with a brief overview of the findings and a proposal of relevant recommendations.

## CHAPTER TWO

### THE REVIEW OF RELATED LITERATURE

#### 2.1. Budgets and Budgeting

Budgeting is of special interest to planners, management, executives, and organizations. This is because they need money to make their plans operational. Plans may fail when tried, but they cannot be tried unless the desired allocations are carried through the budgetary process.

The best plans of any Government, Ministry, Agency, or Public Bodies will remain simply plans and not accomplishments unless they are implemented. The implementation of plans requires financing. The formal financing of plan implementation is termed budgeting. The underlying factor in all these is the need to achieve a match between scarce means (resources) on one hand and many ends (services, responsibilities etc) on the other (Lemma, 2001: 1).

Generically, according to Agama's presentation, a 'budget' is the financial expression of a government or an agency, which seeks to establish a balance between limited means (resources) and competing ends (services, responsibilities etc). Since the focus is on government institution's budget, the operational definition is that: "a budget is the financial expression of a plan (priced mirror of a plan) of a government institution to effect a qualitative and quantitative change in the outputs of the organization for a period of time usually a year." In the case of most government institutions the period starts from *Hamle* 1 to *Sene* 30 each year. It is a process where plan objectives are quantified and operational zed fiscally. Goal settings, objectives definition, determination of priorities, and developing planned programs to achieve prioritized objectives, are integral parts of preparing and justifying a budget (Agama, 2001: 1).

In summary, "budget is the quantification of activity plans or strategic plans in monetary terms and has to be preceded by meticulous and proper planning of activities through the participation of implementers". It has been always the case that budgets not prepared through the participation of the concerned bodies are not realistic and will not be implemented effectively and efficiently. The final implementation of the strategies in an effective, efficient and economic way requires full-hearted participation of all the concerned actors. Therefore, the final implementers need to

participate in the preparation of action plans, strategies and in fact, preparation of budgets (Agama, 2001: 2).

### **2.1.1. Types of Budgets**

The two major types, which form components of an annual budget, are the recurrent and capital budget. While the annual budgetary expenditures may consist of capital and recurrent budgets; these two components have differing characteristics that should be readily understood by officers of public finance in general and budget officers in particular.

#### **2.1.1.1. Recurrent Budget**

The recurrent budget deals with “expenditures in the regular operations of an organization, including salaries, pension contributions, cost of routine repairs, cost of maintenance, loan repayments etc. It also includes revenue raised for these purposes, including taxes, licenses, fees and charges” (Wildavsky, 1984: 2).

As the name indicates, recurrent budgets have a repetitive or recurrent nature. Lemma thoroughly expounds that; the same types of expenditures are incurred on a daily, weekly and monthly basis. Salaries are paid every month and the same types of operating expenditures are incurred as they come. Beside, the benefit of recurrent expenditures are confined to the same period of time for which expenditures are incurred, that is, the underlying consumption is enjoyed only within the particular period for which the payment is made, for instance a monthly salary paid is meant to be used only within that month for which it is paid and likewise operating expenses are disbursed for the particular month and they have to be expended in that month (Lemma, 2001: 47).

#### **2.1.1.2. Capital Budget**

According to the definition given by Wildavsky, this is concerned with “the creation of durable assets such as new roads, schools, facilities, housing estates and the like. Loans, grants and proceeds from the sale of such assets are considered as capital income”. If income from the recurrent budget is set aside for the purpose of creating long-term assets, it also becomes capital income (for example the revenue contribution to capital outlay or to the capital fund from recurrent revenues). The capital budget is sometimes called the development budget (Wildavsky, 1984: 2).

In Lemma's explanation, capital budget is "an expenditure plan mainly devoted to capital formation to advance national and /or organizational development by creating new assets or raises the values of existing assets through investment on capital improvement programs". Financing the capital budget may also need substantial amounts that may be spread over a long period of time, and subject to strict planning and control and has to pass lists of priority through public investment program before its financing is determined by the budgeting process (Lemma, 2001: 48).

To conclude, sometimes the borderline between recurrent and capital budgets is not very easy, hence governments define them by regulations or guidelines, for instance according to the guideline issued by the MoFED any item having a service life of more than one year is to be considered as a capital item.

### **2.1.2. Purpose and Objectives of Budgeting**

Consistent with the definition outlined above, authoritative sources define budgeting as "...the process of allocating scarce resources to unlimited demands, a dollars and cents plan of operation for specific period of time" (Lynn and Freeman 1983: 53). To effect appropriate allocation decisions the plan of operation is expected to provide minimum information on the types and amounts of proposed expenditures, the basis for and purpose of the proposal as well as the suggested means of financing them.

In most organizations, especially in various levels of governments, the legal basis for spending and fiscal accountability is provided by the budget, as sanctioned by legally entitled approving bodies or authorities. It is useful to state; here that budgeting is integrally linked to an accounting process wherein revenue and expenditure information can be organized to facilitate continuous monitoring, evaluation, and management control. In this sense, the budget process makes it possible to delegate financial responsibility and authority while appropriate controls are maintained.

The importance of the budgetary process in government actually emanates from its natural environment where its instrumentality for planning enjoys significant prominence. In government planning, according to Lemma's statement, budget bears its essential significance from the fact that it serves as mechanism of control and as a means of identifying and

determining priority needs notwithstanding the importance of cost factors. Thus budget proposals become essential for communicating, discussing, revising, and documenting the plan (Lemma A. 2001:13-14).

Quite apart from its instrumentality for plans, budget is also an instrument of control in government. Lemma stated that, budget serves as a control device for the legislative over the executive branch as it also serves the executive to exercise controls over subordinate executive agencies. The budgetary authority imposed by one branch on the other, however should not give rise to the assumption that budget is inflexible. In fact, it is often recommended that a budget must allow sufficient administrative flexibility to respond to new needs, and challenges during the fiscal year, while still maintaining the basic integrity of public policy. Thus, the purpose of public (government) budget can in fact, be aggregated into two important functions: (1) serving as an essential tool for executive plan and program management, legislative control and accountability. (2) Provide information on public allocation of resources, policy decisions, plans and operational programs to the tax paying public and other stakeholders (Lemma A. 2001:13-14).

### **2.1.3. Participatory Budgeting**

Participatory budgeting currently has proved to be one of the most innovative programs that directly allow the involvement of staffs in the budget process whereby staffs are given the opportunity to allocate resources, prioritize activities and monitor public spending. According to Shimelise in his Training Manual, the concept is now being related to the rights of staffs and democratic governance. Staff and board members must participate in each phase of the budgeting process that affects the line items for which they will later be responsible (Shimelise, 2002: 4).

As it is stated in Shimelise's manual, for many nonprofit organizations, planning and financial management are activities that divide rather than unite the organization. Program planning is often viewed as the domain of the executive director, program directors, and the board. Fiscal management is assigned to the bookkeeper, accounting, finance director, and, perhaps, the treasurer. Program planners and fiscal managers speak different languages and often have different priorities, and may or may not be aware of the importance of the other's approach to the budget process. Program planning decisions often are viewed as failing to reflect economic realities, while fiscal management decisions are often viewed as insensitive to the programmatic

mission of the organization (Shimelise, 2002: 4-5). For this reason, both program staff and financial staff should work with the executive director and board to develop budgets, which truly reflect organizational priorities and act as a guide for spending and decision-making.

The participatory budgeting described above and its output is teamwork effort. It calls for involvement of administrators, chiefs of offices and services technicians and staff and line employees alike. It is much more than a listing of items of expenditure and a device for exercising fiscal control. Agama indicated that, "...if well put together, broadly distributed to all who must use it and well executed, they becomes an essential tools of everyday department management". The process also requires that key offices of the institution and the decentralized departments operating in the institution meet together and review their respective planned budget programs so they might provide mutual support and avoid wasteful conflict and duplication (Agama, 2001: 9).

Accordingly, as different authorities in the field point out, the budgetary system of Ethiopia is partly participatory and partly centralized. But the recent move of decentralization is making the ground ready for participatory budgeting. The civil service reform program of the country is also expected to create fertile ground for good governance, participatory budgeting, responsive civil service, etc.

#### **2.1.4. Cost-center Budgeting**

According to some authorities definition (McCallin, 2005: 2), "*Cost Center* is the lowest level of operations at which financial transactions are tracked distinctly, requiring a unique identifier (organization code) in the general ledger". A cost center (a budget responsibility center) can also defined as "a management unit within the organization and may be a department, a project, or any other activity that incurs financial transactions and includes activities funded by any source, general funds or other". The center must be clearly demarcated and accounts set up accordingly to facilitate feedback for managerial action. Multiple cost centers may be under the control of a single cost center manager however; only one cost center manager should be responsible for any one cost center (MoF and MEDaC, 1999: 4).

Related to this, under the auspices of the CSRP, the Federal Government of Ethiopia (FGE) is in the process of budget reform. The reform process has been implemented at the federal level since

the EFY 1994 budget. According to the BRDM version 2.1, this budget reform involves two actions: change of processes and structures. Budget processes are how the budget is prepared and implemented. Budget structures are the formats that organized budget data (MoF and MEDaC, 2001: 1).

Specifically, the design of budget processes and structures implements the strategy of budget reform under the Civil Service Reform (CSR). The strategy of budget reform is to move from the current emphasis on control using line item budgets to an emphasis on management using *cost center budgets*. The strategy of budget reform is to introduce a cost center budget based on activities and sub-agencies of a public body (an institution). An “activity” is a new budget category and is one or more tasks that have a specific objective or objectives and a definable output. Projects in the capital budget would be an example of an activity while projects that are transferred to programs in the recurrent budget would also be an example of an activity (MoF and MEDaC, 2001: 1-2).

There are several benefits to a cost center budget. The BRDM thoroughly state the major benefits, these include: First, cost center budgeting can promote accountability for inputs and outputs by assigning specific responsibility for budgets to an institution’s sub-agencies (sub-units) and tasks. Cost center budgeting will require institutions to map their budget to their organizational sub-agencies and activities which if done thoroughly will require a reassessment of their goals and how they are organized to achieve those goals. A second benefit of cost center budgets is that they provide the total cost for each sub-agency and activity of an institution so decision makers can better understand the tradeoffs of funding different sub-agencies and or activities. Finally, cost center budgets facilitate the linkage of recurrent and capital expenditures by sub-agency and activity that promotes better balance in expenditure. Other than these, the introduction of cost center budgeting in government organization addressed major weaknesses of the previous budget structure (MoF and MEDaC, 2001: 3).

#### **2.1.5. Cost-center Management Roles and Responsibilities**

Fiscal management roles and responsibilities are required to implement internal accounting and administrative controls, which reasonably assure financial transactions accurate, reliable, and conform to the government Fiscal Rules. According to Colorado Community College System

President's procedure, for instance, the Board has charged the Colorado Community College System Managers with this responsibility. System operations are organized into cost centers that develop and execute strategic and tactical plans to carry out the System's mission and achieve its objectives (McCallin, 2005: 1).

Financial records are an important management tool, used to both measure and monitor the acquisition and use of resources for operations. The following establishes the roles and responsibilities of management involved in System operations, from a fiscal perspective. Successful execution of these roles and responsibilities will ensure the monetary impact of System operations is planned, controlled, and accurately accounted for in the System's financial records. Accordingly, this policy applies to all funds, including appropriated, generated, awarded, donated, or otherwise received or spent by the System from any source or for any purpose (McCallin, 2005: 2-5).

#### **2.1.5.1. Functional or Department Manager Role and Responsibilities**

The functional or department manager plays a key role in ensuring cost centers are effectively managed and responsible for and has the authority for planning, executing, and evaluating all cost center operations. A functional or department manager may delegate tasks or duties to a cost center manager and provides guidance and direction to subordinate cost center managers in carrying out their fiscal management responsibilities, including the performance of all responsibilities set forth. Reviews his/her monthly financial summary report of cost center groups in comparison to related budgets. It includes an assessment of subordinate cost center manager's fiscal responsibilities performance in their periodic performance evaluations, and ultimately accountable to the executive or vice president level position for fiscal operations reporting to him or her.

#### **2.1.5.2. Cost Center Manager Role and Responsibilities**

The cost center manager plays a key role in ensuring the fiscal condition of his/her cost center is accurate, complete, and does not adversely impact the System. The review of the monthly financial report serves as a mechanism to detect whether fraud, errors, and omissions have occurred. When a cost center manager perceives that a cost center's expenditures have or may in

the future exceed available resources, the cost center manager shall initiate a notice with plans for correction in advance of the time that the predetermined limit of available resources is reached. Such notice shall be addressed to the responsible functional or department manager.

In addition, Cost center managers assume the major fiscal responsibilities of his/her cost center. Such as: all expenditures or transfers of funds incurred by the cost center must be for a valid cost center use, authorized in accordance with Board and System policies, State and Federal laws and regulations, and specific sponsor or donor requirements or restrictions, and made within the available funding for the account, or supported by an appropriate alternate cost center with sufficient funding for the disbursement. On the other hand, all revenues or receipts of funds must be properly related to the cost center and deposited on a timely basis in accordance with State and System policies. The cost center manager will also review in a timely manner the cost center monthly detail financial reports and ensure the contact person is adequately trained and fully understands his/her financial recording responsibilities.

### **2.1.6. The Present Budgetary System**

Presently, with favorable prospects of the CSRP, the Federal Government of Ethiopia is in the process of budget reform. According to the BRDM (MoF and MEDaC, 2001: 6), the reform is expected to bring about changes in five areas viz., classification, expenditure codes, revenue codes, budget formats and appropriation. Budget classification is conceived to be the organization and structure of the budget. Beside this, eleven budget categories have been introduced for both the recurrent and capital budgets, which will consistently map expenditures to public bodies and within public bodies. Expenditure mapping within a public body has been proposed to be done at four levels viz., program, sub-program, sub-sub-program, and project. For each item of expenditure, the source of financing is presented in terms of domestic source (treasury and retained revenue) and external sources (assistance and loan). It is thought that this classification, which provides a unique code to assistances and loans, would enable to track external financing at the level of line-item of expenditure by project in the capital budget and sub-agency in the recurrent budget.

The stated objectives of the budget classification scheme in the Manual have been: (1) To map budgets to public bodies and their programs, sub-agencies, sub-programs and projects; (2)

Promote cost centers; and (3) To specify the source of finance by line-items for the sub-agency and budget categories; and the classification scheme is proposed to have three components; category (major divisions in the budget,) class of account and codes consisting of four digit-numbers (MoF and MEDaC, 2001: 7-9).

### **2.1.7. The Current Budget Process**

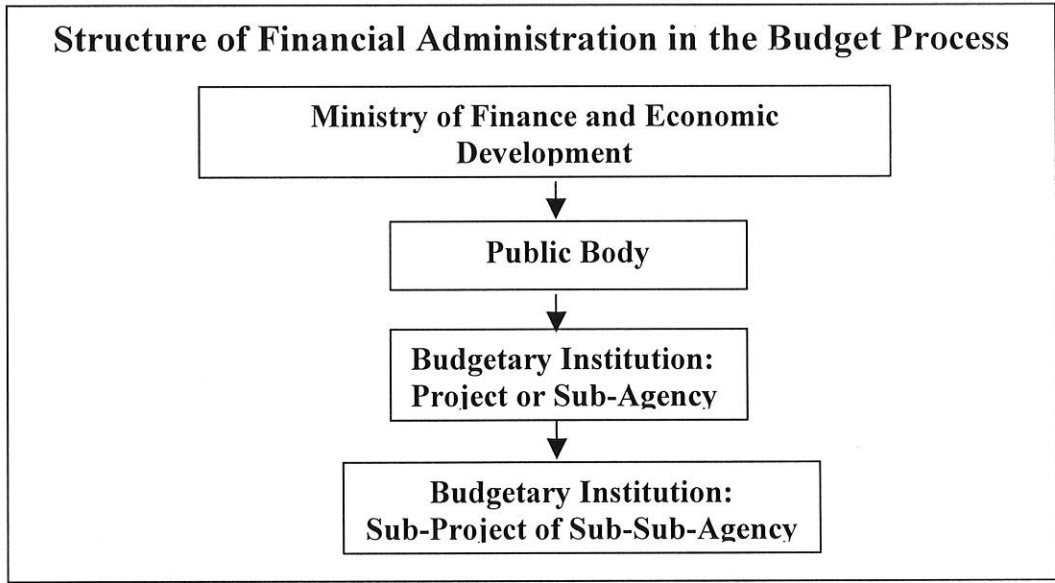
According to the Federal Government of Ethiopian Accounting System Manual Volume 1 Version 1.0, the budget process begins with the appropriated budget. The appropriated budget is the budget approved by the Council of People's Representatives (CPR). The appropriated budget is broken down by recurrent and capital expenditure for the federal government. The federal government's portion of the appropriated budget is assigned to projects and sub-agencies (cost-centers) within Public Bodies (Public Organizations) and broken down by sources of funding (domestic, assistance and loan). This is called the approved budget (MoFED, 2002: 14).

The Manual farther elaborate that a Public Bodies (PBs) entire approved budget is assigned to projects and sub-agencies under its immediate administrative control. The budget of a PB is the total budget of its projects and sub-agencies. A project or sub-agency may allocate any portion of its approved budget to sub-projects or sub-sub-agencies. The budget of a sub-project or sub-sub-agency is called an allocated budget. A sub-project or sub-sub-agency that is allocated a budget is always at a different location from the project or sub-agency. A notification of any allocation is sent to MoFED (MoFED, 2002: 14-15).

Projects, sub-agencies, sub-projects, and sub-sub-agencies are defined and coded in the chart of accounts. Any entity that receives an approved or allocated budget from a PB's approved budget is called a Budgetary Institution (BI). Generally, BIs are projects, sub-agencies, sub-projects, and sub-sub-agencies; and administered by PBs. The entire approved budget of a PB is assigned to BIs (MoFED, 2002: 15).

Figure 1 shows the structure of financial administration in the budget process. There are exceptions to these generalities, but the majority of government is organized in this manner. The focus of budgetary control is the BI. PB's budgetary compliance can be computed by consolidating reports from all BIs included in its approved budget.

Figure 1: Structure of Financial Administration in the Budget Process



### 2.1.8. Budget Preparation and Presentation

Budget preparation and presentation in Ethiopia, at present, is proposed to have two cycles; the planning cycle and the budgeting cycle. A financial calendar is expected to clearly define and adequately schedule tasks so that plans and budgets are linked and are systematically prepared, approved and implemented. However, the major weakness of the Ethiopian budgeting system, for sometime earlier, has been the absence of authoritative budget calendar with clearly defined and schedule budget tasks. An authoritative financial calendar is required for effective budgeting, because budgeting depends on the outputs of the planning cycle (Lemma A. 2001:50).

According to the BRDM Version 1.0 and 2.0, the financial calendar includes both a planning and a budgeting cycle. The CSR is introducing reform in planning and budgeting so it essential to present both cycles and the relationships between them. A financial calendar clearly defines and adequately schedules tasks so that plans and budgets are linked and are systematically prepared, approved and implemented. An authoritative financial calendar is needed for effective budgeting because budgeting depends on the outputs of the planning cycle (MoF and MEDaC, 1999: 83).

### **2.1.8.1. The Planning Cycles**

The planning cycle has three stages, which are implemented in sequence: (1) multi-year planning through the development of the macro-economic and Fiscal Framework, (2) multi-year programming through the Public Investment Program and, (3) annual planning through the Fiscal Plan (MoF and MEDaC, 1999: 84).

### **2.1.8.2. The Budget Cycle**

A key principle of the budget policy paper is that budgets should “comprehensively manage public expenditure.” The budget cycle involves the preparation, review, approval and appropriation of the annual budget. Following the principle that budgets should comprehensively manage public expenditure, in all stages of review, approval and appropriation, a comprehensive budget as defined above will be presented (MoF and MEDaC, 1998: Appendix 1). The budget reform proposes that two comprehensive budgets will be prepared. As regards, Budget Reform Design Manual Version 2.1 (MoF and MEDaC, 2001: 91) stated: “A *Recommended Budget* will be prepared and approved by the executive public bodies which in turn will be presented to Parliament for review and approval. The *Recommended Budget* approved by Parliament will then become the *Approved Budget*. Parliament will then vote an annual appropriation to fund the *Approved Budget* from the consolidated fund.”

The Ethiopian fiscal (budget) year and hence the budget cycle runs from July 7 of one year to July 6 of the following year. The stages in the cycle to be listed hereunder are the budget call, budget preparation, budget hearing, budget approval and allocation, budget execution.

#### **1. Budget Call**

Every year, at least three months before the end of the fiscal year, MoFED issues annual call letter for recurrent and capital budgets to different institutions. The existing economic conditions of the country and the priority areas, tentative budget ceiling and the prescribed formats to be used are stated and/or enclosed with the call letter. A joint budget call will be issued by finance and planning institutions with a common calendar for the submission of the recurrent and capital budgets. The objectives for issuing a joint rather than a separate budget call for the recurrent and

capital budgets are to promote a common calendar of preparation and submission and to facilitate a comprehensive review of both budgets (MoF and MEDaC, 2001: 103).

