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Analysis of Medium Term Expenditure Framework and Budget

Allocation: The Case of Addis Ababa City Administration

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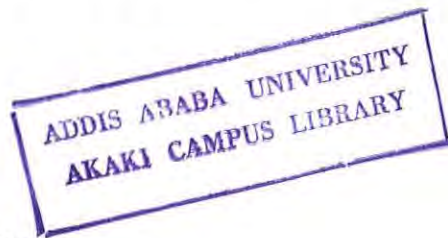
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ABSTRACT

Analysis of Medium Term Expenditure Framework and Budget Allocation: The Case of Addis Ababa City Administration

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In the developing world the level of development remained unsatisfactory partly due to insufficient access to financial resources, poor utilization and management of the resources in the public sector. To contribute its part the general objective of this study is to examine the performance of Medium Term Expenditure Framework (MTEF) and its outcome on budget system of Addis Ababa City. The thesis is designed to follow descriptive and exploratory type of research method. Data have been collected from both primary and secondary sources in order to generate relevant and valid result. Accordingly both structured and semi-structured questionnaires and interviews were implemented to access primary data from 76 respondents of 22 public bureaus and 5 sub cities.

The findings of the analysis revealed that MTEF is integrated in to the budget process; improved reallocation of budget towards poverty oriented sectors based on the city's strategic plan when compared to the pre-MTEF implementation period. Acknowledging some benefits of MTEF, its overall contribution to the budget system observed to be limited. Budget is highly input oriented rather than focusing on performance. There is no unit cost and standardization of activities to estimate operational and project costs in the budget process.

On the basis of the empirical finding, the linkage between MTEF and the budget trend indicate that there is improvement on both revenue and expenditure performance. However, due to the fact that many exogenous factors are left out only MTEF may not be attributed to these improvements. It is concluded that coupled with weak capacity of the city, a full-fledged MTEF, is not sequenced by overall PEM reform restricting its full benefit. As a result, in order to improve the budget system, it calls for further reform, which includes redesigning a city level MTEF, followed by sequences reinforcing reforms to bring successful paradigm shift.



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List of Acronyms and Abbreviations

AACRSP	Addis Ababa City Revised Strategic Plan
AACMTEF	Addis Ababa City Medium Term Expenditure Framework
BoFED	Bureau of Finance and Economic Development
CSRP	Civil Service Reform Program
DFID	Department for International Development
DFID	Department for International Development
DSA	Decentralization Support Activities
EMCP	Expenditure Management and Control Program
FTA	Financial Transparency and Accountability
GDP	Gross Domestic Product
IMF	International Monetary Fund
IBEX	Integrated Budget and Expenditure System
MEDaC	Ministry of Economic Development and Cooperation
MEFF	Macroeconomic and Fiscal Framework
MoF	Ministry of Finance
MoFED	Ministry of Finance and Economic Development

MTEF	Medium Term Expenditure Framework
OECD	Organization for Economic Cooperation and Development
PEM	Public Expenditure Management
PFM	Public Financial Management
PIP	Public Investment Program
PRS(P)	Poverty Reduction Strategy (Paper)
TVTC	Technical and Vocational Training College
SNNPRS	Southern Nations, Nationalities and Peoples Regional State

Chapter One

1. Introduction

1.1 Background of the study

Developing countries have been trying their best to extricate themselves from the grip of backwardness. They have been embarking various political struggle and socio-economic activities after their independence to knock-out themselves from the vicious circle of poverty. If urban centers were not properly planned and managed high rate of urbanization would result in inadequate infrastructure and service provisions, severe environmental degradation, increasing traffic congestion, and proliferation of slums and squatter settlements. The insufficient access to financial resources and low level of development projects in urban areas are claimed to be major causes of these problems (World Bank, 1998). To reconcile the increasing demands of social services and infrastructure with the existing limited resources, improving resource allocation through instruments of proper economic policy and expenditure management is an ultimate option.

The Federal Democratic Republic of Ethiopia is established on the basis of political and administrative decentralization (Deresse, 2003). The *Constitution*, as supreme law of the land, came into effect in August 1995 and instituted a federal state structure. Accordingly, Addis Ababa had been given special regional administrative status along the lines of the newly formed regional governments. This was then changed to that of City Government through proclamation No. 87/1997, which laid down the framework for the structure and organization of the Addis Ababa City Charter (AACMTEF, 2008/09).

The city was thus given relative autonomy to formulate and implement development policies in order to reduce poverty, stimulate its economy, improve the environment and mobilize the necessary resources for sustainable development. In addition, the city government was given broader mandates of providing public infrastructure facilities and urban services to its residents. The decentralization of the city's administrative units into a two-tier executive structure with ten Kifle-Ketemas¹ and one hundred sixteen Weredas² is one major aspect of these transformations (AACMTEF, 2010/11).

Even though the charter of the city has recently been amended in such a way as to reinforce capabilities compatible with 'City Government' status, Addis Ababa City government is still faced with enormous challenges as fulfilling these broadened responsibilities entail a major financial implication (Lia, 2005). The narrow public financial base of the City Government as opposed to its wide expenditure responsibilities does not provide sufficient funds for fulfilling basic municipal functions. Since 1997, the city has lost a considerable resource that had come as central government transfers and which had constituted a quarter to a third of its annual revenue. This indicates that though the decentralization process had based the subsidiary principle as foundation, it had failed to give adequate considerations to the amount of financial resources available to the city government.

Apart from being Ethiopia's federal capital, Addis Ababa is a seat of quite a number of regional, continental and international organizations such as the African Union, Economic Commission for Africa (UN-ECA) and important organs of the UN system.

¹ A Kifle-Ketema is a sub-city municipality in Addis Ababa.

² A Wereda is the smallest administrative unit in the city.

The city also prides itself with hosting one of the largest numbers of foreign diplomatic representatives among the world's capitals coming, perhaps, next to only to New York and Geneva (Earnest and Young, 2010). Addis Ababa is also considered as the capital of Africa, not only with the permanent presence of the African Union but also as a North-South, East-West airline hub of the African continent; with the world renowned Ethiopian Airlines serving 59 destinations around the world, 38 of which are in Africa (ibid.).

The city's population is estimated to be about 2.7 million and has grown annually by about 2.5% (CSA, 2008). According to the 2006 City Gross Domestic Product (GDP) estimates, the city's economic activities are dominated by the services sector, which contributes about 77% followed by the industrial sector, which contributes about 22% and agricultural activities, which contribute less than 1%. In the same period, the city's per capita income grew by about 2.4% per annum (BoFED, 2008). According to Addis Ababa City Administration strategic plan document (BoFED, 2008), out of the total economically active population of the city about 61% are engaged in the informal sector and around 50% of the city's population are living below the poverty datum line. The high rate of population growth, uncontrolled horizontal expansion of the city, and the proliferation of slums inside the inner city are contributing to the widening gap between the demand and supply of public goods and services. The housing conditions of the inner city are dominated by old and mostly congested neighborhoods that are largely constructed below standard, rental dwellings with low level of access to major public services. However, encouraging works have been observed in renewing inner old areas when the City Administration has been engaged in redevelopment activities since 1991.

The Bureau of Finance and Economic Development (BoFED) prepares annual budget proposal and submits it to the city cabinet for approval after undertaking discussion with responsible bodies. The city used preparing budget on an annual basis and transfer grants to sub cities in the form of both specific and general grants, and to city bureaus only in the form of specific grant to address development projects. The city allocates budget using annual budgeting, which was prepared on incremental basis. The city administration with the intents of linking budgets with city policies and planning, maintaining effectiveness and efficiency in budget utilization, ensure macro-economic stability and provide budget predictability to sectors changed its budgeting into a multi-year budget framework in 2008/9 (BoFED, 2008).