## **2. Budget Preparation**

The BRDM states that, before the organizations receive their budget ceilings in the budget call, they will prepare the background information needed to support their budget request. The budget preparation stage has three tasks: (1) development of unit costs, (2) program review and, (3) work plan development. The budget preparation stage will begin on October 1<sup>st</sup> and will end on March 15<sup>th</sup> with the completion of the work plans.

Budget preparation is done by different sections of the organizations. The Administration and Finance Department prepares the recurrent budget while the Department for Plan and Project prepares the capital budget. After the proposed budget is compared and evaluated in accordance with the budget ceiling and the reason for the increase, if any is verified. The draft budget of the institution is discussed and reviewed by senior officials (top management) of the respective organization. Finally, the budget proposal that prevailed the support of the officials is prepared and being broken down into programs, subprograms and expenditure items. In general, the budget proposal that is revised and accepted by the senior officials is, depending on the level at which it is prepared, sent to MoFED. This budget proposal must be substantiated and supported by relevant documents. If the budget proposal shows variations from budget ceiling for the year, then explanations for the variation need to be given (MoF and MEDaC, 2001: 100-103).

## **3. Budget Hearing**

The proposal shall be presented to the Budget Hearing Committee where they will be subjected to *discussions* and *negotiations* in the presence of officials of the budget proposing body. The officials then defend their budget before the Committee (MoF and MEDaC, 2001: 144).

## **4. Budget Approval**

Budget proposals agreed-up by the concerned units are compiled into one budget document that shows the recurrent and capital budgets of the country, for proposal to the Council of Ministers for review and discussion. Finally, the Council of Ministers will forward the budget document to

the Council of People's Representatives for approval, which shall approve it by July 6 and notify all public bodies by July. Then Budget of the country will be proclaimed and published; and notification shall be made on the approved estimates to the concerned institutions (MoF and MEDaC, 2001: 188).

## **5. Budget Notification**

Following the approval, the Budget is published in the 'Negarit Gazette', and notify to the organization. Budget notification is when MoFED notify federal public bodies of their budgets by class of account and by line item. The notification also shows to each public body of their approved budget by item of expenditure by the sub-agency budget category for the recurrent budget and the activity budget category for the capital budget.

However, this official organ shows only the headings, sub-headings, and expenditure items of the budget and not the allocation of the budget to different branches within the respective public bodies. Once the public body gets the budget allocated under each sub-heading from the concerned Finance Bureau, it allocates the budget under sub-headings and branches at different levels. This may involve the revision of plans of action accordingly, for proper execution of the budget (MoF and MEDaC, 2001: 173-174).

## **6. Budget Execution**

The executive implementation or execution of the Proclaimed Budget starts with the budget notification. During notification stage, public bodies are notified about their detailed, approved budgets by MoFED. These notifications detail out the public bodies' budgets to the last line-item expenditure. During this notification public bodies are required to present their annual work plan, cash flows and the details of the distribution of the personal emoluments and operating expenditures. These detailed distributions are taken as bases for disbursement. Ledgers and bank accounts are opened at the MoFED and National Bank respectively on behalf of the public bodies for the implementation of the budget.

The implementation of the budget consists of requesting budget expenditures in terms of the financial and work plan and recording of adjustments affected through virements, transfers and supplementary budgets within the financial year. There may be budget shortage for one sub-

program or another may be in excess both necessitating the transfer of budget. The presentation and approval of budget transfer requests are done at different levels. Transfers are allowed from the recurrent budget to the capital budget and from one Sub-heading to another within the recurrent budget and from personnel services to non- personnel services subject to regulations issued by the Council of Ministers. But no transfers are allowed from the capital budget to the recurrent budget (MoF and MEDaC, 2001: 206).

## **2.1.9. Budgetary Reporting and Control**

### **2.1.9.1. Budgetary Reporting**

Subject to the directives of the MoFED, the heads of public bodies shall maintain a register of appropriations, authorized transfers and allotments for each budgetary heading and sub-heading and for each line item. Each institution local or central should prepare and submit monthly statement of cash receipt and expenditure. The primary purpose of a government accounting system is to provide information. Information in the form of financial reports produced to assist management within government make decisions.

According to FGE Accounting System Manual (MoFED, 2002: 110), monthly reports are prepared and submitted to a Reporting Entity or MoFED within two weeks of the last day of the month by all Accounting units. All transactions that occur during a month should be recorded daily on the Transaction Register and into the appropriate General and Subsidiary Ledgers. However, if all transactions for the month are not entered into the Transaction Register by the end of the month, the transactions that are entered by the end of the month are the transactions that are reported.

The Manual designated Transaction Register is closed on the last day of each month. Transactions that occur during the month, but are not recorded in the Transaction Register, are recorded in the next month's Transaction Register. In other words, reports are prepared each month based on the information recorded by the end of that month in the Transaction Register. Ideally, transactions are recorded in the Transaction Register in the same month in which they occur. However, the monthly reports should not be delayed because all transactions are not recorded in the proper month. The monthly reports should be prepared on time. At a minimum, all transfers should be recorded in the proper month. (MoFED, 2002: 111).

### **2.1.9.2. Budgetary Control**

Lemma pointed out that the line-item/object-of-expenditure budget format or classification is control oriented and the traditional government budget classification format. In this system of classification object codes are often detailed with great specificity exhibiting an array of “lines” within the budget. The term line item, in a technical sense, refers to the manner in which appropriations are made to agencies within the budget structure (Lemma A. 2001:18).

According to the existing BRDM Version 2.0 justification, the main objective of object-of-expenditure classification is to control expenditures at the agency or departmental level. Object codes for expenditure are usually four-digit numbers (e.g. in the Ethiopian budgeting system 6100, personal services; 6200, goods and services in the recurrent budget; 6300 fixed assets and constructions in the capital budget series), which are further divided into sub-object codes to encompass all possible areas of government expenditure. The four-digit format enables to easily add new categories of expenditure. The code can also be easily revised and up-dated periodically as new areas of expenditures emerge (MoF and MEDaC, 1999: 34).

Though, the strategy of budget reform is to move from the current emphasis on control using line item budgets to an emphasis on management using cost center budgets, it does not mean that line item control is abandoned. Rather, line items of expenditure that are separately listed in capital and recurrent budgets are linked to cost centers formed around sub-agencies or activities in the budget.

Items of expenditure in the BRDM, implemented by federal public bodies’ since the EFY 1994 budget, have been revised following the principles for budget categories listed in the manual. The major principle guiding the design of these items of expenditure is that recurrent and capital expenditures should be linked together in cost centers. The objective of cost centers is to present the total cost of an activity. To show total cost, the items of expenditure must be budget neutral because cost centers are in each of the recurrent and capital budgets and these cost centers include both recurrent and capital expenditures. To present the total cost of activities within and between the capital and recurrent budgets requires a single series of codes. The 6000 series is used for all items of expenditure (MoF and MEDaC, 1999:34).

As it is stated in the Manual of FGE Accounting System, Cost Center budget control has two key elements: (1) expenditure is incurred only if there is an available budget, (2) actual expenditure does not exceed budgeted expenditure. Thus, the Budget Section of each center is tasked with the responsibility of budget control (MoFED, 2002: 24).

Budget control is achieved through a combination of commitment accounting and expenditure approvals at the Budget Section of the center. The Manual stated that a commitment is a way of marking off part of the budget that has not yet been spent but that is obligated for a specified expenditure. After the budget has been approved, the BI may enter into contracts of issue purchase orders. These obligations to spend money are treated as commitments; that is, before the good or service is ordered and before the payment is actually made, the amount of the purchase order is subtracted from the BI's approved budget. A commitment is a tool that prevents overspending by identifying amounts committed to pay for items that have been requested but not yet ordered and to determine the budget that is available (uncommitted) for expenditure (MoFED, 2002: 26).

Finally, the Budget Section of each center maintains a budget ledger card for each individual item of budgeted expenditure for the purpose of maintaining a continuous and updated record by BI and source of finance with respect to: approved budget, additions/reductions to the approved budget, revised budget, payments received for budgeted expenditure, amount remaining to be requested, commitments, and balance in the revised budget that is not committed. The appropriate budget ledger card is updated each time a transaction occurs (MoFED, 2002: 29).

## **2.2. Financial Management**

### **2.2.1. General Framework of Financial Management**

Financial resource is the lifeblood of any activity and a very scarce resource. Therefore, it is imperative that such resource should be properly allocated among equally competing needs. The allocation involves the managerial activities of planning, prioritizing, financing and controlling. Finance needs to be managed and utilized in an economical, efficient and effective manner and should go towards alleviating the problem of the community at stake. Bert gives details of financial management important activities as:

Financial management involves very important activities of planning, sourcing, utilizing, disbursing, reporting and controlling.... *Planning* deals with selecting the activities to be financed and determining.... *Sourcing* is about identifying and making the necessary arrangement for financing the planned activities.... *Utilizing* deals with the application of the finance in an economic, efficient and economic manner.... *Reporting* is about compiling all the necessary data and producing an informative and timely report to the management, financiers and other stakeholders.... *Controlling* verifying the proper use of resources in an efficient, economic and efficient manner per guidelines and procedures and action plan put forward so as to prevent or minimize fraudulent activities, minimize wastage, etc. (Bert, 1997: 3).

From the aforementioned few points we can understand that the role of financial managers involve both the managerial role of allocation, distribution, stabilization and controlling, and the accounting role of recording transactions, producing reports, analyzing the reports.

Besides, as Bert affirmed, good financial management is expressed through good budgeting, good accounting and good auditing. *Good budgeting* means when budgets are prepared through the participation of implementers, supported by strong, meaningful, achievable and realistic action plans. *Good accounting*, deals with careful identification and categorization of financial transaction, proper recording of the transaction and timely production and analysis of reliable financial statements. When the accounting activities are assisted by information technology and strictly follow the accepted accounting principle added to adequately trained and competent staff, we could argue that a good accounting practice is at disposal. *Good auditing* means strict and regular follow-up on the sourcing, allocation, and application of financial and other resources inline with the target put forward and budget. The ultimate end of auditing is to prevent public properties from embezzlement, abuse, misappropriation, etc and also to give feed back to policy makers as to the generation and allocation of resources (Bert, 1997: 2-4).

### **2.2.2. Financial Management in Higher Education**

Financial management in education is a key part of the management tasks. It becomes integrated with all the other aspects of managing an institution. It was to emphasize this close interrelation between financial and other management tasks that the education policy was renamed.

There are basic reasons why academic institutions are organized and governed as they are, in the service of education and research and of excellence in these pursuits. For instance Michael Gibbons, in the Article 'Effective Financial Management in Higher Education' stated that:

Faculties are not just "professional" with a commitment to their professions outside the institution as well as to the institution . . . They are individual talents and intellectual entrepreneurs, demanding developers of their disciplines . . . who have in fact certain constitutional rights in the process of governance and who hold the most important authority which exists in a university, that of making ultimate academic judgments... In short, they exist for the sustenance of a mission . . . and its related goals (Michael, 1999: 7)

However, higher education institutions should seek a balance between the pursuit of their academic mission and the effective management of all their resources. This balance is reflected in the dual roles of the head of the institution.

Higher education institutions are independent bodies, attracting funds from a variety of public and private sources. As they have grown in size and range, placing ever increasing pressure on resources, there is a greater need for effective financial management. There is currently a great deal of good practice in existence in financial management and it is believed that wide dissemination of this would be beneficial.

According to Levacic, colleges and universities will not be in the business of managing finance in the sense of managing monetary assets. Rather, delegated budgets give educational institutions the means to have a greater say over their real resources, such as teaching and support staff, books, equipment, materials and maintenance work. Hence, the term 'financial management' in education relates to a wider set of management tasks, which concerned with planning and controlling what the institution does. In particular, it is concerned with the acquisition and allocation of financial and real resources and with using budgets to plan and control the deployment of real resources. Moreover, Levacic state the tasks and qualifications of education manager in accountancy that, "... to undertake these tasks education mangers do not need qualifications in accountancy; rather they need to make common sense applications of a few key techniques and approaches, suitably adapted from the practice of management accountancy in other kinds of organization" (Levacic, 1989: 5).

### **2.2.3. Main Sources of Higher Education Finance (Revenue)**

Finance for Education comes from various sources. These sources are broadly classified as public (or government) and private and funds derived from these two sources are known as public funds and private funds respectively (Bert, 1997: 13). Education is both a private and a social investment that is shared by individual students, their families, employers, government and other groups, including international agencies. The sharing arrangements vary considerably from country publicly financed. The sources and method of raising financial resources differ not only between organizations but also amongst sub-unit of the organizations because of the absence of net income determination, no distinction is made between invested capital and revenue. The method of acquiring resource has no effect, whether finance is raised by sale of assets, donation, loan, user charge or any other way.

Similarly, according to Lemma's illustration, some organizations have various sources of obtaining finance, for instance universities and colleges heavily rely on trust funds and donations as well as tuition fees. State financed educational institutions predominantly depend on government appropriations and less on tuition fees and donations. Other social service institutions such as hospitals are, generally, supposed to charge their clientele but those established by welfare organizations depend on gifts and inheritances to a large extent (Lemma, 2001: 8).

### **2.2.4. An Overview of the Current Ethiopian Higher Education Financing**

As it is stated in many World Bank Sector Study documents, any national higher education system would be hard pressed to substantially expand enrolments while maintaining levels of educational quality. Ethiopia faces a twofold challenge in that it seeks to accomplish this while also introducing major reforms in institutional governance, management and curriculum. If the brave vision contained in the new HEP is to have any chance of success, the solution to this twofold challenge will have to be found in the financing strategy that strengthen and supports these reforms. Before turning to this important matter, let us look first at expenditure patterns and revenue trends within the tertiary system.

### **2.2.4.1. Expenditure Patterns**

These expenditure patterns show how government revenues employed in the provision of higher education and how the allocation process be made more efficiently.

#### **1. Institutional Allocations**

Budgetary allocations were previously related quite closely to enrollment size, although with some exceptions. Certainly such possible inequities are currently addressed by the new funding formula introduced in 2005. As it is stated in the World Bank Sector Study document (World Bank, 2003b: 19), the mix of academic programs provided by institutions varies considerably from one to the other, and it is well known that the costs of instruction tend to be higher in some areas (e.g., engineering, medicine, sciences) than in others (e.g., education, business administration, social science). This suggests that institutional allocations should not only consider enrollments as a reference point, but also the distribution of enrollments among the different academic programs and the respective costs of each program. Such unit costs have not yet been calculated in Ethiopia, but they will soon be needed.

#### **2. Per Student Allocations**

To calculate per student allocations, enrollment numbers were first converted into an estimate of full time equivalent (FTE) students to enable standardized comparisons. As indicated in the World Bank Sector Study document adopted from Education Statistics Annual Abstracts (ESAA) of Ethiopia (World Bank, 2003b: 20), even when student numbers are standardized and evening fee income is included, significant differences in expenditure per student remain apparent among institutions. The most well endowed institution, Addis Ababa University, is able to spend almost double the amount available to the least endowed institutions. Since the number of graduate students has been weighted additionally and any graduate fee income excluded from consideration, the explanation for this sizeable difference must be required elsewhere. To estimate the *academic* expenditure per student, the unit expense figures for each institution can be reduced further by Birr 2,000, which represents feeding, lodging and medical services.

#### **3. Institutional Expenditures**

This refers how institutions employ the resources provided to them can help to determine how effectively they focus on their main mission of teaching and research, and how efficiently the institution is managed. The World Bank Sector Study (World Bank, 2003a: 4) shows that, the

share for student welfare is large, but not excessively so in comparison with other African countries that provide this benefit to students. University managers realize that such welfare benefits represent a significant tax on their budgets, and they acknowledge that the administration of campus cafeterias is time-consuming. In recognition of this, the costs of student food and lodging have been included in the calculation of the recently approved graduate tax.

#### **2.2.4.2. Revenue Trends**

As it is evidenced by the World Bank Sector Study document, a public institution's sources of income consist of an annual block grant allocated by the government, subsidies made by the government in cash or kind, income generated from services delivered by the institution such as research, continuing education and distance education, consultancy and other activities undertaken by the institution to generate income. Over the past few years, there has been significant investment in the higher education sector to increase access, improve quality and relevance, and make the universities and colleges more responsive to the needs of the country. Moreover, the recurrent budget for universities has also grown rapidly in recent years as a result of considerable expansion program and the incorporation of new institutions into the budget (World Bank, 2003b: 22).

##### **2.2.4.2.1. Income Generation**

According to Kastbjerg's justification, revenues from university income generation activities are difficult to document due to inadequate record keeping, likely encouraged by the former government practice of reducing university budget allocations by the amounts of income generated. However, the main sources of revenue appear to be the evening courses and contracted short courses. In addition, at the agricultural colleges their recurrent budget generate from agricultural production (Kastbjerg, 1999).

In the future, expanding interest in the delivery of distance education courses may become a further source of income. In the effort to stimulate more aggressive income generation efforts by universities, the government has proposed to include certain incentives to this end within its proposed new funding formula for higher education. However, bookkeeping in this area will have to improve considerably before this aspect of the formula can be employed.

#### **2.2.4.2.2. Donor Contributions**

Government's ESDP program is supported by multiple bilateral and several multilateral donors, including the World Bank. Ministry of Education ESDP-II document indicate that donor contributions are expected to grow somewhat over the next three to five years until they stabilize at about 35% of the sector budget. Very strong synergy exists among the donors who have united to support government's sector development strategy, largely through sector budget support (MoE, 2003: 20).

According to the World Bank Sector Study assessment report (World Bank, 2003b: 24), "over the past five years the World Bank has been by far the largest contributor of development assistance to the higher education sector. The Governments of Netherlands and United Kingdom will be providing targeted technical support to the Quality and Relevance Assurance Agency (QRAA) and the Ethiopian Higher Education Strategy Institute (HESI)". Thus, the anticipated Bank credit for higher education will be the principal source of external funding for government's higher education reform program over the next five years.

In accordance with European Development Fund (EDF) program assessed by different World Bank Sector Study document, donor contributions might usefully be targeted on the following needs: establishment of HESI, the QRAA, and the national and institutional pedagogical resource centers; the expansion of graduate training; the introduction and use of information and communication technologies; the creation of capacities for tertiary distance education; and institutional linkages or partnerships between Ethiopian and non-Ethiopian universities. Among these, assistance to the new system support agencies is the most critical short term need, because the entire reform effort will be put at risk if these agencies do not perform their roles effectively. A particular challenge for them will be the recruitment of good quality staff and their ability to draw upon good practices elsewhere in the world for guidance in addressing Ethiopia's higher education needs (EDF, 2000: 23-24).

#### **2.2.4.3. Cost Sharing**

Cost sharing is defined in Ethiopia as a scheme by which beneficiaries of public higher education institutions and the government share the costs incurred for the purposes of education and other services. A beneficiary is any student at a public institution pursuing higher education/training

and who has entered into an obligation for the future payment of the cost of his/her education/training and other services, as the case may be (FDRE, 2003b).

Cost sharing was implemented in higher education institutions only in October 2003 (2003/04 academic year), following the promulgation of the HEP (FDRE, 2003a) and the Cost Sharing Regulations (FDRE, 2003b). According to the provisions of these laws, any student who has entered an obligation for repayment and graduated from a public higher education institution is required to share the cost of education and training, and other services. Payment of the cost is to be effected in a form of a tax payable from the salary or other earnings obtained after graduation.

The scheme adopted is a “Graduate Tax”, which principally is an Income Contingent Repayment System of Australia, slightly modified/adapted for implementation in Ethiopia. Teshome states, in his paper ‘Cost Sharing in the Ethiopian Higher Education System’ (Teshome Y. 2005: 1), “...Ethiopia has chosen a modified model of the Australian type of student loan. This model, the graduate tax, is simpler and more manageable than other systems such as the mortgage type loan.”

As Nichols stipulated in the World Bank document, the mechanism of cost sharing via a “graduate tax” deserves recognition for its innovativeness both in Ethiopia and other countries. It mobilizes alternative non-governmental sources to supplement revenue, ensures equitable use of public resources, and facilitates the expansion of the sector opening up more opportunities. It also makes student responsible citizens and customers having a profound effect on improving the management and academic efficiency of higher education institutions. It covers government’s full costs for student meals, accommodation and health services, plus 15% of estimated tuition costs. The total amount is Birr 1,700 per year. Payments will take place at a flat rate regardless of income category until the individual’s agreed share is fully recovered (Nichols J., 2001: 2-6).

#### **2.2.4.4. Formula Funding**

As a key part of its higher education reform, the Ministry of Education proposes to introduce in 2004/2005 a funding formula that will provide incentives for institutional change in the pursuit of reform goals. The new funding formula is intended to lay the foundation for the introduction of block grants as the future means of funding the universities. At present, institutional funding is

conducted on a negotiated line item basis, with annual increments based on inflation and revenue availability. Thus, the proposed change is a welcome and appropriate development (FDRE, 2003a).

According to the assessment of Merisotis, the proposed new budget allocation system is intended to: (1) be based on the performance of the institutions; especially, number of students admitted, number of students graduated, the quality of education, research and community services rendered by the institution, the ratio of women and minorities, and the ability of the institution to generate additional income; (2) serve as an instrument to implement the education policy of the government; and (3) make the institutions more efficient, competitive, and innovative. In addition, this formula has three sub-categories: (1) budget for regular undergraduate studies; (2) budget for graduate programs and research; and (3) budget for providing incentives and rewards. Thus, the total budget allotted by the government for higher education is proposed to be distributed to public institutions based on a detailed allocation formula (Merisotis, 2003: 1-3).

The formula elements that address the country's needs for more inclusion of women and underrepresented minorities also are highly desirable and worthy of inclusion in a new financing system. So, too, is the decision to consider proximity to Addis Ababa; too often, rural students in Africa face dramatically lower rates of educational access and attainment than urban students, as can be seen in countries with sizable higher education systems (Tanzania, Nigeria, South Africa) and those with much smaller systems, such as Mozambique (World Bank, 2003b: 33).

#### **2.2.4.4.1. Different Approach of Formula Funding**

The desire to introduce a new formula also is desirable, since such a dramatic change from a line item budgeting system certainly will have unintended and unanticipated negative consequences that can be addressed with a gradual implementation. Likewise, moving from a line-item budgeting system towards one that offers block grants to institutions is a worthwhile and attainable goal. However, such a system can be implemented without the limitations that characterize the system proposed in Ethiopia. One way to do this is to build a series of steering mechanisms into both formula and non-formula funding to achieve the goals of performance, efficiency, innovation, etc. (World Bank, 2003b: 32).

These mechanisms can be included *either* as a part of the *base formula funding* that is provided to institutions, or as part of *non-base funding*. According to World Bank document justification, *base formula funding* is funding provided by the government to continue the basic operation and maintenance of higher education institutions. Base funding is typically enrolment-driven and provides operational stability. This type of funding is a blunt instrument, and can provide some level of steering, though often not well targeted. It has some advantages in that it is a fairly autonomous process that does not require significant administration or oversight. Using the analogy of a compass, the base funding steering mechanisms can point the funding system in the direction of national policy goals, but they do not usually offer much precision. *Non-base funding* comes in addition to the funding provided through the base formula. This type of funding is usually a pool or pools of resources directed to specific purposes, and is therefore somewhat better suited to steering. It also offers more flexibility than base formula funding and can be adapted to address new needs and goals (World Bank, 2003b: 34).

#### **2.2.4.4.2. International Perspective of Steering Mechanisms**

There are several different types of non-base funding approaches. These include earmarked funding, which is funding dedicated or earmarked for a specific program, mini-formulas, which use an algorithm separate from the base formula to determine how funding is allocated to institutions, and other approaches that are on top of the base formula. Several other nations have developed these non-base funding pools in recent years to achieve desired policy goals.

From an international perspective, steering mechanisms are policy-driven funding priorities that occur both through base and non-base funding. They have been used increasingly by nations and states to achieve specific national policy objectives. Countries ranging from Australia to Japan to the United States are moving away from rigid formulaic allocation of government resources to support higher education to a more diversified approach that includes other types of policy-driven, non-base funding. An example from the U.S. experience may help to illustrate this point. The State of Arkansas has successfully used non-base funding steering mechanisms that are related to specific policy goals. Arkansas has implemented a productivity-funding program that links a funding pool of 3% of total government allocations for higher education institutions to the achievement of certain stated goals. This performance funding is *on top of* the regular formula

funding allocated to institutions. In addition, the state has identified six major performance goals as key goals for all institutions: retention, graduation, quality, efficiency, workforce development, and diversity (World Bank, 2003b: 35-37).

In Germany, for example, the federal government and states are working in partnership to achieve specific reforms. States and the federal government to support improvements in the higher education infrastructure, gender equity for faculty and staff positions, and other priorities over several years allocated a funding pool jointly. These funds are distributed to higher education institutions based on demonstrated need and institutional mission (Merisotis, 2003: 3).

In the context of Ethiopia, then, some combination of a simple but targeted formula for base funding with some additional pool of funds for additional steering would be ideal. Ideally, the base formula funding would focus on the key operational aspects of the university. In general, these base funding components include: 1) instruction; 2) research; 3) physical plant operations; 4) general management and services; 5) student support and services. A true formula in the sense that it is used in other countries would need to take into account the relative importance of each of these components in terms of overall goals of the institution, and in terms of national goals. For example, instruction is usually the most significant factor in any formula, since it takes into account the salaries of teaching staff. This would therefore have a relatively high coefficient in any formula. In Ethiopia, it is likely that student support services also would be substantial, since this would include general housing and other living expenses for students (Merisotis, 2003: 3-5).

Eventually, a local team of government and institutional officials, working together to ensure acceptance of the system, could develop the implementation of this new system. If necessary, international expertise from nations that have undertaken such a new approach to funding could be included. The larger, more sophisticated nations with such recent experience include the U.K., South Africa, and Australia, along with several U.S. states. Countries such as Mozambique and Tanzania, which are moving toward a new funding structure, also might be consulted to learn from their experiences.

## CHAPTER THREE

### PRESENTATION, ANALYSIS AND DISCUSSION ON THE FINDINGS

This chapter is the main part of the study. It is aimed to present the analysis of the findings. The data collected through questionnaire were organized in tabular form and are interpreted using percentage. The information gathered through interview is also qualitatively described in words to give response for the basic research questions set in this study.

#### 3.1. Characteristics of the Respondents

**Table 2: Number and Percentages of Questionnaires**

| Respondents                   | Sent      | Returned  |             |
|-------------------------------|-----------|-----------|-------------|
|                               |           | No.       | %           |
| Dean of Sub-agencies          | 9         | 8         | 88.9        |
| Finance/ Budget Section Heads | 10        | 10        | 100.0       |
| Budget/Accounting Staffs      | 16        | 16        | 100.0       |
| <b>Total</b>                  | <b>35</b> | <b>34</b> | <b>97.1</b> |

According to table 2, 35 copies of questionnaire were dispatched and due to time constraint and other engagements of the respondent one copy of the questionnaires was not returned. The remaining 34 are properly completed and included in the final computation of the data.

As it can be seen from table 3, all except five of the respondents are males. Females cover 23.5 percent only. Here it may be a surprise to those who may happen to read this paper because there is no considerable number of female officers in the university financial management area. This low female participation in managerial area seems common especially in our country. The main reasons can be the few numbers of females actually available in the educational management system itself, cultural problem, and lack of adequate experiences to the positions.

Regarding the respondent's level of education, 87.5 percent of the deans were Ph.D. holder and one of the deans or 12.5 percent of the dean's respondent was post graduate-degree holder. Moreover, 50 percent of the deans have the academic rank of assistant professor; where as 37.5 percent and 12.5 percent of the deans have the academic rank of associate professor and other respectively. On the other hand, 60 percent of the finance heads were college diploma holders, and 40 percent of them were first-degree holders. Moreover, about 93.8 percent of the budget/accounting staffs were diploma holders and only 6.2 percent were first-degree holder.

**Table 3: Characteristics of the Respondents of the Study**

| Items                                | Respondents |              |               |              |               |              |           |              |
|--------------------------------------|-------------|--------------|---------------|--------------|---------------|--------------|-----------|--------------|
|                                      | Deans       |              | Finance Heads |              | Budget Staffs |              | Total     |              |
|                                      | No          | %            | No            | %            | No            | %            | No        | %            |
| I. Sex                               |             |              |               |              |               |              |           |              |
| A. Male                              | 7           | 87.5         | 8             | 80.0         | 11            | 68.8         | 26        | 76.5         |
| B. Female                            | 1           | 12.5         | 2             | 20.0         | 5             | 31.2         | 8         | 23.5         |
| <b>Total</b>                         | <b>8</b>    | <b>100.0</b> | <b>10</b>     | <b>100.0</b> | <b>16</b>     | <b>100.0</b> | <b>34</b> | <b>100.0</b> |
| II. Levels of education              |             |              |               |              |               |              |           |              |
| A. 0-8 grade                         | -           | -            | -             | -            | -             | -            | -         | -            |
| B. Grade 10 complete                 | -           | -            | -             | -            | -             | -            | -         | -            |
| C. 10 + 3 (or Diploma)               | -           | -            | 6             | 60.0         | 15            | 93.8         | 21        | 61.8         |
| D. Undergraduate degree              | -           | -            | 4             | 40.0         | 1             | 6.2          | 5         | 14.7         |
| E. Post-graduate degree              | 1           | 12.5         | -             | -            | -             | -            | 1         | 2.9          |
| F. PhD                               | 7           | 87.5         | -             | -            | -             | -            | 7         | 20.6         |
| <b>Total</b>                         | <b>8</b>    | <b>100.0</b> | <b>10</b>     | <b>100.0</b> | <b>16</b>     | <b>100.0</b> | <b>34</b> | <b>100.0</b> |
| III. Academic rank                   |             |              |               |              |               |              |           |              |
| A. Assistant Professor               | 4           | 50.0         | -             | -            | -             | -            | 4         | 50.0         |
| B. Associate Professor               | 3           | 37.5         | -             | -            | -             | -            | 3         | 37.5         |
| C. Full Professor                    | -           | -            | -             | -            | -             | -            | -         | -            |
| D. Others                            | 1           | 12.5         | -             | -            | -             | -            | 1         | 12.5         |
| <b>Total</b>                         | <b>8</b>    | <b>100.0</b> | <b>-</b>      | <b>-</b>     | <b>-</b>      | <b>-</b>     | <b>8</b>  | <b>100.0</b> |
| IV. Years of service at present post |             |              |               |              |               |              |           |              |
| A. 5 years and below                 | 6           | 75.0         | 3             | 30.0         | 9             | 56.3         | 18        | 52.9         |
| B. 6-10 years                        | 2           | 25.0         | 5             | 50.0         | 6             | 37.5         | 13        | 38.3         |
| C. 11-15 years                       | -           | -            | 1             | 10.0         | -             | -            | 1         | 2.9          |
| D. More than 15 years                | -           | -            | 1             | 10.0         | 1             | 6.2          | 2         | 5.9          |
| <b>Total</b>                         | <b>8</b>    | <b>100.0</b> | <b>10</b>     | <b>100.0</b> | <b>16</b>     | <b>100.0</b> | <b>34</b> | <b>100.0</b> |
| V. Total years of service            |             |              |               |              |               |              |           |              |
| A. 5 years and below                 | -           | -            | 1             | 10.0         | 6             | 37.4         | 7         | 20.6         |
| B. 6-10 years                        | 1           | 12.5         | -             | -            | 3             | 18.8         | 4         | 11.8         |
| C. 11-15 years                       | -           | -            | 2             | 20.0         | -             | -            | 2         | 5.8          |
| More than 15 years                   | 7           | 87.5         | 7             | 70.0         | 7             | 43.8         | 21        | 61.8         |
| <b>Total</b>                         | <b>8</b>    | <b>100.0</b> | <b>10</b>     | <b>100.0</b> | <b>16</b>     | <b>100.0</b> | <b>34</b> | <b>100.0</b> |

Most of the positions at finance head level, as a rule, are supposed to be filled by first and second-degree holders. But, here there is a wide gap between the existing educational level of the staffs and the desired one, which calls for the implementation of the major reforms in such extensive financial management areas of the university at large.

The work experience of the respondent, as item (IV) indicates, 75 percent of the deans, 30 percent of the finance heads, and 56.3 percent of the budget staffs had served for five years and below, and the remaining 25 percent for deans, 70 percent of finance heads, and 43.7 percent

budget staffs had been at this post for six years and above. It can be said that the majority of the respondents lack extensive service; most of them have not served more than 5 years in their current position. Thus, it might be said that an employee may no longer be in one position for many consecutive years and may have an adverse effect for sustainable work. On the other hand, 70 percent of the finance heads had served more than five years in their present position. This shows that most of the finance heads have adequate service but lack the required degree for the post.

With regard to total years of service, as item (V) shows that 61.8 percent of these personnel had served more than fifteen years. Out of these 87.5 percent of the deans, 70 percent of the finance heads, and 43.8 percent had served more than fifteen years. This shows that most of the respondents have adequate experience (longer years of services) for their job.

From this data, one can generalize that the respondent at both level are experienced staffs but with low level of education.

### 3.2. Mapping Budgets to Programs and Sub-agencies

Since the EFY 1994, with favorable prospects of the CSRP, the Federal Government of Ethiopia has been in the process of budget reform. The reform was expected to bring changes in budget classification—the organization and structure of the budget. According to the reform program, budget categories have been introduced for both the recurrent and capital budgets, which consistently mapped budget to organization and its sub-units.

**Table 4: The Budget Structure of Addis Ababa University**

| <b>BUDGET CATAGORY</b> |   | <b>CODE</b> |
|------------------------|---|-------------|
| Public body            | Addis Ababa University                        | 15/312      |
| Program                | Higher Education                              | 02          |
| Sub-agency             | Main Campus                                   | 01          |
|                        | Faculty of Business and Economics             | 02          |
|                        | Faculty of Technology (Northern Campus)       | 03          |
|                        | Faculty of Science                            | 04          |
|                        | Faculty of Technology (Southern Campus)       | 05          |
|                        | Faculty of Medicine                           | 06          |
|                        | Faculty of Veterinary Medicine                | 07          |
|                        | Black Lion Comprehensive Specialized Hospital | 08          |
|                        | College of Commerce                           | 09          |
|                        | School of Journalism and Communication        | 10          |
| Sub-program            |   | 00          |
| Project                |   | 000         |

*Source: Budget Proclamation of AAU*

Table 4: shows the budget code that appears in the budget proclamation of the university and then on each sub-agency's accounting document and report. This Budget mapping (making the institution responsible) within the university has been done at program, sub-agency, sub-program, and project levels. These different categories are finally supported by detailed line item or object of expenditure inputs of the budget, which enable to exercise fiscal control and organizational accountability.

**Table 5: Colleges, Faculties, Departments, and Administrative Units of AAU**

| Code         | Sub-agency                                    | Colleges | Faculties | Departments | Admi. Units | Total      |
|--------------|---|----------|-----------|-------------|-------------|------------|
| 01           | Main Campus                                   | 2        | 2         | 34          | 46          | 84         |
| 02           | Faculty of Business and Economics             |          | 1         | 4           | 4           | 9          |
| 03           | Faculty of Technology (Northern Campus)       |          | 1         | 8           | 6           | 15         |
| 04           | Faculty of Science                            |          | 1         | 8           | 5           | 14         |
| 05           | Faculty of Technology (Southern Campus)       |          | 1         | 4           | 5           | 10         |
| 06           | Faculty of Medicine                           |          | 1         | 21          | 5           | 27         |
| 07           | Faculty of Veterinary Medicine                |          | 1         | 6           | 9           | 16         |
| 08           | Black Lion Comprehensive Specialized Hospital |          |           | 5           | 6           | 11         |
| 09           | College of Commerce                           | 1        |           | 6           | 2           | 9          |
| 10           | School of Journalism and Communication        |          |           | 5           | 5           | 10         |
| <b>Total</b> |   | <b>3</b> | <b>8</b>  | <b>101</b>  | <b>93</b>   | <b>205</b> |

As indicated above in Table 5, Addis Ababa University is a Higher Education Institution with a total of three colleges, eight faculties; about hundred academic departments, institutions, and schools; and more than ninety administrative units under them. Both the Higher Education Proclamation 351/2003 and the Civil Service Reform Budget Reform Program mandates institutional structure with considerable autonomy to the institution in administrative and fiscal matters. AAU is entitled to request and receive a budget. It is an institution that has a legal mandate, receives budget directly from the concerned finance and planning body (MoFED), and submits its final accounts directly to the Ministry (MoFED, 2002).

The budget proclamation is the basic document. Transfer to the public body shall be made under the code identified in the budget proclamation and the recipient of the budget is responsible to account for the budget it has received. Using that code, it is possible to produce a report for the transfer, expenditures and the fund balance of a recipient. This coding system starts from budgeting. In the process of budget preparation, all the recipients of the fund from MoFED are

identified with specific budget code. That code is basic to understand how much budget is allocated to the university and its sub-agencies for the budget year (FDRE, 2004).

At the center of the financial management structure in each Sub-agency is the Agency's Finance Office responsible to the University Finance Office. The Federal Constitution, require Agency's Finance Office to prepare annual budgets and accounts of the Agency (FDRE, 1995). These financial management procedures should then are guided by Financial Regulations (FDRE, 1996). These are basically sound but will require updating to incorporate changes that are currently being introduced. The reform also brought significant change in the university's budget, accounts and disbursement system. The magnitude of the change to multiple systems creates the problems that the new procedures and systems did not perform properly or did not use properly at the beginning.

In terms of budget allocation during the year under review (1994-1999 E.C.) the total recurrent budget approved and allocated for AAU and its sub-agencies to use for the last two years (1998 and 1999 E.C.) were provided in Tables 6 and 7.

**Table 6: Approved Recurrent Budget of Sub-agencies for EFY 1998 (Treasury)**

| Code  | Personal Service |       | Good & Services |       | Fixed Assets |       | Other Payments |       | Total       |       |
|-------|------------------|-------|-----------------|-------|--------------|-------|----------------|-------|-------------|-------|
|       | Budg.            | %     | Budg.           | %     | Budg.        | %     | Budg.          | %     | Budg.       | %     |
| 01    | 25,226,800       | 31.8  | 44,767,000      | 51.2  | 756,600      | 13.4  | 13,071,800     | 97.4  | 83,822,200  | 45.1  |
| 02    | 2,903,000        | 3.7   | 618,700         | 0.7   | 18,000       | 0.3   | -              | -     | 3,539,700   | 1.9   |
| 03    | 4,755,500        | 6.0   | 1,058,200       | 1.2   | 150,000      | 2.7   | -              | -     | 5,963,700   | 3.2   |
| 04    | 7,333,100        | 9.2   | 3,131,900       | 3.6   | 108,900      | 1.9   | -              | -     | 10,573,900  | 5.7   |
| 05    | 2,588,600        | 3.3   | 602,900         | 0.7   | 80,000       | 1.4   | -              | -     | 3,271,500   | 1.8   |
| 06    | 8,586,700        | 10.8  | 2,788,700       | 3.2   | -            | 0.0   | -              | -     | 11,375,400  | 6.1   |
| 07    | 2,702,400        | 3.4   | 1,840,400       | 2.1   | 64,500       | 1.1   | -              | -     | 4,607,300   | 2.5   |
| 08    | 13,675,184       | 17.2  | 19,136,000      | 21.9  | 3,000,000    | 53.3  | -              | -     | 35,811,184  | 19.3  |
| 09    | 10,148,100       | 12.8  | 12,158,500      | 13.9  | 1,000,000    | 17.8  | -              | -     | 23,306,600  | 12.5  |
| 10    | 1,395,400        | 1.8   | 1,277,700       | 1.5   | 450,000      | 8.0   | 355,000        | 2.6   | 3,478,100   | 1.9   |
| Total | 79,314,784       | 100.0 | 87,380,000      | 100.0 | 5,628,000    | 100.0 | 13,426,800     | 100.0 | 185,749,584 | 100.0 |

Source: Planning and Budget Office of AAU

**Table 7: Approved Recurrent Budget of Sub-agencies for EFY 1999 (Treasury)**

| Code  | Personal Service |       | Good & Services |       | Fixed Assets |       | Other Payments |       | Total       |       |
|-------|------------------|-------|-----------------|-------|--------------|-------|----------------|-------|-------------|-------|
|       | Budg.            | %     | Budg.           | %     | Budg.        | %     | Budg.          | %     | Budg.       | %     |
| 01    | 31,439,900       | 33.7  | 63,300,100      | 56.5  | 1,002,400    | 17.1  | 31,921,800     | 98.9  | 127,664,200 | 52.4  |
| 02    | 3,451,100        | 3.7   | 942,800         | 0.8   | 67,200       | 1.1   | -              | -     | 4,461,100   | 1.8   |
| 03    | 5,486,000        | 5.9   | 1,305,000       | 1.2   | 151,000      | 2.6   | -              | -     | 6,942,000   | 2.9   |
| 04    | 8571600          | 9.2   | 3,206,800       | 2.9   | 128,900      | 2.2   | -              | -     | 11,907,300  | 4.9   |
| 05    | 3,030,400        | 3.2   | 852,700         | 0.8   | 43,100       | 0.7   | -              | -     | 3,926,200   | 1.6   |
| 06    | 10,041,800       | 10.8  | 3,465,800       | 3.1   | 120,000      | 2.0   | -              | -     | 13,627,700  | 5.6   |
| 07    | 3,096,600        | 3.3   | 2,206,600       | 2.0   | 98,900       | 1.7   | -              | -     | 5,402,100   | 2.2   |
| 08    | 14,571,700       | 15.6  | 19,274,000      | 17.2  | 3,020,000    | 51.6  | -              | -     | 36,865,700  | 15.1  |
| 09    | 11,230,900       | 12.0  | 15,748,600      | 14.1  | 776,400      | 13.3  | -              | -     | 27,755,900  | 11.4  |
| 10    | 2,381,800        | 2.6   | 1,756,000       | 1.6   | 450,000      | 7.7   | 350,000        | 1.1   | 4,937,800   | 2.0   |
| Total | 93,301,800       | 100.0 | 112,058,400     | 100.0 | 5,857,900    | 100.0 | 32,271,800     | 100.0 | 243,489,900 | 100.0 |

Source: Planning and Budget Office of AAU

Here the researcher's main concern was not to see the allocated and utilized budget of the agencies, but to see the existing equity (inequality) of budget mapping to program and sub-agencies in terms of the approved budget, for instance, for two consecutive years. As indicated in table 6 and 7, each year budget approval trend from Government Treasury shows an increase by significant amount. But the approved budget for each sub-agency was not equitable. If you look at, for example, the approved budget for Main Campus (01) in the year 1998 and 1999 E.C. was almost half of the total university's budget i.e., about 45.1 percent and 52.4 percent respectively. This was a huge budget for the university and the amount of annual budget was the first in sharing the highest proportion of the budget. The respondents also cited that the recurrent budget of this sub-agency takes the largest share than other sub-agencies.