The federal government of Ethiopia has been using Macro-economic/fiscal framework (MEFF) since 1996/7 in order to set budget ceilings for regions and federal bureaus. And from regional states only Southern Nations and Nationalities Regional State (SNNR) and Addis Ababa City Administration implemented the MTEF in 2007/08 and 2008/09, respectively (BoFED, 2008). But the city carries out medium-term budgeting tool without meeting the necessary pre-conditions, which are critical for the successful implementation of MTEF. Furthermore, the availability of stable macro-economic situation, budget discipline, linking the MTEFs with reforms of budget execution and reporting, and budget comprehensiveness are important pre-requisite for the successful implementation of MTEF. World Bank (1998) explains that all respective bodies need to have sufficient awareness on city policies and MTEF, and also the city needs to translate government policy into costed programs and projects. The fulfillment of these

preconditions should be taken as necessary and hence developing standards and unit cost system so as to allocate adequate resources to sectors is important.

1.2 Statement of the problem

The task of public expenditure management and budget allocation has become increasingly difficult and complex in most developing countries. This is because of the responsibilities and role of government has been widened due to the ever increasing infrastructure and social needs, and population growth through time without the corresponding increase in financial resources. This phenomenon calls for decision and policy makers to formulate and implement appropriate economic policy and expenditure planning. Practically in countries like Ethiopia, the integration of annual budgeting with medium term planning is fragmented. Budget reforms and public investment program have been helped to reduce the gap between expenditure planning and annual budget allocation in the country though not to the required level. Particularly, the expenditure planning project is aimed to implement efficient resource allocation by placing greater emphasis on the medium term expenditure planning.

In similar pattern that fiscal decentralization vested to other regions, Addis Ababa city administration has undertaken budgetary reforms on recurrent and capital expenditure process to achieve development on prioritized areas. But still the reforms were limited to documentation of existing budget system without exhibited significant change. But the basic problems of resource allocation in the city's public sector attain more complex forms critically addressing policy objectives and planning, performance budgeting, monitoring and evaluation, reporting and accounting systems.

The city's responsibility of budget activity is beyond allocating of the available financial resources to public sector; it also involves a complex process that include the analysis of expenditure in relation to Gross Domestic Product (GDP), amount of available foreign aid, domestic loan, level of deficit financing, proportion between capital and recurrent budget, structure of capital expenditure (sector priority), etc. The detail analyses of these factors help the city and policy makers to divert resources from unproductive to productive areas. In Addis Ababa city administration, the fundamental issues of development policies and priorities, poverty reduction program and resource envelop in relation to proposed budget are not critically and thoroughly debated by cabinet, councils and stakeholders. These phenomena resulted to aggravate the problems of financial resources for investment and resource management process.

Even though the city administration has been undertaking different reforms to solve the conflict between medium term expenditure framework and budget process, successful expenditure tool and budgeting system remains a continuous problem of the city. The currently practiced expenditure and budget reforms also unable to deliver the systems that effectively answer the questions behind policy review processes (Lia, 2005). Therefore, to insight the existing gaps city's budget allocation process, controlling and management aspect, assessing the outcome of the recently implemented MTEF is very important. The research paper endeavors a study that will serve as a curiosity to be complemented by further study; exploring whether the Addis Ababa City administration is indeed ready and equipped to implement MTEF for a better public resource management or not.

1.3 Objective of the study

The multifaceted financial correlated problems mentioned above can be mostly tackled, but unlike the existing budgeting practice, by focusing on output rather than focusing on inputs and changing annual budgeting to medium term planning/framework. The public sector expenditure management and budgeting system of the city administration have several weaknesses in both medium term expenditure framework and budget allocations. The budget system of the city has been dominated by traditional means of control and accountability rather than the allocation of limited resources to well-defined programs and projects to ensure efficiency and effectiveness. This is mainly due to the city administration has not given enough attention to public expenditure without which development process cannot be hastened.

To its part the general objective of this study is to analyze the performance of city's MTEF and its outcome on the budget process and allocation, such a study helps to identify the critical area that seeks intervention and improvement to control and manage the city's resource effectively and efficiently. More specifically, the study has the following objectives:

1. To review and evaluate the overall course of action taken to implement MTEF and the continuous adjustments made by the city administration to maximize its benefits;
2. To compare and contrast the effects of MTEF with the outcomes of the city's previous annual budget perspectives with regards to policy, budget planning and execution;

3. To examine the budget processes; from budget formulation steps undertaken to final approval and appropriation by the city cabinet and council;
4. To assess the degree of the transparency and accountability of the current budget allocation system to the wider public.

Consequently, the study will attempt to address the following leading research questions;

- a. To what extent has the city administration benefited from the intended results of MTEF and which factors are liable its hinder the full implementation (if any)?
- b. To what extent is MTEF serving as a guiding tool for the process of budget preparation and allocation by the city administration?
- c. Are there any problems affecting the effectiveness and/or efficiency of the city's budget allocation, control and management system that seek immediate intervention?
- d. Are there adequate transparency and accountability in decision making of budget allocation and utilization to the public?

1.4 Research Methodology

The research method of this study falls under the category of descriptive research method and it is designed to employ rigorous exploratory and slight explanatory type of research method. Both primary and secondary data have been collected in order to generate relevant and valid result. As a result both structured and semi-structured questionnaires (see Appendix 5) and interviews were used to collect primary data from various level public institutions of the city administration. The secondary data were collected from relevant books, annual/ periodic reports, budget documents, research papers, and World

Bank documents and internet sources. Particularly, MoFED and BoFED yearly budget and MTEF documents, and other unpublished materials were extensively used. These secondary sources of information were mainly used to support the primary data.

To make the sample more representative, the research used non-probability techniques of sampling method. As a result, this research consisted of selected 18 bureaus and 5 sub cities based on functional budget classification; public bodies that do not have identical trend of spending in magnitude and prioritized sectors in the city's MTEF (see Appendix 8). Moreover, big share of the city's budget is allocated to these sampled public bodies making the study more valid. As a result sample sizes of 66 respondents were addressed in the questionnaire and 10 respondents were interviewed. The questionnaire was designed to incorporate both open and closed ended type of questions in order access relevant information as detail as possible. In order to manipulate the data obtained from these sources, descriptive statistical tools (simple SPSS) is applied.

1.5 Delimitation and limitation of the Study

The study is delimited to review the level to which Addis Ababa City Administration is implementing MTEF and as such it analyzes its budget allocation. This is due to the fact that the city was not only suffering from financial constraints but also because of poor fiscal planning, the city budget stayed incomplete alignment to city development focus. In order to direct the funds towards addressing these problems the next to SNNPRG the city adopted the tool MTEF where the study looks at a particular focus.

As a matter of fact, analysis of expenditure planning and budget allocation in countries like Ethiopia is very difficult in general. As far as Addis Ababa is the mirror image of the federal government, similarly there is no well-established and comprehensive public expenditure management. The existing documents are mainly empirical, disorganized and unreliable. In addition, some respondents were not willing to give relevant information related to the study due to their own reason.

1.6 Significance of the Study

To meet development needs of the large population that is under resource constraint the preference to achieve optimum financial utilization mechanism is a non-alternative decision. The identification of factors that influence the smooth implementation of MTEF and budgeting process in the city will be an input to policy makers. In this respect the study is expected to give a better insight into the city's MTEF. On the other hand through analysis of city's budget procedures, the study is helpful in the process of formulating sound expenditure planning which in turn improve the deficiencies of resource allocation in the public sector. In addition the study will contribute to the existing knowledge of the academic world.