Similar question was raised for the university Budget Administration Head in the form of interview about the budget approval and allocation system of the university. He said that the university allocates almost half of the budget to this sub-agency, which is large as compared to other sub-agencies in the university. The head also added that with in the framework of available financial resource in the university, relatively and reasonably adequate budget was allocated in each fiscal year to finance approved programs and activities for that year. This does not mean that all proposed projects are approved. But, enough budgets are allocated for all sub-agencies for that particular years and activities. He also further said that the need for additional budget is

increasing from year to year and to overcome the shortage of budget they recommend some other additional strategies as a source of fund.

As a public higher education institution's AAU has some sources of income. According to interview questions' responses by university management and officers, for instance, as a state financed educational institution, predominantly depend on government appropriations and less on tuition fees and donations. The budget formats in one way or another line the item of expenditure to the source of finance. There are three sources of finance: Treasury (the annual budget requested by the university from government Central Treasury), Retained Revenue (income generated from services delivered by the institution such as training, research, continuing education and distance education, consultancy and other activities undertaken), and External Assistance (the fund from donors in the form of direct implementation of part of the program or project on behalf of the university). The Treasury source of finance is the largest share, the Retained Revenue and the External Assistance are the second and third respectively in terms of amount and continuity.

The researcher presented the following questionnaire items to elicit feedback on how the cost-center budget practices ran from the sub-agencies perspective. The researcher asked for feedback on specific areas where that were particularly interested in hearing their views. The researcher also asked for any general feedback, thoughts and suggestions that they had about how the practices went, and what could do to improve the practices for next time. This section presents the results of the questionnaire.

As item (I) Table 8 depicts, CCB practice in their sub-agency creates better allocation decision 50 percent of the deans, 60 percent of finance heads, and 87.4 percent of budget staff respondents indicated their agreement to the statement. Where as, 25 percent of the deans, 30 percent of finance heads, and 6.3 percent of budget staff have no opinion about the allocation decision of the center. Moreover, 25 percent of the deans, 10 of finance heads respondents indicated their disagreement to the statement.

In Table 8 item (II), 62.5 percent of the deans, 20 percent of finance heads, and 56.3 percent of budget staff respondents indicated their disagreement, and 12.5 percent of the deans, 40 percent of finance heads, and 18.8 percent of budget staff respondents indicated their strong

disagreements that CCB practice did not promote accountability in their sub-agency. Moreover, 25 percent of the deans, 20 percent of finance heads, and 6.2 percent of budget staff have no opinion about the statement. Where as, only 20 percent of the finance heads and 12.5 percent of budget staffs indicated their agreement that the practice promotes accountability.

**Table 8: Responses on Cost-center Budgeting (CCB) Practice**

| Item   | Position      | Strongly Disagree % |      | Disagree % |      | No Opinion % |      | Agree % |      | Strongly Agree % |     |
|--|---------------|---------------------|------|------------|------|--------------|------|---------|------|------------------|-----|
|  |               | N                   | %    | N          | %    | N            | %    | N       | %    | N                | %   |
| I. CCB practice in your sub-agency creates better allocation decision  | Deans         | -                   | -    | 2          | 25.0 | 2            | 25.0 | 4       | 50.0 | -                | -   |
|  | Finance-Heads | 1                   | 10.0 | -          | -    | 3            | 30.0 | 6       | 60.0 | -                | -   |
|  | Budget-Staffs | -                   | -    | -          | -    | 1            | 6.3  | 14      | 87.5 | 1                | 6.2 |
| II. CCB promote accountability in your sub-agency  | Deans         | 1                   | 12.5 | 5          | 62.5 | 2            | 25.0 | -       | -    | -                | -   |
|  | Finance-Heads | 4                   | 40.0 | 2          | 20.0 | 2            | 20.0 | 2       | 20.0 | -                | -   |
|  | Budget-Staffs | 3                   | 18.8 | 9          | 56.3 | 1            | 6.2  | 2       | 12.5 | 1                | 6.2 |
| III. CCB practice creates better organizational management   | Deans         | -                   | -    | 3          | 37.5 | 2            | 25.0 | 3       | 37.5 | -                | -   |
|  | Finance-Heads | 3                   | 30.0 | 1          | 10.0 | 2            | 20.0 | 4       | 40.0 | -                | -   |
|  | Budget-Staffs | -                   | -    | 5          | 31.3 | 1            | 6.2  | 9       | 56.3 | 1                | 6.2 |
| IV. Does your center budget together all types of expenditure?   | Deans         | 6                   | 75   | -          | -    | 2            | 25.0 | -       | -    | -                | -   |
|  | Finance-Heads | 8                   | 80   | -          | -    | 2            | 20.0 | -       | -    | -                | -   |
|  | Budget-Staffs | 15                  | 93.8 | -          | -    | 1            | 6.2  | -       | -    | -                | -   |
| V. The new budget structure provides both a comprehensive and a flexible mapping of the university's to its sub-agencies and activities. | Deans         | 2                   | 25.0 | 4          | 50.0 | 1            | 12.5 | 1       | 12.5 | -                | -   |
|  | Finance-Heads | 4                   | 40.0 | 2          | 20.0 | 1            | 10.0 | 3       | 30.0 | -                | -   |
|  | Budget-Staffs | 5                   | 31.2 | 7          | 43.8 | -            | -    | 4       | 25.0 | -                | -   |

In Table 8 item (III) CCB practice creates better organizational management 37.5 percent of the deans, 40 percent of finance heads, and 56.3 percent of budget staff respondents indicated their agreement to the statement. Where as, 37.5 percent of the deans, 10 percent of finance heads, and 31.3 percent of budget staff respondents indicated their disagreement to the statement. Moreover, 25 percent of the deans, 20 of finance heads and 6.2 percent of budget staff respondents have no opinion about the better organizational management that the CCB brought to the center.

As revealed in Table 8 item (IV) 75 percent of the deans, 80 percent of finance heads, and 93.8 percent of budget staff respondents indicated their strong disagreement that in the existing budget practice of the university all types of expenditure (recurrent and capital) do not budgeted together, even if they are placed in different budgets, to facilitate the development and application of budget norms that can promote better expenditure composition. Moreover, 25 percent of the deans, 20 percent of finance heads, and 6.2 percent of budget staff have no opinion about the statement.

In conclusion, as item (V) Table 8 shows, the general feedback, thoughts and suggestions that they had about the new budget structure provides categories that allow both a comprehensive and a flexible mapping (making responsible) of the university's to its sub-agencies and activities, 25 percent of the deans, 40 percent of finance heads, and 31.2 percent of budget staff respondents indicated their strong disagreement and 50 percent of the deans, 20 percent of finance heads, and 43.3 percent of budget staff respondents indicated their disagreement. Moreover, 12.5 percent of the deans and 10 percent of finance heads have no opinion about the statement. On the other hand, 12.5 percent of the deans, 30 percent of finance heads, and 25 percent of budget staff respondents indicated their agreement to the statement.

One can easily conclude from the above responses that the existing cost-center budgeting practice of the university can only afford a partial basis for the appropriate budget use. It cannot envisage a sufficient basis for measuring the autonomy and performance of the budgetary agency or a program, nor can it be employed to the decentralization of budgetary management to the sub-agencies of the university—CCB practice did not promote accountability in their sub-agency. Furthermore, in the existing budget practice, recurrent and capital budgets are not budgeted together, to facilitate the development and application of budget norms that can promote better expenditure composition—the two types of budgets are not linked by cost-centers.

### **3.3. Financial and/or Administrative Autonomy of Sub-agencies**

As declared in the Federal Government of Ethiopia Financial Administration, in most government organizations, especially in various levels of governments, the legal basis for spending and financial accountability is provided by the budget system rules and regulations, as sanctioned by legally entitled approving bodies or authorities. It is useful to state; here that

budgeting is integrally linked to an accounting process where in revenue and expenditure information can be organized to facilitate continuous monitoring, evaluation, and management control. In this sense, the budget process makes it possible to delegate financial responsibility and authority while appropriate controls are affected and maintained (FDRE, 1996).

Accordingly, in the multiple response questions, all respondents indicated that the university's budget system rules and regulations do not clearly show agencies' authority over budget management and over funds from internal (retained revenue) and external (Assistance and Loan) sources. Furthermore, individual sub-agency heads are not given a clear responsibility for the funds they collect and/or use. In general, accountability for and transparency in the area of retained revenues is weak. There is a standing finance instruction that enforces all public bodies to submit to MoFED the amount they have collected and details of its utilization. Even so, the quantum of retained revenues is not regularly and accurately reported on, and this erodes the efficiency of expenditure allocation as well as accountability.

Similar question was raised for both university and MoFED Officers in the form of interview that whether fees and charges (revenue) are collected by legally designated receipt voucher and regularly credited to Central Treasury Account or not. They responded that some of this revenue (Special Fund) are collected by the university receipt voucher and do not regularly credited to Central Treasury Account for the reason that the university has the mandate to use its own revenue collected from various internal sources. Expenditure disbursed through this Fund Channel is also unlikely to be brought to account, as the departments responsible for university budgets are usually unaware of the funding. No reference is made to the Fund expenditure in reports to the MoFED. There is also the possibility that some fund is not brought to account since there is no record of fund kept centrally and checked to the budget.

Furthermore, the respondent from MoFED, in the case of external assistance channeled through single agency, it is the receiving institution's responsibility to notify MoFED to ensure that funding is included in the Federal Budget but this does not always happen. The Aid Co-ordination section of MoFED negotiates aid funding with donors but even this department may not be aware of all sector aid, aid-in-kind, technical assistance or direct procurements for projects as there is little integration of the various government information systems for finance, budgeting and planning purposes.

The contemporary financial management requires a complex mix of leadership, shared responsibility, operational directives and controls, planning and programming, performance evaluation. But the existing budget practice system of the university can only afford a partial basis for the appropriate budget use. It cannot envisage a sufficient basis for measuring the autonomy and performance of the budgetary agency or a program, nor can it be employed to monitor progress toward the implementation of a particular set of activities whose output or service delivery one would like to judges.

**Table 9: Responses in Financial and/or Administrative Autonomy of the Sub-agencies**

| Items  | Respondents |              |               |              |               |              |           |              |
|--|-------------|--------------|---------------|--------------|---------------|--------------|-----------|--------------|
|  | Deans       |              | Finance Heads |              | Budget Staffs |              | Total     |              |
|  | No          | %            | No            | %            | No            | %            | No        | %            |
| I. How would management of fees and charges of the sub-agency be described?  |             |              |               |              |               |              |           |              |
| A. Directly managed by the agency without any intervention of the central agency of the university—and not reported in the budget. | -           | -            | -             | -            | -             | -            | -         | -            |
| B. Directly managed by the agency without any intervention of the central agency of the university—and reported in the budget.     | 2           | 25.0         | 2             | 20.0         | 3             | 18.8         | 7         | 20.5         |
| C. Subject to review and priority setting but managed outside of the budget process  | 5           | 6.25         | 4             | 40.0         | 7             | 43.8         | 16        | 47.1         |
| D. Fully integrated into budget decision making and reporting—and shown in gross terms in the budget.                              | 1           | 12.5         | 3             | 30.0         | 5             | 31.2         | 9         | 26.5         |
| E. Have no any idea  | -           | -            | 1             | 10.0         | 1             | 6.2          | 2         | 5.9          |
| F. Other   | -           | -            | -             | -            | -             | -            | -         | -            |
| <b>Total</b>   | <b>8</b>    | <b>100.0</b> | <b>10</b>     | <b>100.0</b> | <b>16</b>     | <b>100.0</b> | <b>34</b> | <b>100.0</b> |
| II. How would the amendment power of the sub-agency on the execution of budgeted expenditure be described?                         |             |              |               |              |               |              |           |              |
| A. Not explicitly defined in the budget legislation  | -           | -            | -             | -            | 2             | 12.5         | 2         | 5.9          |
| B. Unrestricted—able to vary expenditure/ revenue without the consent of the executive.  | -           | -            | -             | -            | -             | -            | -         | -            |
| C. Restricted—allowing amendments but with the consent of the executive.   | 7           | 87.5         | 7             | 70.0         | 11            | 68.8         | 25        | 73.5         |
| D. Balanced—able to raise or lower expenditure/ revenue by the executive.  | 1           | 12.5         | 1             | 10.0         | 2             | 12.5         | 4         | 11.8         |
| E. Have no any idea  | -           | -            | 2             | 20.0         | 1             | 6.2          | 3         | 8.8          |
| F. Other   | -           | -            | -             | -            | -             | -            | -         | -            |
| <b>Total</b>   | <b>8</b>    | <b>100.0</b> | <b>10</b>     | <b>100.0</b> | <b>16</b>     | <b>100.0</b> | <b>34</b> | <b>100.0</b> |

Table 9: looks at the financial and/or administrative autonomy of the Sub-agencies on management of fees and charges, and their amendment power on the execution of budgeted expenditure are described. As it can be seen in the Table 9, 20.5 percent of the respondents indicated the management of fees and charges were directly managed by the agency without any intervention of the central agency of the university—and reported in the budget. About 47.1 percent of the agencies respondent indicated fees and charges of the agency were subjected to review and priority setting but managed outside of the budget process and 26.5 percent of the respondents indicated that fees and charges were fully integrated into budget decision making and reporting—and shown in gross terms in the budget. Where as, 5.9 percent of the respondent indicated that they have no idea about the management of fees and charges by the respective sub-agencies.

Beside, as it can be seen in Table 9 item II, the amendment power of the sub-agency on the execution of budgeted expenditure were described that 73.5 percent of the respondent indicated the amendment power of the sub-agency were restricted—allowing amendments but with the consent of the executive. On the other hand, 11.8 percent of the respondent indicated that the amendment power was balanced—able to raise or lower expenditure/ revenue by the executive. The other 5.9 of the respondent indicated that the amendment power of the sub-agency on the execution of budgeted expenditure was not explicitly defined in the budget legislation, and 8.8 percent have no idea about the amendment power of the agency.

Furthermore, from the responses of the deans to the open-ended questions about the management of fees and charges collected by sub-agencies of the university, they said that sub-agencies administration use limited sources of revenue to finance their ever-increasing expenditures. The revenue generated was by far below the required level and it was unfortunate that they could not meet the needs of the center.

### **3.4. Budget Preparation and Execution Process**

As it can be seen in Table 10 (in the appendix I), the budget development procedure/process of the university, of whether there is an officially adopted procedure for budget development/process or not, 37.5 of the deans, 20 percent of finance heads, and 37.2 percent of budget staff respondents indicated that their sub-agency have officially adopted procedure in

budget development. As the researcher has been confirmed from the respondents, those newly incorporated agencies to the university have this procedure because of their financial and administrative autonomy that they have had before their integration in to the university budget. Whereas, 62.5 of the deans, 80 percent of finance heads, and 62.5 percent of budget staff respondents from the older agencies replied that their sub-agencies have no officially adopted procedure for budget development/process.

Furthermore, as it is depicted in the Table 10, more or less the same percentage of respondents affirmed that sub-units of their agencies were not establishing a set of goals and objectives to guide decision-making, assessing the department/faculty/college or others needs, priorities, challenges and opportunities, providing budget administrative plan of who does what, creating a budget calendar to specify when each task is to be done, and accurately estimating expenditure and revenue expected during the coming year to meet the costs of all programs and services.

In the item (III) of Table 10, 25 of the deans, 30 percent of finance heads, and 18.8 percent of budget staff respondents indicated that their agencies budget development/process was developed and adopted through collegial consultation with the staffs (participatory budgeting). But, on the other hand, 75 of the deans, 70 percent of finance heads, and 81.2 percent of budget staff respondents indicated that budget development/process was not developed through collegial consultation with the staffs—not participatory budgeting approach. Moreover, the same percentage of respondents answered that the department/faculty/college or others of the agency have no roles in budget planning and they did not submit their action plans as part of the planning process. Above all, 100 percent of the respondent confirmed that the academic staffs of the agencies have no role in budget development/process.

On the other hand, The budget preparation system of the university was mostly incremental in its approach, which means develops the current year budget on the basis of the budget of the previous accounting period. The new budget was developed by adding or subtracting from the baseline budget. Therefore, the budget preparation starts with budget call. The MoFED sends instructions and directives as to how to prepare the annual estimates and sets time limits in which budget should be submitted.

According to interview made with budget officers, they said that the university designs its annual budget based on the programs and activities of each section, department, and faculty. Therefore, the budget request starts from the lower levels or operating organs to the next recognized body. That means, the budget request for the year will be forwarded from different sections, departments, and faculties according to their requirement with tangible, detailed explanations. The Planning and Budget Office of the university review the budget forwarded whether the budget was realistic and sound. Some times, there was a budget debate with the university management committee and heads of each faculty for some adjustment. Finally, the summarized budget would be forwarded to the MoFED for approval.

According to the responses of MoFED Officials in the interview conduct with, all of the Sub-agencies have managed to prepare their budget using the new budget reform preparation process introduced since 2001/2002-budget year. This was a significant proportion given the manual preparation of budgets and low levels of capacity across all sub-agencies. However, of those sub-agencies', which have not delivered budget proposals on time, some were up to two months behind in processing. Even though there were some timely proposals from sub-agencies, lack of completeness was another problem of the agencies. The delays mostly were due to the manual system and lack of skills/capacity at these agencies. In some instances, sub-agencies' were awaiting details from other departments and were not prepared to consolidate until figures could be accurately verified. The amount of detail required in budget preparation for consolidation purposes also take a considerable length of time to accumulate and was always necessary for management purposes.

Table 11 showed the Budget Preparation Information and Instruction provided from the Planning and Budget Office (PBO) of the university to sub-agencies. As item (I) Table 11 depicts, 10 percent of finance heads, and 12.5 percent of budget staff respondents indicated their strong disagreement and 50 percent of the deans, 30 percent of finance heads, and 37.5 percent of budget staffs replied their disagreements that all necessary information was provided from PBO, and was easy to understand. In addition, 37.5 percent of the deans and 10 percent of the finance heads responded that they do not have opinion about the statement. On the other hand, 12.5 percent of the deans, 50 percent of finance heads, and 50 percent of budget staff respondents indicated their agreements.

**Table 11: Information and Instruction from the Planning and Budget Office (PBO)**

| Item   | Position      | Strongly Disagree % |      | Disagree % |      | No Opinion % |      | Agree % |      | Strongly Agree % |   |
|--|---------------|---------------------|------|------------|------|--------------|------|---------|------|------------------|---|
|  |               | N                   | %    | N          | %    | N            | %    | N       | %    | N                | % |
| I. All necessary information was provided, and was easy to understand?   | Deans         | -                   | -    | 4          | 50.0 | 3            | 37.5 | 1       | 12.5 | -                | - |
|  | Finance-Heads | 1                   | 10.0 | 3          | 30.0 | 1            | 10.0 | 5       | 50.0 | -                | - |
|  | Budget-Staffs | 2                   | 12.5 | 6          | 37.5 | -            | -    | 8       | 50.0 | -                | - |
| II. The Budget Circular or Budget Process Guide given by PBO provided sufficient guidance on how to prepare Budget Proposal.       | Deans         | 1                   | 12.5 | 3          | 37.5 | 4            | 50.0 | -       | -    | -                | - |
|  | Finance-Heads | 2                   | 20.0 | 3          | 30.0 | 2            | 20.0 | 3       | 30.0 | -                | - |
|  | Budget-Staffs | 4                   | 25.0 | 9          | 56.2 | -            | -    | 3       | 18.8 | -                | - |
| III. And the guidelines were helpful for assembling and presenting the proposal.   | Deans         | 1                   | 12.5 | 3          | 37.5 | 4            | 50.0 | -       | -    | -                | - |
|  | Finance-Heads | 3                   | 30.0 | 2          | 20.0 | 2            | 20.0 | 3       | 30.0 | -                | - |
|  | Budget-Staffs | 4                   | 25.0 | 7          | 43.8 | -            | -    | 5       | 31.2 | -                | - |
| IV. Decisions on the theme process were communicated quickly and clearly.  | Deans         | 1                   | 12.5 | 4          | 50.0 | 3            | 37.5 | -       | -    | -                | - |
|  | Finance-Heads | 1                   | 10.0 | 4          | 40.0 | 1            | 10.0 | 4       | 40.0 | -                | - |
|  | Budget-Staffs | 3                   | 18.8 | 6          | 37.4 | -            | -    | 7       | 43.8 | -                | - |
| V. The final decisions made by the management on the budget proposals were clearly communicated in a timely manner.                | Deans         | 2                   | 25.0 | 3          | 37.5 | 3            | 37.5 | -       | -    | -                | - |
|  | Finance-Heads | 1                   | 10.0 | 4          | 40.0 | 1            | 10.0 | 4       | 40.0 | -                | - |
|  | Budget-Staffs | 2                   | 12.5 | 7          | 43.8 | -            | -    | 7       | 43.8 | -                | - |
| VI. Overall, the university's budget preparation process enabled changes to be incorporated efficiently with low compliance costs? | Deans         | 1                   | 12.5 | 4          | 50.0 | 3            | 37.5 | -       | -    | -                | - |
|  | Finance-Heads | 1                   | 10.0 | 4          | 40.0 | 2            | 20.0 | 3       | 30.0 | -                | - |
|  | Budget-Staffs | 1                   | 6.2  | 9          | 56.3 | 1            | 6.2  | 5       | 31.3 | -                | - |

In Table 11 item (II), 12.5 percent of the deans, 20 percent of finance heads, and 25.5 of budget staff respondents and 37.5 percent of the deans, 30 percent of finance heads, and 56.2 percent of budget staff respondents indicated their strong disagreement and disagreement respectively that the budget circular or budget process guide given by PBO provided sufficient guidance on how to prepare Budget Proposal. Besides, 50 percent of the deans, 20 percent of the finance heads indicated that they have no opinion about the budget circulars or guideline provided. On the other hand, 30 percent of finance heads and 18.8 percent of the budget staff respondents indicated their agreements.

Furthermore, as it is depicted in Table 11 item (III), almost the same percentage of respondents, for item (II), indicated their strong disagreement and disagreement respectively that the guidelines were helpful for assembling and presenting the proposal. As well, 50 percent of the deans, 20 percent of the finance heads indicated that they have no opinion about the statement. Conversely, 30 percent of finance heads and 31.2 percent of the budget staff respondents indicated their agreements.

As revealed in Table 11 item (IV), 12.5 percent of the deans, 10 percent of finance heads, and 18.8 of budget staff respondents and 50 percent of the deans, 40 percent of finance heads, and 37.4 percent of budget staff respondents indicated their strong disagreement and disagreement respectively that decisions on the theme process were communicated quickly and clearly. Besides, 37.5 percent of the deans, 10 percent of the finance heads indicated that they have no opinion about the statement. On the other hand, 40 percent of finance heads and 43.8 percent of the budget staff respondents indicated their agreements.

Table 11 of item (V) also indicates that 25 percent of the deans, 10 percent of finance heads, and 12.5 of budget staff respondents and 37.5 percent of the deans, 40 percent of finance heads, and 43.8 percent of budget staff respondents indicated their strong disagreement and disagreement respectively that the final decisions made by the management on the budget proposals were clearly communicated in a timely manner. Besides, 37.5 percent of the deans, 10 percent of the finance heads indicated that they have no opinion about the statement. On the other hand, 40 percent of finance heads and 43.8 percent of the budget staff respondents indicated their agreements.

Eventually, as indicated in the item (VI) of Table 11, 12.5 percent of the deans, 10 percent of finance heads, and 6.2 of budget staff respondents and 50 percent of the deans, 40 percent of finance heads, and 56.3 percent of budget staff respondents indicated their strong disagreement and disagreement respectively that the overall university's budget preparation process enabled changes to be incorporated efficiently with low compliance costs. Besides, 37.5 percent of the deans, 20 percent of the finance heads, and 6.2 percent of the budget staff respondents indicated that they have no opinion about the statement. On the other hand, 30 percent of finance heads and 31.3 percent of the budget staff respondents indicated their agreements.

Further more, as an additional comment to the questions, respondents have also expressed concerns about the inefficiency of the guidance. This was consistent with the researcher's view that the requirements did not really achieve the kind of change that hoped for. Feedback suggests that guidance needs to be clearer and available earlier to help agencies meet the demand for this greater specificity around the results that funding would help to achieve.

**Table 12: Budget Preparation Using Budget Information System (BIS)**

| Item  | Position      | Strongly Disagree % |      | Disagree % |      | No Opinion % |      | Agree % |      | Strongly Agree % |     |
|---|---------------|---------------------|------|------------|------|--------------|------|---------|------|------------------|-----|
|   |               | N                   | %    | N          | %    | N            | %    | N       | %    | N                | %   |
| I. Preparation of budget with BIS simplifies the manual tasks of your budget compilation and reduces the inevitable errors.                   | Deans         | -                   | -    | 1          | 12.5 | 6            | 75.0 | 1       | 12.5 | -                | -   |
|   | Finance-Heads | 3                   | 30.0 | 1          | 10.0 | 3            | 30.0 | 3       | 30.0 | -                | -   |
|   | Budget-Staffs | 6                   | 37.5 | 5          | 31.3 | 1            | 6.2  | 3       | 18.8 | 1                | 6.2 |
| II. The BIS used to consolidate the data entry into budget documents in a more transparent and detailed manner than had previously been done. | Deans         | -                   | -    | 1          | 12.5 | 6            | 75.0 | 1       | 12.5 | -                | -   |
|   | Finance-Heads | 3                   | 30.0 | 2          | 20.0 | 3            | 30.0 | 2       | 20.0 | -                | -   |
|   | Budget-Staffs | 6                   | 37.5 | 5          | 31.3 | 1            | 6.2  | 3       | 18.8 | 1                | 6.2 |
| III. BIS Proposal worked as you had been briefed?   | Deans         | -                   | -    | 1          | 12.5 | 6            | 75.0 | 1       | 12.5 | -                | -   |
|   | Finance-Heads | 3                   | 30.0 | 2          | 20.0 | 3            | 30.0 | 2       | 20.0 | -                | -   |
|   | Budget-Staffs | 6                   | 37.5 | 3          | 18.8 | 1            | 6.2  | 5       | 31.3 | 1                | 6.2 |
| IV. You were provided with enough help from PBO and MoFED to use the system (BIS).  | Deans         | -                   | -    | 1          | 12.5 | 6            | 75.0 | 1       | 12.5 | -                | -   |
|   | Finance-Heads | 3                   | 30.0 | 2          | 20.0 | 3            | 30.0 | 2       | 20.0 | -                | -   |
|   | Budget-Staffs | 6                   | 37.5 | 3          | 18.8 | 1            | 6.2  | 5       | 31.2 | 1                | 6.2 |
| V. Overall, you found the BIS in budget preparation and presentation easy to use?   | Deans         | -                   | -    | 1          | 12.5 | 6            | 75.0 | 1       | 12.5 | -                | -   |
|   | Finance-Heads | 3                   | 30.0 | 2          | 20.0 | 3            | 30.0 | 2       | 20.0 | -                | -   |
|   | Budget-Staffs | 6                   | 37.5 | 3          | 18.8 | 1            | 6.2  | 5       | 31.2 | 1                | 6.2 |

The introduction of this financial reform involves changing the roles of the staff. The budget reform included both new procedures but also a computerized system for managing budget preparation and production. The computer system added a new role (and burden) to already burdened budget departments. Eventually the efficiency gains of the Budget Information System (BIS) for budget analysis, production and notification should become apparent to budget staff the need for the extra time and management needed to properly enter budget data into the BIS. An

objective for the preparation of the budget using BIS was that the staffs assume the necessary roles to operate and manage the BIS.

As indicated in Table 12 of item (I), 30 percent of finance heads, and 37.5 of budget staff respondents and 12.5 percent of the deans, 10 percent of finance heads, and 31.3 percent of budget staff respondents indicated their strong disagreement and disagreement respectively that the preparation of budget with BIS simplifies the manual tasks of their budget compilation and reduces the inevitable errors. Above all, 75 percent of the deans, 30 percent of the finance heads, and 6.2 of the budget staff respondents indicated that they have no opinion about the preparation of budget with BIS. On the other hand, 12.5 percent of the deans, 30 percent of finance heads and 18.8 percent of the budget staff respondents indicated their agreements; and only 6.2 percent of the budget staff indicated their strong agreements.

Further more, with almost the same percentage of respondents indicated their strong disagreement, disagreement, opinion, agreement and strong agreement respectively for item (II), (III), (IV), and (V) of Table 12. This indicated that there were problems associated with the introduction of the new BIS. There were also several components of problems concerning the new system. First, preparation of budget with BIS did not simplify the manual tasks of agencies budget compilations and reduces the inevitable errors. Second, agencies were not provided enough help from PBO and MoFED to use the system.

The respondent from the MoFED also provided his response for the question that the BIS introduced during the EFY 1994 Budget. This represented a major change to a significant component of the budget production process. To ensure that a fully functioning system was in place in time for the budget at the ministry level, some of the more complicated functionality was not fully implemented as had originally been envisaged.

A major virtue of the BIS was its capability to produce analytic reports by entering budget data into the BIS, which is a relational database; and possible to generate any number of standardized and customized reports using the system. Because this BIS was introduced only for the budget season, there was not time for the university staff to fully utilize the capabilities of the system for analysis purposes. One objective of the budget reform was to use more effectively the analytic capabilities of the BIS.

### **3.5. The Recurrent and Capital Budgets Administration**

As part of the reform program introduced in the year 1994 EFY, a new classification system and chart of accounts had been introduced, which enable expenditures to be labeled down to cost center and program level. The revised classification scheme was fully described in Version 2.1 of the BRDM. Among other features, it ensured common coding across recurrent and capital budgets rationalize expenditure codes into a single series with a more consistent classification and assign unique revenue codes to each (donor or domestic) source of funding (MoFED, 2001:1-2).

In a nutshell, in the budget preparation process of the university, there was no integration between the recurrent and the capital budget. On the interview made with AAU, MoFED, and MoE Officers about the integration of recurrent and capital budget and their linkages by cost center, they responded that recently attempt was made to synchronize capital and recurrent budget at least during the budget preparation exercise in order to avoid duplication of efforts and economize resource allocation. Yet again with the formulation of Medium Economic and Fiscal Framework (MEFF) and Public Expenditure Program (PEP) by MoFED, phase integration between the recurrent and capital budget should be sought.

Additionally, MoFED Officer says that, this separate capital and recurrent budgets mean that for programs and projects in the capital budget there are complementary expenditures in the recurrent budget and the total cost of a program or programs or project are not transparent. The case was also true for expenditures of the public bodies and their programs in the recurrent budgets, which have complementary inputs in the capital budgets. By using standard budget categories and by standardizing the codes for these categories in both the recurrent and capital budgets, the two budgets have been linked

### **3.6. Budget Recording, Controlling, and Reporting**

In the open ended question, all respondents responded that recording budget transactions is the responsibility of the accountants by keeping the records of the financial transaction and the budget section representatives in the agencies are also fully participated in the budget preparation

process so that they can fully understand the budget and they will not be in problem when they perform the control function.

Budget ledger cards were maintained for each item of expenditure with approved budget. The approved budget for each expenditure item was posted to the budget ledger cards that were maintained by the budget section. Approval of the budget section was obtained before the accounts section makes any payment.

The budget ledger card is used in the budget control exercise. The budget section should prepare monthly budget tracking report. Preparation of this report was not a difficult task if the budget ledger was kept up-to-date at all time. The budget section extracts the approved revised budget for each item of expenditure from the budget ledger card. Expenditure to date was also extracted from the same ledger and put in the budget tracking report.

**Table 13: Responses in Budget Recording and Controlling**

| Items  | Respondents |       |               |       |               |       |       |       |
|--|-------------|-------|---------------|-------|---------------|-------|-------|-------|
|  | Deans       |       | Finance Heads |       | Budget Staffs |       | Total |       |
|  | No          | %     | No            | %     | No            | %     | No    | %     |
| I. How are mainly budget transactions recorded?                                      |             |       |               |       |               |       |       |       |
| A. On a cash basis   | -           | -     | -             | -     | -             | -     | -     | -     |
| B. On cash and commitments basis   | 4           | 50.0  | 9             | 90.0  | 16            | 100.0 | 29    | 85.3  |
| C. Cash with some accrual information  | -           | -     | -             | -     | -             | -     | -     | -     |
| D. On an accrual basis   | -           | -     | -             | -     | -             | -     | -     | -     |
| E. Have no any idea  | 4           | 50.0  | 1             | 10.0  | -             | -     | 5     | 14.7  |
| F. Other   | -           | -     | -             | -     | -             | -     | -     | -     |
| <b>Total</b>   | 8           | 100.0 | 10            | 100.0 | 16            | 100.0 | 34    | 100.0 |
| II. How would you describe the overall internal budget control system of the agency? |             |       |               |       |               |       |       |       |
| A. Very Strict   | 3           | 37.5  | 6             | 60.0  | 9             | 56.3  | 18    | 52.9  |
| B. Strict  | 5           | 62.5  | 4             | 40.0  | 6             | 37.4  | 15    | 44.2  |
| C. Less Strict   | -           | -     | -             | -     | -             | -     | -     | -     |
| D. Not Strict  | -           | -     | -             | -     | 1             | 6.3   | 1     | 2.9   |
| E. Have no idea  | -           | -     | -             | -     | -             | -     | -     | -     |
| <b>Total</b>   | 8           | 100.0 | 10            | 100.0 | 16            | 100.0 | 34    | 100.0 |

As it can be seen in Table 13, 50 of the deans, 90 percent of finance heads, and 100 percent of budget staff respondents indicated that budget transactions were mainly recorded on cash and commitments basis. Where as, 50 of the deans, 10 percent of finance heads respondents indicated that they have no idea about the recording of budget transaction. Moreover, all of the respondents

described that the internal budget control system of the agencies were very strict and strict respectively. This showed that there was a high degree of budgetary control in the university.

Another issue highlighted in discussions with the Budget Officers was the change that the reform program has made to disbursement. In principle, controls used for disbursement were tight and no budget was disbursed without the appropriate evidence of expenditure and/or without funds being available. Budgets were released to agencies directly from the MoFED, bypassing the university. Resources used previously to check and verify proper use of the budgets have not been moved to university level and, consequently, while the university resources for control are still in place the range/impact of checks in the system at the university level have been lessened. Even though, unlimited budget transfers from one budget head to another adversely affected this control mechanism. The existence of wide and diversified Sub-agencies (colleges, faculties, departments, and units) made also the control mechanism difficult and requires skilled staffs to put in place.

According to Interview Response made with the university's Budget Administrator and MoFED Officer on reporting of expenditures, the respondents say that the Planning and Budget Office of the university has the mandate to demand expenditure information from the Sub-agencies. Moreover, the MoFED is able not only to demand regular reporting of the agencies expenditures but also to prescribe the formats to be followed. Therefore, in practice, ex-post sub-agencies tracking issue mainly concern the timeliness, reliability and classification of agencies expenditure figures.

The university compiled reports both on its own budgetary expenditures and on the consolidated expenditures of sub-agencies to give aggregates for general organization budgets. There was a reasonable fit with the revised chart of accounts that further enhance the ability to provide analytical reports. However, extra-budgetary funds were not included in the budget, and monthly or quarterly reports following the accounting classification were not available. That is, there were a number of funds and activities that were not fully incorporated in the appropriation and Table 14 depicted how soon the budget centers were forwarded expenditure reports to the concerned Finance/Budget Office and MoFED.

As it is indicated in item (I) and (II) of Table 14, the responses given by the respondent were different and varied from one to another, even within the same agency. Further, 75 of the deans,

20 percent of finance heads, and 12.5 percent of budget staff respondents (especially the deans) indicated that they have no any idea about these budget transactions expenditure reports and period. This indicated that expenditure reports were inconsistently done in the agencies and irregularly presented to the concerned bodies with a considerable lag. The purpose of these expenditure reports is to facilitate consolidation of the actual recurrent expenditures made by the university and comparison of budgeted expenditure to actual expenditure. But, not done in the university.

**Table 14: Responses in Budget Reporting**

| Items   | Respondents |       |               |       |               |       |       |       |
|---|-------------|-------|---------------|-------|---------------|-------|-------|-------|
|   | Deans       |       | Finance Heads |       | Budget Staffs |       | Total |       |
|   | No          | %     | No            | %     | No            | %     | No    | %     |
| I. How soon are the budget centers forwarded the reports to the concerned Finance/Budget Office?                        |             |       |               |       |               |       |       |       |
| A. Less than a week   | -           | -     | 3             | 30.0  | 4             | 25.0  | 7     | 20.6  |
| B. B/n 1 to 2 weeks   | 1           | 12.5  | 3             | 30.0  | 7             | 43.8  | 11    | 32.4  |
| C. B/n 2 to 3 weeks   | 1           | 12.5  | 1             | 10.0  | 3             | 18.8  | 5     | 14.7  |
| D. B/n 3 to 4 weeks   | -           | -     | 1             | 10.0  | 2             | 12.5  | 3     | 8.8   |
| E. More than four weeks   | -           | -     | -             | -     | -             | -     | -     | -     |
| F. Not at all   | -           | -     | -             | -     | -             | -     | -     | -     |
| G. Have no idea   | 6           | 75.0  | 2             | 20.0  | -             | -     | 8     | 23.5  |
| <b>Total</b>  | 8           | 100.0 | 10            | 100.0 | 16            | 100.0 | 34    | 100.0 |
| II. How soon are the reported final expenditures presented to the management and/or MoFED?                              |             |       |               |       |               |       |       |       |
| A. Less than a week   | -           | -     | 1             | 10.0  | 1             | 6.3   | 2     | 5.9   |
| B. B/n 1 to 2 weeks   | 2           | 25    | 5             | 50.0  | 7             | 43.8  | 14    | 41.2  |
| C. B/n 2 to 3 weeks   | -           | -     | -             | -     | 4             | 25.0  | 4     | 11.8  |
| D. B/n 3 to 4 weeks   | -           | -     | 1             | 10.0  | 2             | 12.5  | 3     | 8.8   |
| E. More than four weeks   | -           | -     | 1             | 10.0  | -             | -     | 1     | 2.9   |
| F. Not at all   | -           | -     | -             | -     | -             | -     | -     | -     |
| G. Have no idea   | 6           | 75    | 2             | 20.0  | 2             | 12.5  | 10    | 29.4  |
| <b>Total</b>  | 8           | 100.0 | 10            | 100.0 | 16            | 100.0 | 34    | 100.0 |
| III. How would you describe reporting on the MoFED?   |             |       |               |       |               |       |       |       |
| A. Separate reporting by each Sub-agency, and no consolidation.   | 4           | 50.0  | 9             | 90.0  | 14            | 87.5  | 27    | 79.4  |
| B. The University Finance Department provides significant analysis of centers' activities but incomplete consolidation. | -           | -     | -             | -     | -             | -     | -     | -     |
| C. A full consolidation of centers' activities, presented by the University Finance Department                          | -           | -     | -             | -     | -             | -     | -     | -     |
| D. Have no any idea   | 4           | 50.0  | 1             | 10.0  | 2             | 12.5  | 7     | 20.6  |
| <b>Total</b>  | 8           | 100.0 | 10            | 100.0 | 16            | 100.0 | 34    | 100.0 |

Other than this, 50 of the deans, 90 percent of finance heads, and 87.5 percent of budget staff respondents, agreed that reports presented to the MoFED separately by each sub-agency, and no consolidation. While 50 of the deans, 10 percent of finance heads, and 12.5 percent of budget staff respondents indicated that they have no any idea about, how reporting on the MoFED presented.

In addition, on the interview made with Budget Administrator, the PBO of the university compiles reports on the agencies' fiscal performance on a quarterly basis, within six weeks from the end of the month. The lag in preparing a consolidated statement for the combined university report is longer and creates a considerable lag. These reports provide information on revenue, expenditure and financing. To compile this report the office depends largely on the disbursement records maintained by the accountant/controller.

Even as the system is well established, actual reports remain highly aggregated, and there were considerable delays in obtaining reports that incorporate agencies' expenditures. These deficiencies reflect (a) the weaknesses of the classification system; and (b) delays in receiving information from lower decentralized levels, which reflect the length of the communication chain involved, weaknesses in capacity, and the operation of manual systems.

### **3.7. Number of Budget/Accounting Staffs, and Training**

The agency's Finance Offices in the sub-agencies visited were generally well managed and the Civil Service shows a serious commitment to complying with the existing budget execution regulations. Existing studies have also stated expenditure controls were effective and funds largely reach the purposes intended.

However, there are staffing problems at both levels (Head offices and Sub-agencies) and an unspecified number of skilled staffs have left the service. For financial operations, the main shortages of skills were in the area of planning and budgeting, though there were also likely shortages of budget execution and accounting skills in some agencies. On the existing manual system, accounting skills are relatively easy for staff to acquire, provided an experienced manager was available on site.

**Table 15: Budget/Accounting Staffs Working for Sub-agencies**

| Item                   | 01        | 02       | 03       | 04       | 05       | 06       | 07       | 08        | 09       | 10       | Total     |
|------------------------|-----------|----------|----------|----------|----------|----------|----------|-----------|----------|----------|-----------|
| In the Budget Desk     | 3         | 1        | 1        | 1        | 1        | 1        | 1        | 2         | 1        | 1        | 13        |
| In the Accounting Desk | 24        | 4        | 4        | 4        | 5        | 8        | 7        | 12        | 6        | 4        | 78        |
| <b>Total</b>           | <b>27</b> | <b>5</b> | <b>5</b> | <b>5</b> | <b>6</b> | <b>9</b> | <b>8</b> | <b>14</b> | <b>7</b> | <b>5</b> | <b>91</b> |

As it is indicated in Table 15, the university Finance Offices has 13 budget staff members out of 91 Finance Section staffs; this indicates that the budget section in the majority of the agencies is understaffed and, as a result, was not capable of fulfilling all of its duties. Staffs were able to maintain output by working extra hours (Especially, during budget preparation) and, primarily, because many sub-agencies were between two and four weeks behind in submission of budget proposals and monthly expenditure reports. Capacity constraints were restricting the pace of changeover to the new budget reform and process. The low salary scale means that the university has difficulty in attracting and retaining skilled employees.

**Table 16: Percentage of Annual Agency's Training Budget from the Total Budget**

| Item          | 01 | 02 | 03 | 04 | 05 | 06 | 07 | 08 | 09 | 10 |
|---------------|----|----|----|----|----|----|----|----|----|----|
| Less than 10% | ✓  |    |    | ✓  |    |    |    | ✓  | ✓  |    |
| 11% to 25%    |    |    |    |    |    |    |    |    |    |    |
| 26% to 50%    |    |    |    |    |    |    |    |    |    |    |
| 51% to 75%    |    |    |    |    |    |    |    |    |    |    |
| 76% to 100%   |    |    |    |    |    |    |    |    |    |    |
| Not at All    |    | ✓  | ✓  |    | ✓  | ✓  | ✓  |    |    | ✓  |
| Don't Know    |    |    |    |    |    |    |    |    |    |    |

Accordingly, as it is shown in Table 16, the budget allocated for training in four sub-agencies was less than 10 percent. Even more surprisingly, six of the sub-agencies have no budget for training. This indicated that the university has given less attention for on-the-job training program or appropriate orientation to the staffs so as to fill the gap between the actual with the required and to make them efficient and effective on their duties.

As indicated in Table 17 only five staffs in five sub-agencies had taken the indicated five training courses since 2001/2002 A.Y. Despite the extensive program for briefing institutions about the budget reform rollout, the message was still not clear. One explanation for this was that the university did not send appropriate staff to these trainings. Often senior staffs attended but did not convey the information to subordinates who ultimately were responsible for preparing the budget.

The researcher found that many budget staffs were even unaware of the BRDM Version 2.1 because copies sent to the university have not been circulated to the appropriate staffs.

**Table 17: Budget/Accounting Staffs Trained on the Newly Introduced Manual**

| Item                                   | 01 | 02 | 03 | 04 | 05 | 06 | 07 | 08 | 09 | 10 | Total |
|--|----|----|----|----|----|----|----|----|----|----|-------|
| 1. Introduced Chart of Account         |    |    |    | 1  |    |    |    |    |    |    | 1     |
| 2. Introduced Cost-center Budgeting    |    |    |    |    |    |    |    |    |    | 1  | 1     |
| 3. Budget Information System (BIS)     |    |    |    |    |    | 1  |    |    |    | 1  | 2     |
| 4. Budgetary Control Over Expenditures |    |    |    | 1  |    | 1  | 1  | 1  |    | 1  | 5     |
| 5. Double-entry Bookkeeping            |    |    |    | 1  |    |    |    |    |    |    | 1     |
| 6. None of the above stated training   |    |    |    |    |    |    |    |    |    |    | 0     |
| <b>Total</b>                           |    |    |    | 1  |    | 1  | 1  | 1  |    | 1  |       |

### 3.8. Budget Related Problems

The researcher reviewed the experience of the university in implementing the budget reform program (whether the university understand version 2.1 of the Budget reform design Manual and take the exercise seriously). The objective of this review was also to assess the adequacy of the new procedures, the consistency of their application, and the quality of the BIS and the modified budget and accounting systems.

There were significant problems in implementing the budget reform. This section reviews the responses of different respondent for open-ended question, and from the discussion made with AAU, MoFED and MoE Officials/Officers on the interview questions conducted by the researcher.

As indicted in Table 18, there were a number of problems associated with the reform program. Since the reform was new to the university and other federal public bodies, the problem was also so greater to sub-agencies. Thus, 47 percent of the respondent indicated that the rollout was an operational change and not a pilot, then the new procedures and systems did not perform properly or used properly. Likewise 17.6 percent of the respondent pointed out that not adhering to the budget calendar and getting key tasks done on time was the major problem to their agencies. Still, 14.7 percent of the respondent specified confusion of roles due to inadequate instruction and training given and confusion over restructuring and rethinking the role of sub-agencies were the major problem for the centers.

In addition, as the respondent describe in the open-ended question, there were several types of problems in preparing the budget structure. One problem was the lack of clarity of the public body itself. AAU ended up with a different budget structure for the capital and recurrent budgets. For the recurrent budget, the University was considered as public bodies while for the capital budget the University was considered sub-agency of the Ministry of Education. This problem with the Ministry of Education and the University has never been solved until now.

**Table 18: Problems Associated with the Reform Program**

| Item   | Respondents |       |               |       |               |       |        |       |
|--|-------------|-------|---------------|-------|---------------|-------|--------|-------|
|  | Deans       |       | Finance Heads |       | Budget Staffs |       | Totals |       |
|  | No          | %     | No            | %     | No            | %     | No     | %     |
| 1. Confusion over restructuring and rethinking the role of Sub-agencies  | -           | -     | 2             | 20.0  | 3             | 18.8  | 5      | 14.7  |
| 2. Confusion of roles due to inadequate instruction and training given by the MoFED  | -           | -     | 2             | 20.0  | 3             | 18.8  | 5      | 14.7  |
| 3. Failure of the budget/accounting staffs to manage the new systems   | 2           | 25.0  | -             | -     | -             | -     | 2      | 5.9   |
| 4. Not adhering to the budget calendar and getting key tasks done on time  | 2           | 25.0  | 2             | 20.0  | 2             | 12.4  | 6      | 17.6  |
| 5. Overall, the rollout is an operational change and not a pilot, then the new procedures and systems did not perform properly or used properly. | 4           | 50.0  | 4             | 40.0  | 8             | 50.0  | 16     | 47.1  |
| 6. Others  | -           | -     | -             | -     | -             | -     | -      | -     |
| <b>Total</b>   | 8           | 100.0 | 10            | 100.0 | 16            | 100.0 | 34     | 100.0 |

Other related problems were those resulting from the unevenness of the organizational structure of the university (according to the requirement of the reform program) and the resultant, incomplete understanding of the decentralization reforms with reference to the specific role of the MoFED. This problem extends to the smooth service delivery. There was also the necessity to ensure that the budget was clearly linked to the objectives of the institutions and efficiently translated into resource allocation. For instance, the University was unable to sort out equitable budget structure (the size of each sub-agency). Some sub-agencies (e.g., Main Campus) expanded their budget structure extensively. This sub-agency consists of 28 sub-units or what they call budget centers (colleges, faculties, department and other administrative units) under it.

A major problem that has emerged as a result of the expansion of the budget structures was the significant increase in administration of the budget. The new budget categories require separate budget requests from the institutions and separate disbursements from the MoFED. This additional administration has been added to already strain financial staff in the university. The issue facing the university was how can it has cost centers which promote management of resources yet still have not a manageable structure for purposes of executing the budget

**Table 19: Problems Associated with Budget Utilization**

| Item   | Respondents |              |               |              |               |              |           |              |
|--|-------------|--------------|---------------|--------------|---------------|--------------|-----------|--------------|
|  | Deans       |              | Finance Heads |              | Budget Staffs |              | Totals    |              |
|  | No          | %            | No            | %            | No            | %            | No        | %            |
| 1. Budgets are not approved on time                                    | -           | -            | -             | -            | -             | -            | -         | -            |
| 2. Budgets are not allocated on time.                                  | -           | -            | -             | -            | 1             | 6.2          | 1         | 2.9          |
| 3. Disbursements are not made on time.                                 | 2           | 25.0         | 2             | 20.0         | 4             | 25.0         | 8         | 23.5         |
| 4. Sub-agencies have not been assigned wide-ranging responsibilities.  | 2           | 25.0         | 3             | 30.0         | 3             | 18.8         | 8         | 23.5         |
| 5. Individuals not held responsible for inputs and outputs.            | -           | -            | -             | -            | 2             | 12.5         | 2         | 5.9          |
| 6. Presence of long bureaucratic process in procurements and payments. | 4           | 50.0         | 5             | 50.0         | 6             | 37.5         | 15        | 44.2         |
| <b>Total</b>   | <b>8</b>    | <b>100.0</b> | <b>10</b>     | <b>100.0</b> | <b>16</b>     | <b>100.0</b> | <b>34</b> | <b>100.0</b> |

Table 19: looks at problems associated with budget utilization of the university. The question was geared to factors that impede the full utilization of the allocated budget at the agencies level. As it can be seen in the Table 19 all respondents gave the reasons that makes them not to utilize their annual budget. About 44.2 percent of the respondents said that the presence of long bureaucratic process in procurements and payments that impedes full utilization of the allocated budget. This was because of the long procedures of auction, procurement and lack of expertise in the area. The other 23.5 percent of the respondents said that the reason for the underutilization of their budget were sub-agencies have not been assigned wide-range responsibilities and delays in disbursements respectively.

Additionally, the respondents mention reasons for underutilization were that the university's budget system rules and regulations do not clearly show agencies' authority over budget

management and over funds. Along with, individual sub-agency heads were given restricted authority and responsibility over the funds they use (the maximum amount could a agency's be able to spend is Birr 250,000.00). In general, accountability for and transparency in the area of budget utilization was incomplete.

### **3.9. Prospects of Cost-center Budgeting to Formula Funding and Cost-sharing**

The introduction of cost sharing in the form of graduate tax and the allocation of block grant budgeting system using a formula are the major provisions of the HEP (FDRE, 2003) relating to administrative and financial autonomy of institutions. In view of this, the researcher presented the questionnaire items to Officers in the Ministry of Education and AAU Officials to elicit feedback on their necessity for the system and on the existing institutional capacity of the university for the effective implementation of this reform. The researcher also asked for any general feedback, thoughts and suggestions that they had about how the practices went, and what could do to improve the practices for next time. This section presents the results of the interview.

Officer from MoE says that, as a key part of the higher education reform, the Ministry proposed to introduce in 2004/2005 a funding formula that will provide incentives for institutional change in the pursuit of reform goals. The new funding formula was intended to lay the foundation for the introduction of block grants as the future means of funding the universities. This Funding formula requires estimates of the institution's unit costs that are fairly full-bodied (Penrose, 2000: 2). This in turn implies good data on unit costs, by field of study or department. If these data do not exist, the funding formula should start out very simply. Thus, starting slowly, starting very simply, with an artificially reduced variation in cost between departments or faculties, and using some international benchmarking, would all allow for a smoother implementation of a formula funding approach. However, bookkeeping in this area will have to be improving considerably before this aspect of the formula can be employed.

The Vice President for Business and Development (VPBD) and the Planning and Budget Officers of the university also gave response for the question whether this would be a demanding and laborious process or not. They said that the proposed funding formula, which intended to lay the foundation for the introduction of block grants as the future means of funding the universities,

requires sufficient capacities of their institution and its sub-unit in estimating unit costs of the various programs. They further argued that this unit cost estimation (an estimate of the resources which will be used up in order to attain a specific output of a program) concept to some extent ties in to the existing practice of cost-center budgeting.

Accordingly, the projection (future practice) of cost-center budgeting in the university, to facilitate the move from a line-item budgeting system towards one that offers block grants on the basis of a funding formula, would be enhanced: First, by equitably mapping of the budget to sub-agencies and programs (i.e. there will be a need for reassessments of sub-agencies how they are organized to meet their goals). Secondly, by assigning specific responsibility to sub-agencies or individuals of the agencies for funds and/or for the output of those funds; lastly, by providing total costs for sub-agencies and activities, then the division between the recurrent and capital budgets will be bridged. This has the effect of transferring the costs of unpredictability downwards. In considering the introduction of Block Grant in the near future, budgeting achievements need to be balanced against these remaining weaknesses and the time frame for addressing them.

On the interview conducted with MoE Officer about the necessity of introducing cost-sharing in the higher education system, the respondent said that the increasing need for more public investment to expand access, for redress in terms of inequitable taxpayer subsidies and the desire to diversify revenue necessitates the introduction of cost sharing. Cost sharing mobilizes alternative non-governmental sources to supplement revenue, ensures equitable use of public resources, and facilitates the expansion of the sector opening up more opportunities. It also makes students' responsible citizens and customers having a profound effect on improving the management and academic efficiency of higher education institutions.

Cost sharing covers government's full costs for student meals, accommodation and health services, plus 15% of estimated tuition costs. The total amount is Birr 1,700 per year. Payments will take place at a flat rate regardless of income category until the individual's agreed share is fully recovered (Nichols J., 2001: 2-6).

Furthermore, as some authorities argued, this cost sharing mechanisms now being introduced in the Higher Education Institution system was highly admirable. If it works well, it should make the higher education system more accessible, more equitable, and more efficient in the allocation

of social resources. It should also have positive spillover effects on the internal managerial efficiency of institutions, which in turn will allow for greater access.

Some policy and implementation issues need to be given serious consideration. Appropriate tuition fees and costs should be calculated in each program and institution. The university Officers also alleged, as some authorities argued, the need to provide each payer, according to their field of studies, with a tax identification number (TIN) and to decentralize tax collection.

## CHAPTER FOUR

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 4.1. Summary

As it was indicated in the introductory part, the main purpose of the study was to assess whether or not the existing cost-enter budgeting practice of AAU is inconformity with the reform program. It was also aimed at identifying the problems in the system and the prospects that the system has for a smoother implementation of a formula funding approach within the cost relativities between sub-units of the organization. To this effect, the descriptive survey approach was employed as the method of the study. Sixteen Budget Staffs, ten Finance/Budget Heads, nine Deans of Sub-agencies, two Planning and Budget Officers and the Vice President for Business and Development of AAU; and two Officers from MoFED, and one Officer from MoE were elected as source of information. Questionnaire, interview and document analysis were the data collection instrument used to secure information from the targeted respondents. The collected data were, then analyzed based on the specified research questions of the study.

Based on the obtained data, analysis was made and the major findings of the study are summarized as follows:

- 4.1.1. Presently, with favorable prospects of the CSR and BRP Addis Ababa University has been processing the budget structure. The university has functional and administrative classifications for budget expenditure. The systems for making budget classification are in place. In its present form, the classification is under development and both unreliable and highly aggregated.
- 4.1.2. In terms of budget allocation during the year under review the total recurrent budget approved and allocated for AAU and its sub-agencies to use for the last two years (1998 and 1999 E.C.) was inequitable. This imbalance mapping of the budget was the result of inappropriate basis of classification that sub-agencies were categorized according to their geographical location (campus) rather than their size and function. So, the sources of income for these budgets are from Treasury, Retained Revenue, and External Assistance.

- 4.1.3. The responses, on how the cost-center budget practices ran from the sub-agencies perspective, were greatly showed the respondents' disagreement rather than agreement. So, on the average 37.5 percent of the deans, 40 percent of finance heads, and 47.9 percent of budget staff respondents indicated their strong disagreement and 43.8 percent of the deans, 16.7 percent of finance heads, and 43.8 percent of budget staff respondents indicated their disagreement. Moreover, 22.5 percent of the deans and 20 percent of finance heads, and 6.2 percent of budget staff respondents have no opinion about this cost-center budgeting practice. On the other hand, 33.5 percent of the deans, 37.5 percent of finance heads, and 45.3 percent of budget staff respondents indicated their agreement to the statements.
- 4.1.4. In terms of administrative and/or financial autonomy of AAU's sub-agencies, most of the respondent indicated that the university's budget system rules and regulations do not clearly show agencies' authority over budget management and over funds from internal as well as external sources. Furthermore, individual sub-agency heads are not given a clear responsibility for the funds they collect and/or use. In general, accountability for and transparency in the area of retained revenues is weak.
- 4.1.5. Sub-agencies mandate on management of fees and charges, and their amendment power on the execution of budgeted expenditure is described as, fees and charges of the agency were subjected to review and priority setting but managed outside of the budget process. On the other hand, the amendment power of the sub-agency on the execution of budgeted expenditure was limited and restricted—allowing amendments but with the consent of the executive.
- 4.1.6. In related with the budget development procedure/process of the university, most of the sub-agencies have no officially adopted procedure for budget development/process. Whereas, the newly incorporated agencies have officially adopted procedure in budget development. This was because of their financial and administrative autonomy that they have had before their integration in to the university budget. In addition, development/process was not developed through collegial consultation with the staffs. Likewise, academic departments have no many roles in budget planning and they did not

submit their action plans as part of the planning process. Thus, the budget preparation system of the university was mostly incremental in its approach.

- 4.1.7. In most cases, the Budget Preparation Information and Instruction provided from the PBO of the university to sub-agencies was not adequate and timely. As it is indicated in the findings, most of the respondents indicated their strong disagreement, disagreement, and specified that they have no opinion about the instruction and guidance given by the office—usually the dean respondent.
- 4.1.8. Most agencies' budget and accounting staffs were not appropriately introduced to use BIS software program to prepare their budget—it was not easy to use, it worked not in the way that it was expected to, and no one provided good support in using the system. Beside, the preparation of budget with BIS did not simplify the manual tasks of their budget compilation and reduces the inevitable errors. Above all, 75 percent of the deans, 30 percent of the finance heads, and 6.2 of the budget staff respondents indicated that they have no opinion about the preparation of budget with BIS.
- 4.1.9. Succinctly, in the budget preparation process of the university, there was no integration between the recurrent and the capital budget—both budgets were not administered together. This separate capital and recurrent budgets mean that the total cost of a program or programs or project are not transparent.
- 4.1.10. Recording budget transactions is the responsibility of the budget accountants and budget section representatives. The system was so tight and no budget was disbursed without the appropriate evidence of expenditure and/or without funds being available—the internal budget control system of the agencies was very strict and strict respectively.
- 4.1.11. All institutions that receive budget allocations were required to submit two forms of reports to MoFED. However, these expenditure reports were inconsistently done in the agencies and irregularly presented to the concerned bodies with a considerable lag. Beside, reports presented to the MoFED separately by each sub-agency, and no consolidation.

- 4.1.12.** There are staffing problems at both levels. The budget section in the majority of the agencies is understaffed and, as a result, was not capable of fulfilling all of its duties. These capacity constraints were restricting the pace of changeover to the new budget reform and process. Consequently, the budget allocated for training in four sub-agencies was less than 10 percent. Six of the sub-agencies have no budget for training. Furthermore, only five staffs in five sub-agencies had taken few training courses since 1994 EFY. It is indicated that the university has given less attention for on-the-job training program or appropriate orientation.
- 4.1.13.** The reform involves significant change in the university's budget, accounts and disbursement system. However, these changes were not smooth for several reasons. First, the new budget reform was implemented without piloting procedures. Secondly, the process of the reform was not smooth. Thirdly, there was confusion over restructuring and rethinking the role of sub-agencies and there was little or no order to the system. Hence, AAU ended up with a different budget structure for the capital and recurrent budgets.
- 4.1.14.** The factors that impede the full utilization of the annual budget of the agencies include the presence of long bureaucratic process in procurements and payments; sub-agencies have not been assigned wide-range responsibilities and delays in disbursements respectively. Additionally, the university's budget system rules and regulations do not clearly show agencies' authority over budget management and over funds—accountability in the area of budget utilization is incomplete.
- 4.1.15.** Following the major provisions of the HEP relating to administrative and financial autonomy of institutions, the MoE proposed to introduce a funding formula. This new funding formula was intended to lay the foundation for the introduction of block grants as the future means of funding the universities. It requires estimates of the institution's unit costs that are fairly full-bodied. This in turn implies good data on unit costs, by field of study or department, and sufficient capacities of the institution and its sub-unit in estimating unit costs of the various programs. This unit cost estimation concept also to some extent ties in to the existing practice of cost-center budgeting.

**4.1.16.** The increasing need for more public investment to expand access, for redress in terms of inequitable taxpayer subsidies, and the desire to diversify revenue necessitates the introduction of cost sharing. Cost sharing covers government's full costs for student meals, accommodation and health services, plus 15% of estimated tuition costs.

## **4.2. Conclusions**

From the preceding discussion and findings, it can be concluded that:

The existing AAU's cost center budgeting system to some extent improved mapping of the budget to sub-agencies and programs so as to rationalize the internal distribution of the university's budget. However, the existing mapping of the budget to programs and sub-agencies is incomplete and imbalance, with some departments and faculties not receiving a budget and having to compete for a pool of funds. This practice creates uncertainty; and does not promote effective planning, implementation of expenditures, and accountability for inputs and outputs by assigning specific responsibility for budgets to sub-agencies or individuals of the institution. Moreover, sub-agencies have no authority and amendment power over their fees and charges collected. This practice creates uncertainty and does not encourage agencies to raise funds, thereby limiting their capacity to generate further internal income in the future.

Concerning budget preparation and execution, program planners and fiscal managers speak different languages and often have different priorities, and may or may not be aware of the importance of other's approach to the budget process. In general, the critical problems in budget execution were partly found in the planning and budget preparation stage. To begin with, annual budgets have not been based on reliable data. Lack of data was partly a capacity problem and in some other cases it was an institutional one. There are also serious problems of capacity at all levels of the hierarchy. Above all capacity is adversely affected by staffing problems. In fact at sub-agencies levels, basic qualifications are low and under this circumstance it could be very difficult to avoid capacity problems of institutions through training, as there may not be a trainable pool of professionals. At higher levels salaries are uncompetitive. This low salary scale means that the university has difficulty in attracting and retaining skilled employees.

In relation to the challenges of the formula funding, of course, exists in whether the university currently has sufficient capacity to collect and provide the information necessary to calculate

such a formula. This seems unlikely in view of this study's rather discouraging experience in trying to obtain basic institutional information. One-way to achieve this is to use the baseline of current funding, funding based on activities and sub-agencies of the institution (cost centers), as a guide for future base funding. Further more, cost sharing mechanisms now being introduced in the Ethiopian higher education sector, as some authorities argued, have positive overflow effects on the internal managerial efficiency of institutions, which in turn would allow for greater access. However, potential drawbacks were also present in how this scheme was structured, both at the conceptual level and at the level of implementation.

### **4.3. Recommendations**

Based on the findings of the study the following recommendations have been forwarded.

- 4.3.1. The university needs to re-define its responsibilities and competences paying particular attention to its role regarding the restructuring of the sub-agencies and budget mapping; it would also benefit from a structural reorganization outlining a better exchange of information within the university.
- 4.3.2. A cost center is the lowest level of operations at which financial transactions are tracked distinctly. A cost center can be also a department, a project, or any other activity that incurs financial transactions and includes activities funded by any source, general funds or other. Multiple cost centers may be also structured under the control of a single cost center; however, only one cost center manager should be responsible for any one cost center (Nancy McCallin, 2005: 2). Therefore; Functional or academic department managers (Sub-agency Deans) will be assigned to and be responsible for the fiscal performance of all cost centers assigned to them, or will assign capable cost center managers to carry out and be accountable for the management responsibilities of each cost center.
- 4.3.3. The University must budget for income as well as expenses of its Special Fund. Even though unpredictable events may influence fees and contributions, they can estimate revenues with some degree of accuracy based on past experience. Furthermore, funds from Fees and Charges need to be integrated in budget planning and management together with the government fund. These extra budgetary funds should be at least

annexes to the budget and presented to the MoFED and parliament for consideration with the annual budget.

- 4.3.4. The university in general and its sub-agencies in particular needs to have separate management and amendment power to use these sources of revenue (fees and charges) so as to reinforce agency's autonomy, accountability and separate responsibility that will help them to address the needs of the agency. However, full separation is not always advisable since it could create inequality between agencies and also its implementation (administration) too costly compared to the capacity of the agencies.
- 4.3.5. The first step in the budget process should be a review of program and management achievements and fiscal performance over the year just ending. This includes, reviewing objectives achieved and comparing budget to actual figures. Based on this review, new goals and objectives should be discussed and agreed upon in a preliminary way and should fit into the university's strategic, long-range plan, and help to make progress towards the mission. Then, management staff should be included in discussions for their own departmental budgets and how these relate to programmatic objectives.
- 4.3.6. Staffs must participate in each phase of the budgeting process that affects the line items for which they will later be responsible. For this reason, both program staff and financial staff should work together to develop budgets, which truly reflect organizational priorities and act as a guide for spending and decision-making. It has been always the case that budgets not prepared through the participation of the concerned are not realistic and will not be implemented effectively and efficiently.
- 4.3.7. A common theme identified in the budget preparation area was the limitation in skills and capacity. There is some duplication in the ongoing organizational structural change, but in general terms strategic choices need to be made and capacity needs identified so that service delivery can be improved within the limited resources available. As the situation currently stands, the university's budget preparation process may not be accurately or completely done on a timely basis. There is a need for clear definition of what budget development/process should disclose and a strict adherence to a timetable/budget calendar set for delivery of these proposals.

- 4.3.8. Currently centers are obliged to make their budget preparation based on previous year budget ceiling. Upon obtaining the information on the exact amount and budget they try to fit to the new ceiling and in some cases where the ceiling was below the expected amount they faced the problem of prioritizing expenditures within and between activities. Thus, agencies need to be notified well in time about the total amount of allocated budget if they have to prepare realistic budget expenditure for each year.
- 4.3.9. The budget initiatives phases need longer time available to consider competing priorities and to make trade-offs. To this end, the Planning and Budget Officers should redesign the budget process initiatives system and develop clearer guidance material, in compliance with the guidelines given by MoFED, around budget preparation and performance information requirements, responsibilities and, particularly, the activities (and related timing) of the planning cycle. Hence, there should be a strict adherence to the deadline for notifying the budget to the agencies to avoid delays in their budget preparation process;
- 4.3.10. Ensuring that the BIS data entry is not a problem will be addressed by the development of a data management plan, which is shared and agreed to by MoFED. Upgrading the capacity of the agency's staff to enter and manage the data and training staff in these tasks well in advance of the budget submissions will reduce the problems. Consequently, (a) assess the standardized inputs required by MoFED (b) determined when these standardized inputs have to be prepared (c) assess the capacity of the staffs, involved directly in budget requests, to prepare these inputs and define the training required; and train the relevant staffs to prepare the budget using the system.
- 4.3.11. Grouping expenditures by sub-agency and task regardless of whether they are recurrent or capital in nature is sensible approach for it promotes cost centers within the recurrent and capital budgets on a project basis and cost centers within the recurrent budget on a sub-agency/program basis respectively. Hence, AAU should necessarily also group expenditures by sub-agency and task to promote the compliance of the financial law and reform requirements.

4.3.12. On the whole the researcher found controls to exist but not strictly to comply with those prescribed by the Ethiopian Government in the relevant proclamations and directives. Thus, the following actions are recommended to improve the budget controlling system:

- Spending agencies must keep each line item of expenditure within approved estimates. As a part of the reform effort, the university have been delegated the power to transfer resources from one budget head to another within certain limits. For transfers beyond their delegated powers, the university has to approach MoFED. Approval of the Council of Ministers is required for (a) transfers from one institution to another; and (b) transfers from recurrent to capital. There should be strict controls on virement between lines of expenditure (FDRE, 1996).
- There is a need to fill strategic vacancies and to mentor/train upcoming staff. There should be a university-wide training of accounting staff. Consideration should be given to ways of attracting and retaining staff;

4.3.13. The reporting process is seriously delayed due to lack of resources, training, and qualified staff at both levels. As a result, some time the university is behind schedule in the preparation of the annual consolidated reports. Thus, the following actions are recommended to improve the budget reporting system:

- Financial reports summarizing sub-agency grouping transactions, as compared to the related budgets, will be made available to the designated functional or administrative heads at least monthly.
- Financial reports summarizing all sub-agency transactions, as compared to the unit's budget, will be made available to the designated Budget Office at least quarterly.
- Monthly reports referred to as the *Ge/He 29xxs* series, will be made available to the MoFED every month.
- Particular stress should be made on the need for targeted training for agencies financial staffs, and for review of staffs' complements at both levels.

- 4.3.14. Concisely, an assessment of staff capabilities as regards the budget consolidation and decentralization process should be undertaken and training needs implemented accordingly. The emphasis should be on training and capacity building rather than increasing staff numbers. Hence, the University should arrange a workshop for budget staffs to review Version 2.1 again and ensure that staffs understand the budget categories and the chart of accounts.
- 4.3.15. Senior staffs of the university to some extent are responsible for managing this reform and need to understand the importance of this exercise and its tight schedule needs to be communicated to senior officials of MoFED. Staffs involved in budget preparation in all sub-agencies need to discuss how to better organize their work to meet the demands of the strategic plan and supporting work plans and financial data management plans.
- 4.3.16. To utilize the allocated budget of education effectively and efficiently it is necessarily to identify and avoid the obstacles; such as there must be clear and defined procurement procedures rules and regulations and avoid delay in disbursements. The other important point is there must be clearly defined budget system rules and regulations that show agencies' authority over budget management and over funds. In general, there must be accountability for and transparency in the area of budget utilization.
- 4.3.17. Financial management expertise will need to be strengthened at both the university and agencies levels in order to anticipate and manage effectively the implications of the recently announced shift to formula funding and block grant allocations for. Effective institutional planning and management require careful financial analysis. This in turn necessitates the tracking of expenditures, long-term financial projections, and the ability to estimate income and expenses accurately.
- 4.3.18. Accordingly, financial management training could usefully be provided at both levels, with special emphasis on preparing individuals for effective control of their own budgets under the impending move to formula funding and block grant allocations—including deans as well as agencies' financial officers should be identified, acquired and introduced to them along with the necessary training of staff.

- 4.3.19. Develop uniform cost categories. The major headings for the cost categories could be *instruction, research, physical plant operations, general management and services, and student support and services*. However, considerable detail will need to be added in subcategories for each main category. For example, instruction will need to take into account salary expenses for teaching staff, salary costs of support staff for faculties/departments, payments to foreign lecturers and other outside instructors, and a host of others.
- 4.3.20. Accordingly, some policy and implementation issues, of cost sharing, need to be given serious consideration. As some authorities argued that all subsidies to food and lodging need to be eliminated immediately. Besides, appropriate tuition fees and costs should be calculated in each program and sub-agencies and be organized at a sub-agency level by using a common cost sharing payer identification number for all revenue departments.

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## APPENDICES

### Appendix I-Budget Preparation Procedures

**Table 10: Budget Preparation Procedures**

| Items  | Respondents |       |               |       |               |       |       |       |
|--|-------------|-------|---------------|-------|---------------|-------|-------|-------|
|  | Deans       |       | Finance Heads |       | Budget Staffs |       | Total |       |
|  | No          | %     | No            | %     | No            | %     | No    | %     |
| I. Does your sub-agency have an officially adopted procedure for budget development/process?                                     |             |       |               |       |               |       |       |       |
| A. Yes   | 3           | 37.5  | 2             | 20.0  | 6             | 37.5  | 11    | 32.4  |
| B. No  | 5           | 62.5  | 8             | 80.0  | 10            | 62.5  | 23    | 67.6  |
| <b>Total</b>   | 8           | 100.0 | 10            | 100.0 | 16            | 100.0 | 34    | 100.0 |
| II. If yes for question item I, are you:   |             |       |               |       |               |       |       |       |
| A. establishing a set of goals and objectives to guide decision-making?  |             |       |               |       |               |       |       |       |
| A. Yes   | 3           | 37.5  | 2             | 20.0  | 5             | 31.2  | 10    | 29.4  |
| B. No  | 5           | 62.5  | 8             | 80.0  | 11            | 68.8  | 24    | 70.6  |
| <b>Total</b>   | 8           | 100.0 | 10            | 100.0 | 16            | 100.0 | 34    | 100.0 |
| B. assessing the department/faculty/college or others needs, priorities, challenges and opportunities?                           |             |       |               |       |               |       |       |       |
| A. Yes   | 3           | 37.5  | 2             | 20.0  | 5             | 31.2  | 10    | 29.4  |
| B. No  | 5           | 62.5  | 8             | 80.0  | 11            | 68.8  | 24    | 70.6  |
| <b>Total</b>   | 8           | 100.0 | 10            | 100.0 | 16            | 100.0 | 34    | 100.0 |
| C. providing budget administrative plan of who does what?  |             |       |               |       |               |       |       |       |
| A. Yes   | 2           | 25.0  | 1             | 10.0  | 4             | 25.0  | 7     | 20.6  |
| B. No  | 6           | 75.0  | 9             | 90.0  | 12            | 75.0  | 27    | 79.4  |
| <b>Total</b>   | 8           | 100.0 | 10            | 100.0 | 16            | 100.0 | 34    | 100.0 |
| D. creating a budget calendar to specify when each task is to be done?   |             |       |               |       |               |       |       |       |
| A. Yes   | 2           | 25.0  | 1             | 10.0  | 1             | 6.2   | 4     | 11.8  |
| B. No  | 6           | 75.0  | 9             | 90.0  | 15            | 93.8  | 30    | 88.2  |
| <b>Total</b>   | 8           | 100.0 | 10            | 100.0 | 16            | 100.0 | 34    | 100.0 |
| E. accurately estimating expenditure and revenue expected during the coming year to meet the costs of all programs and services? |             |       |               |       |               |       |       |       |
| A. Yes   | 2           | 25.0  | 1             | 10.0  | 4             | 25.0  | 7     | 20.6  |
| B. No  | 6           | 75.0  | 9             | 90.0  | 12            | 75.0  | 27    | 79.4  |
| <b>Total</b>   | 8           | 100.0 | 10            | 100.0 | 16            | 100.0 | 34    | 100.0 |
| III. Was the budget development/process participatory budgeting practice?  |             |       |               |       |               |       |       |       |
| A. Yes   | 2           | 25.0  | 3             | 30.0  | 3             | 18.8  | 8     | 23.5  |
| B. No  | 6           | 75.0  | 7             | 70.0  | 13            | 81.2  | 26    | 76.5  |
| <b>Total</b>   | 8           | 100.0 | 10            | 100.0 | 16            | 100.0 | 34    | 100.0 |

|   |   |       |    |       |    |       |    |       |
|---|---|-------|----|-------|----|-------|----|-------|
| IV. If your answer for question number III is 'yes',  |   |       |    |       |    |       |    |       |
| A. does the department/faculty/college or others have roles in budget planning?                       |   |       |    |       |    |       |    |       |
| A. Yes  | 2 | 25.0  | 3  | 30.0  | 4  | 25.0  | 9  | 26.5  |
| B. No   | 6 | 75.0  | 7  | 70.0  | 12 | 75.0  | 25 | 73.5  |
| <b>Total</b>  | 8 | 100.0 | 10 | 100.0 | 16 | 100.0 | 34 | 100.0 |
| B. does the department/faculty/college or others submit action plans as part of the planning process? |   |       |    |       |    |       |    |       |
| A. Yes  | 1 | 12.5  | -  | -     | -  | -     | 1  | 2.9   |
| B. No   | 7 | 87.5  | 10 | 100.0 | 16 | 100.0 | 33 | 97.1  |
| <b>Total</b>  | 8 | 100.0 | 10 | 100.0 | 16 | 100.0 | 34 | 100.0 |
| C. does the academic staffs have a role in budget development/process?                                |   |       |    |       |    |       |    |       |
| A. Yes  | - | -     | -  | -     | -  | -     | -  | -     |
| B. No   | 8 | 100.0 | 10 | 100.0 | 16 | 100.0 | 34 | 100.0 |
| <b>Total</b>  | 8 | 100.0 | 10 | 100.0 | 16 | 100.0 | 34 | 100.0 |

## **Appendix II-Item Set for Sub-agencies Dean, Finance Heads, & Budget Staffs**

### **ITEM SET FOR SUB-AGENCIES DEAN, FINANCE/BUDGET HEADS, AND BUDGET STAFFS**

The main purpose of this questionnaire is to collect information on the *Practice, Problems and Prospects of Cost-center Budgeting in Addis Ababa University*. Sub-agencies Dean, Finance/Budget Heads, and Budget Staffs are the major source of information. The result of this study will help to give important recommendation on educational financial management to the university and concerned bodies. Your cooperation in providing genuine information on the subject is highly valuable to complete the study.

PART I of the questionnaire requests general information on PERSONAL DATA that will be most relevant to each component of the questionnaire.

PART II of the questionnaire focused on COST-CENTER BUDGETING PRACTICES (*Budget Mapping, Preparation and Execution, Recording and Reporting, and Staffs Training*). Some components of the questionnaire might be included in the questionnaires of other respondents (in and outside the university), who are responsible for management and execution of the finance/budget, for overall coordination of the response and ensuring consistency among sections.

PART III of the questionnaire focused on BUDGET-RELATED PROBLEMS of the university. In this section, some components of the questionnaire require full written responses that will have professional implications and assist the policy makers in the decision-making and policy formulation process.

***Thank you in advance for your cooperation!***

|                                |                              |
|--------------------------------|------------------------------|
| <b>Sub-agency Name:</b>        |                              |
| <b>Sub-agency code number:</b> |                              |
| <b>Administrative Unit:</b>    |                              |
| <b>Position Title:</b>         | <b>Contact phone number:</b> |

PART I- Personal Data

1. What is your current position in the Agency? Position title \_\_\_\_\_

2. Sex

A. Male  B. Female

3. (a) What was your highest level of education?

- A. 0-8 grade
- B. Grade 10 complete
- C. 10 + 3 (or Diploma)
- D. Undergraduate degree
- E. Post-graduate degree
- F. Ph.D.

(b) If you are presently a student, please describe briefly your area of study.  
\_\_\_\_\_

(c) Name any degrees you have earned and your major areas of study.  
\_\_\_\_\_

(d) Even if you have never earned a degree, please describe any management and accounting courses you have had (for example, business courses in college, parallel programs).  
\_\_\_\_\_

4. What is your academic rank (if any)?

- A. Assistant Professor
- B. Associate Professor
- C. Full Professor
- D. Other. (Please state): \_\_\_\_\_

5. Number of years of service at your present post

- A. 5 years and below
- B. 6-10 years
- C. 11-15 years
- D. More than 15 years

6. Total years of service

- A. 5 years and below
- B. 6-10 years
- C. 11-15 years
- D. More than 15 years

7. How many years have you been involved in the center (Sub-agency)? Years \_\_\_\_\_

**PART II- Budget Practice**

**A. Budget Mapping**

8. Is the sub-agency a single unit (College, Faculty, Department, and Others), or does it have a number of sub-units (Colleges, Faculties, Departments, and Others) under it?  
 A. Single unit  B. Multiple units
9. Where there are a number of budget centers (Multiple units), how many are they? Please specify their numbers.  
 A. Department \_\_\_\_\_  
 B. Faculty \_\_\_\_\_  
 C. College \_\_\_\_\_  
 D. Others (please specify units names and numbers)

A cost center is the location of budget and responsibility for the use of the budget. It is a management or responsibility unit that is responsible to manage inputs to achieve outputs that contribute to outcomes. Thus, the following questionnaire items (from 10 to 14) are related with this cost-center budgeting practice in your Sub-agency. *(Indicate your agreement or disagreement of the practice by putting a tick mark in the boxes)*

10. This Cost-Center Budgeting (CCB) practice in your sub-agency creates better allocation decision i.e., X versus Y and composition of expenditure.

|                          |                          |                          |                          |                          |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Strongly disagree        | Disagree                 | No opinion               | Agree                    | Strongly agree           |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

11. This CCB promote accountability in your sub-agency.

|                          |                          |                          |                          |                          |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Strongly disagree        | Disagree                 | No opinion               | Agree                    | Strongly agree           |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

12. This CCB practice creates better organizational management, to your sub-agency, in terms of linking objectives to resources (i.e., creates a link between expenditure planning and budgeting).

|                          |                          |                          |                          |                          |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Strongly disagree        | Disagree                 | No opinion               | Agree                    | Strongly agree           |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

13. CCB requires that all types of expenditure (recurrent and capital) be budgeted together (even if they are placed in different budgets) to facilitate the development and application of budget norms that can promote better expenditure composition. Does your center promote this understanding?

|                          |                          |                          |                          |                          |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Strongly disagree        | Disagree                 | No opinion               | Agree                    | Strongly agree           |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

14. Over all, the new budget structure provides categories that allow both a comprehensive and a flexible mapping (making responsible) of the university's to its sub-agencies and activities.

|                          |                          |                          |                          |                          |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Strongly disagree        | Disagree                 | No opinion               | Agree                    | Strongly agree           |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

**B. Financial and/or Administrative Autonomy**

15. Which of the following are covered by the budget system rules and regulations in your agency?
- A. Your agency is given clear authority over budget management.
  - B. Your agency is given clear authority over funds from internal (Treasury and Retained Earnings) external (Assistance and Loan) sources.
  - C. Individual sub-agency heads are given a clear responsibility for the funds they collect and use.
  - D. Fees and charges (revenue) are collected by legally designated Receipt Voucher and regularly credited to Central Treasury Account.
  - E. None of the above stated authority and responsibilities are covered
  - F. There is no budget system rules and regulations
  - G. Others (Please briefly describe) \_\_\_\_\_

16. How would management of fees and charges of the sub-agency (college, faculty, department and others) be described? (*Select one of the following*)

- A. Directly managed by the agency without any intervention of the central agency of the university—and not reported in the budget.
- B. Directly managed by the agency without any intervention of the central agency of the university—and reported in the budget.
- C. Subject to review and priority setting but managed outside of the budget process
- D. Fully integrated into budget decision making and reporting—and shown in gross terms in the budget.
- E. Have no any idea
- F. Other (*Please briefly describe*) \_\_\_\_\_

17. How would the amendment power of the sub-agency on the execution of budgeted expenditure be described? (*Select one of the following*)

- A. Not explicitly defined in the budget legislation
- B. Unrestricted—able to vary expenditure/ revenue without the consent of the executive.
- C. Restricted—allowing amendments but with the consent of the executive.
- D. Balanced—able to raise or lower expenditure/ revenue if counter-balanced to maintain budget stance presented by the executive.
- E. Have no any idea
- F. Other (*Please briefly describe*) \_\_\_\_\_

### C. Budget Preparation and Execution

18. Does your sub-agency have an officially adopted procedure for budget development/process?  
Yes  No

If yes, are you:

- A. establishing a set of goals and objectives to guide decision-making?  
Yes  No
- B. assessing the department/faculty/college or others needs, priorities, challenges and opportunities?  
Yes  No
- C. providing budget administrative plan of who does what?  
Yes  No
- D. creating a budget calendar to specify when each task is to be done?  
Yes  No
- E. accurately estimating expenditure and revenue expected during the coming year to meet the costs of all programs and services? Yes  No

Please specify other procedures, if any, the university follow for budget developmet/process:

19. If you have an official procedure for budget development/process, was it developed and adopted through collegial consultation with the staffs (participatory budgeting)? Yes  No

20. If your answer for question number 18 is 'yes',

- A. does the department/faculty/college or others have roles in budget planning?  
Yes  No
- B. does the department/faculty/college or others submit action plans as part of the planning process?  
Yes  No
- C. does the academic staffs have a role in budget development/process?  
Yes  No

21. Information and instruction from the Planning and Budget Office (PBO) of the university: all necessary information was provided, and was easy to understand? Whenever needed further information or guidance, they provided this to the sub-agencies.

Strongly disagree  Disagree  No opinion  Agree  Strongly agree

22. The Budget Circular or Budget Process Guide given by PBO provided sufficient guidance on how to prepare Budget Proposal.

Strongly disagree  Disagree  No opinion  Agree  Strongly agree

23. And the guidelines were helpful for assembling and presenting the proposal.

Strongly disagree  Disagree  No opinion  Agree  Strongly agree

24. Once the Budget Proposals were made, decisions on the theme process were communicated quickly and clearly, and the agencies were updated on developments as the theme process progressed.

Strongly disagree  Disagree  No opinion  Agree  Strongly agree

25. And then, the final decisions made by the management on the Budget proposals were clearly communicated in a timely manner.

Strongly disagree  Disagree  No opinion  Agree  Strongly agree

26. Overall, the university's budget preparation process enabled changes to be incorporated efficiently with low compliance costs?

Strongly disagree  Disagree  No opinion  Agree  Strongly agree

Budget Information System (BIS) is a computer application designed to capture government budget data at the lowest level i.e., from budget submission forms of public bodies, and produce reports that are required at the different levels of the government budget preparation process. The introduction of this new system for preparing the proposals documents on-line in BIS form as well as in printed form. The system simplifies the manual tasks of budget compilation and reduces the inevitable errors thus produced that delay budget presentation to pertinent authorities for approval. The system also capture budget data, for recurrent at a Sub-Agency level and for capital at Project level as per the budget manual's recommendation. Thus, questionnaire items 27 to 31 are related with this BIS practice in your sub-agency. ***(Indicate your agreement or disagreement of the practice by putting a tick mark in the boxes)***

27. Preparation of budget with BIS simplifies the manual tasks of your budget compilation and reduces the inevitable errors and able to produced on time the budget presentation to pertinent authorities for approval.

Strongly disagree  Disagree  No opinion  Agree  Strongly agree

28. The BIS used to consolidate the data entry into budget documents presented the budget in a more transparent and detailed manner than had previously been done.

Strongly disagree  Disagree  No opinion  Agree  Strongly agree

29. BIS Proposal worked as you had been briefed? This covers saving your input dependably, accurate version control, formats automatically conforming to the style guide, and the production of an accurate and complete document to pertinent authorities for approval.

Strongly disagree  Disagree  No opinion  Agree  Strongly agree

30. You were provided with enough help to use the system. Help covers the BIS Budget Seminar, and/or training sessions at PBO or Ministry of Finance and Economic Development (MoFED).

Strongly disagree      Disagree      No opinion      Agree      Strongly agree  
                       

31. Overall, you found the BIS in budget preparation and presentation easy to use? Ease of use covers knowing where to make your data entry; the ease of entering, saving and editing both text and table data; as well as easily viewing and printing your document.

Strongly disagree      Disagree      No opinion      Agree      Strongly agree  
                       

D. Budget Recording, Controlling, and Reporting

32. How budget transactions are mainly recorded? *(Select one of the following)*

- A. On a cash basis
- B. On cash and commitments basis
- C. Cash with some accrual information
- D. On an accrual basis
- E. Have no any idea
- F. Other (specify) \_\_\_\_\_

33. What are the principal forms of control to ensure that spending reflects the authorized budget? Would you please briefly describe and/or give reference to relevant documents or annexes?

\_\_\_\_\_

\_\_\_\_\_

34. According to your opinion, how would you describe the overall internal budget control system of the agency? *(Select one of the following)*

- A. Very Strict
- B. Strict
- C. Less Strict
- D. Not Strict
- E. Have on any idea

35. Please indicate timeliness (period end), internal, external and ministry in charge of (a, b, or c) of report for budget execution. *(Put a tick mark on the appropriate box)*

| Budget execution report                             | Issued period |           |          |        |
|---|---------------|-----------|----------|--------|
|   | Monthly       | Quarterly | Mid-year | Annual |
| a) Internal only                                    |               |           |          |        |
| b) Issued to central agency (Finance/Budget Office) |               |           |          |        |
| c) As above and send to MoFED                       |               |           |          |        |

Please briefly describe and provide report titles and responsible officer for the reports:

\_\_\_\_\_

36. If your response for item 35 is 'No', please give reasons for this.

\_\_\_\_\_

37. How soon after the end of the relevant period are the budget centers forwarded the reports to the concerned Finance/Budget Office? *(Select one of the following)*

- A. Less than a week
- B. B/n 1 to 2 weeks
- C. B/n 2 to 3 weeks
- G. Have no any idea
- D. B/n 3 to 4 weeks
- E. More than four weeks
- F. Not at all

38. If your response for item 37 is 'Not at all', please give reasons for this.

39. How soon after the end of the relevant period are the reported final expenditures presented to the management and/or MoFED? (*Select one of the following*)

- |                     |                          |                         |                          |
|---------------------|--------------------------|-------------------------|--------------------------|
| A. Less than a week | <input type="checkbox"/> | D. B/n 3 to 4 weeks     | <input type="checkbox"/> |
| B. B/n 1 to 2 weeks | <input type="checkbox"/> | E. More than four weeks | <input type="checkbox"/> |
| C. B/n 2 to 3 weeks | <input type="checkbox"/> | F. Not at all           | <input type="checkbox"/> |
| G. Have no any idea | <input type="checkbox"/> |                         |                          |

40. If your response for item 39 is 'Not at all', please give reasons for this.

41. How would you describe reporting on the MoFED? (*Select one of the following*)

- A. Separate reporting by each Sub-agency, and no consolidation.
- B. The University Finance Department provides significant analysis of centers' activities but incomplete consolidation.
- C. A full consolidation of centers' activities, (including all decentralized units), is presented by the University Finance Department.
- D. Have no any idea
- E. Other (specify) \_\_\_\_\_

E. Number of Budget/accounting Staffs, and Training and Practice on the Budget Reform Manual

42. How many budget/accounting staffs are working for the center? (*Select one of the following*)

- |                |                          |                 |                          |
|----------------|--------------------------|-----------------|--------------------------|
| A. Less than 5 | <input type="checkbox"/> | D. 16 to 20     | <input type="checkbox"/> |
| B. 5 to 10     | <input type="checkbox"/> | E. More than 20 | <input type="checkbox"/> |
| C. 11 to 15    | <input type="checkbox"/> |                 |                          |

Please indicate the following:

a) Number of staff in the budget desk \_\_\_\_\_.

b) Number of staff in the accounting desk \_\_\_\_\_.

43. Roughly what percentage of your agency's annual training budget is allocated to budget/accounting staffs training? (*Select one of the following*)

- |                  |                          |                |                          |
|------------------|--------------------------|----------------|--------------------------|
| A. Less than 10% | <input type="checkbox"/> | E. 76% to 100% | <input type="checkbox"/> |
| B. 11% to 25%    | <input type="checkbox"/> | F. Not at all  | <input type="checkbox"/> |
| C. 26% to 50%    | <input type="checkbox"/> | G. Don't know  | <input type="checkbox"/> |
| D. 51% to 75%    | <input type="checkbox"/> |                |                          |

44. In which of the following Budget and Accounting Reform Design Manual prepared by Civil Service Reform Budget and Accounting Design Team of MoFED with the support of DSA are the budget/accounting staffs are trained? (*Select all that apply*)

- A. The revised and newly introduced chart of accounts
- B. The newly introduced Cost-center budgeting system
- C. The Budget Information System (BIS) for the preparation, notification and adjustment of the annual budget
- D. Budgetary control over expenditures
- E. Double-entry bookkeeping and modified cash-basis accounting systems
- F. None of the above stated training program
- G. Other (please specify)

45. Which methods (if any) do the management use in order to assess the effectiveness of the training taken by the staffs? **(Select one of the following)**

- A. Employee feedback
- B. Measures of employee output/performance
- C. Employee testing/monitoring
- D. Measures of customer satisfaction
- E. Have no any idea
- F. There is no assessment method

**PART III- Budget Related Problems**

46. There are a number of problems associated with the reform program. Since the reform is new to your institution and other federal public bodies, the researcher assumes that the problem is greater to your institution. Thus which of the following problems is/are relevant to your institution **(Select one of the following):**

- A. Confusion over restructuring and rethinking the role of Sub-agencies
- B. Confusion of roles due to inadequate instruction and training given by the MoFED
- C. Failure of the budget/accounting staffs to manage the new systems
- D. Not adhering to the budget calendar and getting key tasks done on time
- E. Overall, the rollout is an operational change and not a pilot, then the new procedures and systems did not perform properly or used properly.
- F. Other *(Please briefly describe)* \_\_\_\_\_

47. If the allocated budget is not fully and properly utilized by your sub-agency, what are the reasons assumed for it? **(Select one of the following)**

- A. Budgets are not approved on time
- B. Budgets are not allocated on time
- C. Disbursements are not made on time
- D. Sub-agencies have not been assigned wide-ranging responsibilities (i.e., responsible to manage inputs to achieve outputs that contribute to outcomes)
- E. Individuals not held responsible for inputs and outputs.
- F. Presence of long bureaucratic process in procurements and payments.
- G. Other *(Please briefly describe)* \_\_\_\_\_

48. Overall, what are the major problems that the sub-agency faced in implementing the budget reform program in general and cost-center budgeting system in particular? Please briefly describe those problems. \_\_\_\_\_

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## Appendix III-Interview Items for the University Management and PBO Officer

### INTERVIEW ITEMS PROVIDED FOR THE UNIVERSITY TOP MANAGEMENT AND PLANNING AND BUDGET OFFICER

This interview is designed to gather information from AAU Top Management and budget Officers of Addis Ababa University. The information to be obtained is going to be used for the research purpose in order to produce a thesis about the *Practice, Problems and Prospects of Cost-center Budgeting in Addis Ababa University*. Based on this, one of the purposes of the Managements and Officers who are expected to take part in planning, execution, and decision making of the educational finance/budget, the genuine responses of the interviewees are highly valuable for the success of the study.

1. How the university budgets show responsibility? That is, do sub-agencies (colleges, faculties, departments or others) of the university have the responsibility (financially and/or in terms of administrative autonomy) to deploy their budget? Would you please briefly describe the extent to which they responsibly deploy their budget?
2. Do you have an official procedure for budget development/process; was it developed and adopted through collegial consultation with the staffs (participatory budgeting)? If yes, do the academic staffs have a role in budget development/process? Would you please describe that role briefly?
3. Are Recurrent and Capital expenditures of the university budgeted together (even if they are placed indifferent budgets)? That is, bringing the two types of expenditure together by sub-agency and/or activity to facilitate the development and application of budget norms that can promote better expenditure composition. If not, what are the reasons that they do not budgeted together? Would you please briefly describe?
4. The Ministry of Education's proposed funding formula, which intended to lay the foundation for the introduction of block grants as the future means of funding the universities, which requires sufficient capacities of your institution and its sub-unit in estimating unit costs of the various programs. What is your opinion, under present institutional conditions, whether this would be a demanding and laborious process or not?
5. In relation to your response of question no. 5, do you think that this unit cost estimation (an estimate of the resources which will be used up in order to attain a specific output of a program) concept ties in to the existing practice of cost-center budgeting?
6. If the concept ties, what will be the projection (future practice) of cost-center budgeting in your institution to facilitate the move from a line-item budgeting system towards one that offers block grants to institutions on the basis of a funding formula? Or which one of the following would be the possible projection?
  - Improved mapping of the budget to sub-agencies and programs (a reassessments of sub-agencies how they are organized to meet their goals).
  - Assign specific responsibility to sub-agencies or individuals of the institution for funds and/or for the output of those funds.

- Group expenditures by sub-agency and task regardless of whether they are recurrent or capital in nature.
  - Providing total costs for sub-agencies and activities, then the division between the recurrent and capital budgets will be bridged.
  - Or other practices if any.
7. As a public Higher Education Institution, which of the following sources of income are the applicable sources of your institution budgets?
- An annual block grant allocated by the government.
  - Allocated budget on a negotiated line item basis by government.
  - Income generated from services delivered by the institution.
  - Consultancy and other activities undertaken by the institution to generate income.
  - Assistance from external sources in the form of cash or kind.
  - Loan from external sources.
  - Other sources if any
8. Is your institution cost sharing administration consolidated under a single Department/Office or organized at a sub-agency level? Would you please briefly describe the structure of the cost sharing administration and availability of information on the structure to the payer (user), giving references to any published reports?
9. The introduction of cost sharing in the form of graduate tax, income generation and contracting out of services, and the allocation of block grant budgeting system using a formula are the major provisions of the Higher Education Proclamation (FDRE, 2003) relating to administrative and financial autonomy of institutions. How do you describe the existing institutional capacity of the university for the effective implementation of this reform? Does the university face any capacity problems to implement this reform? If yes, would you please briefly describe and/or give reference to relevant documents or annexes?
10. Overall, what are the major problems that the university faced in implementing the budget reform program in general and cost-center budgeting system in particular? Would you please briefly describe?

## Appendix IV-Interview Items for the University Budget Administrator

### INTERVIEW ITEMS PROVIDED FOR THE UNIVERSITY BUDGET ADMINISTRATOR

This interview is designed to gather information from the Head of Budget Administration of Addis Ababa University. The information to be obtained is going to be used for the research purpose in order to produce a thesis about the *Practice, Problems and Prospects of Cost-center Budgeting in Addis Ababa University*. Based on this, one of the purposes of the Officers who are expected to take part in planning, execution, and decision making of the educational finance/budget, the genuine responses of the interviewees are highly valuable for the success of the study.

1. How the university budgets show responsibility? That is, do sub-agencies (colleges, faculties, departments or others) of the university have the responsibility (financially and/or in terms of administrative autonomy) to deploy their budget? Would you please briefly describe the extent to which they responsibly deploy their budget?
2. Do you have an official procedure for budget development/process; was it developed and adopted through collegial consultation with the staffs (participatory budgeting)? If yes, do the academic staffs have a role in budget development/process? Would you please describe that role briefly?
3. Are Recurrent and Capital expenditures of the university budgeted together (even if they are placed indifferent budgets)? That is, bringing the two types of expenditure together by sub-agency and/or a activity to facilitate the development and application of budget norms that can promote better expenditure composition. If not, what are the reasons that they do not budgeted together? Would you please briefly describe?
4. Are your sub-agencies consisting of single unit (college, faculty, department, and others) or multiple units? When they have a number of sub-units (budget centers), how are responsibilities split between the sub-agency and the other units under them? Or which one of the following show their shared responsibilities
  - a) Units are responsible for the use of their budget
  - b) Units are accountable to manage inputs to achieve outputs that contribute to outcomes.
  - c) Units are responsible in creating an integrated expenditure plan i.e., they bring all costs (recurrent and capital) together for an activity.
  - d) Units are responsible in creating better organizational management to link expenditure planning and budgeting (objectives linked to resources).
  - e) Managers (Dean/Head of the units) are responsible to deploy their resources flexibly (they know clearly what resources they have and use flexibly).
  - f) Individuals in the unit are held responsible for inputs and outputs
  - g) None of the above stated responsibilities are delegated to the units.
  - h) Other (please specify)

5. How would you describe the integration of the sub-agencies and the Planning and Budget Office of the university in budget administration?
  - a) Does the yearly-approved budget of the university allocated to the sub-agencies or administered by a separate division for use by others?
  - b) Does the allocated budget administered by a separate division or as parts of the sub-agency's responsibilities?
6. How would you describe the size (imbalances) of each sub-agency and their budget allocation?
7. Is the budget allocated to the center addressed well, in terms of:
  - a) Accountability
  - b) Access by those areas needing their budget
  - c) Ability to deploy their budgets flexibly
  - d) Controlling and reporting their budget
8. How would you describe the internal budget control system of your institution? Would you please briefly describe the budget control system implemented?
9. Taking in to account the Budget and Accounting Reform Programs and the changes made on budget/accounting tasks, what training programs have been established to introduce these to budget/accounting staffs? Are these largely in-house programs, or external training?
10. What major problems do the university faced for appropriately allocating budgets to sub-agencies and making them fully responsible to deploy their budget? Would you please describe them clearly?

## Appendix V-Interview Items for MoFED Officials

### INTERVIEW ITEMS PROVIDED FOR MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT (MoFED) OFFICIALS

This interview is designed to gather information from MoFED officials. The information to be obtained is going to be used for the research purpose in order to produce a thesis about the *Practice, Problems and Prospects of Cost-center Budgeting in Addis Ababa University*. Based on this, one of the purposes of the Officers who are expected to take part in planning, execution, and decision making of the educational finance/budget of Addis Ababa University, the genuine responses of the interviewees are highly valuable for the success of the study.

1. What do you say about the reasons for introducing Cost Center Budgeting in Ethiopia in general and Federal public bodies (such as: AAU) in particular?
2. What were some of the difficulties you faced in building Cost Center Budgeting in Ethiopia in general and Federal public bodies (such as: AAU) in particular?
3. What do you say about the strategy of building Cost Center Budgeting in Ethiopia?
4. How would you describe the size of each sub-agency/activity (cost center)? In the case of Higher Education Institutions, is the department or faculty or college a cost center?
5. Are there any legislative constraints that limit the size of each sub-agency? Please briefly describe any rules that apply giving reference to laws and specific articles setting such rules.
6. How would you describe management of internal revenue (Retained Earning) expenditure? Should fees and charges of the university be collected by legally designated Receipt Voucher and regularly credited to Central Treasury Account (CTA)? If yes, do the university regularly collect and credited to CTA?
7. When are budget expenditure reports from sub-agencies received?
  - a) Monthly
  - b) Quarterly
  - c) Mid-year
  - d) Annually

## Appendix VI - Interview Items for MoE Officials

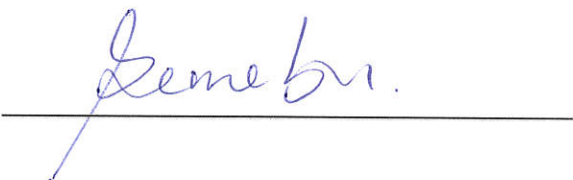
### INTERVIEW ITEMS PROVIDED FOR MINISTRY OF EDUCATION (MoE) OFFICIALS

This interview is designed to gather information from MoE officials. The information to be obtained is going to be used for the research purpose in order to produce a thesis about the *Practice, Problems and Prospects of Cost-center Budgeting in Addis Ababa University*. Based on this, one of the purposes of the Officers who are expected to take part in planning, execution, and decision making of the educational finance/budget of Addis Ababa University, the genuine responses of the interviewees are highly valuable for the success of the study.

1. The Ethiopian government has introduced several policy and strategy provisions and major re-engineering or reform initiatives in the system of Higher Education Institutions. How do you describe their necessity for the system? And how do you describe the breadth and ambition of the government's current higher education reform efforts?
2. What do you say about the need to introduce a funding formula in the Higher Education Institutions funding system?
3. In your opinion, is the formula too complex for use under prevailing country conditions?
4. Do you think that a move from a line item budgeting system towards one that offers block grants to institutions a worthwhile and attainable goal?
5. What do you say about the critical capacities and preparations required from institutions for effective implementation of this funding formula?
6. What are the major problems in introducing major reforms in the institutional governance, management and budget?

I undersigned, declare that this thesis is my original work and has not been presented for a degree in any other university. All sources of material used for the thesis have been duly acknowledged.

Name: Demelash Chekole Mekonnen

Signature: 

Place: Addis Ababa University, Addis Ababa

Date of Submission: February 2007

This thesis has been submitted for examination with my approval  
as a university advisor.

Name:

Yalew Ingidayehu

Signature:



Date of approval:

5/3/2007.