1.7 Organization of the study

The research is divided in to five chapters, chapter one introduces the topic and contains: background of the study, statement of the problem, objectives, significance, scope and delimitations of the study and describes the study area. The second chapter presents review of the relevant theoretical and empirical literature on topic which provides

background information to the study. Chapter three presents recent budget reforms and expenditure planning project initiatives in Addis Ababa city administration. Chapter four deals with the analysis of empirical finding related to MTEF and budget allocation. The last chapter is devoted to summarize the findings of the study and suggest possible recommendations.

1.8 Scope of the study

The study examines the topic under consideration specifically the Addis Ababa City Administration case where only institutions within government hierarchies were addressed to collect primary data. Other institutions such as NGOs, CBOs, private organizations that are out of the city administration structure are not included. To identify the budgetary problems in addition to primary data used; physical and financial reports during 2005/06 to 2010/11. Besides, data related to MTEF and budget allocation other than those stated above and periods from 2005/06 to 2010/11 were beyond the scope of this study.

Chapter Two

2. Review of Related Literature

2.1 Conceptual Definition

The traditional approach in budgeting was annual and the budget spent on activities repeated yearly that departs marginally from those of the preceding year. It was conducted on cash basis and its content was in the form of line items such as personnel, operational, maintenance, and others. The traditional approach through allocating budgets on line item basis focuses on controlling aspects, deals with inputs instead of outputs, fragmented and short sighted, that is, cover only one year (Wildovsky, 1992). However, in recent times in addition decisions related to allocation and controlling aspect of budget, the public sector is supposed to work for efficiency and effectiveness. The multi-year budgeting has long been proposed as a reform to enhance rational choice by reviewing resource allocation in a long-term perspective. By so doing it would enable long-range planning to surpass short-term reaction and substitute the mere aspect of financial control of budgeting by broader concept that includes efficiency and effectiveness (Wildovsky, 1992; World Bank, 2000).

Literature indicates that developing countries in the objective of integrating budgeting with the government policies and planning, and for using budgets as the logical mechanism to better the alignment and harmonization of donors programs, have been replacing annual budgeting by multi-year budgeting, that is, MTEF since mid-1990's (Le Houerou and Talierci, 2002; World Bank, 1998). Recent literature on MTEF is characterized by several features and definitions. In this study the concept of MTEF is

defined as a multi-year rolling budget process that integrates budgets with government planning and policies and also serves as a means for translating government poverty reduction strategy into public expenditure programs (Swaroop cited in World Bank, 2000; and World Bank, 1998). Accordingly, it implies that the practice of compiling MTEF rolls over multi-year to reflect shift in policy and consists of a top-down resource envelope, a bottom-up estimation of the current and medium-term costs of existing policies and the matching of expenditure needs to comply with available resource in the periods.

The MTEF features, according to Le Houerou and Talierci (2002) include the general, technical and organizational features. The general feature includes the detail classification of sectors and types of expenditure to be allocated in the MTEF, the format by which budget is allocated and the period it covers. The technical feature refers whether a simple excel or other sophisticated model is applied for the purpose of forecasting resource envelope as well as compiling the expenditure requirements. The general features indicate the status, management team, and level of stakeholder's participations in the process of design and implementation. In terms of the application of MTEFs across countries, there is a high degree of diversity in terms of its features and dimension. Min (2006) distinguishes MTEF features as a budget instrument fully integrated into annual budget process with periods ranging from 2 to 5 years, based on the experience of the country either all or only some spending are included and in terms of general feature, in some countries the MTEF is subject to cabinet approval but in others does not require cabinet approval and used as a finance technical document.

Other studies also defined the MTEF features as a process covers 3 years, employs simple excel projection model for projection, only some sectors and capital expenditures are included, and compiled by drawing a committee from different line ministries (Alantar, 2009; Tibi, 2006). However these studies differ in terms of the targets and output set to be achieved with the implementation of MTEF. These differences in targets and output may be attributed to the differences in the experience and capacity of countries in planning. Thus this study used the following key dimensions, features and elements to assess the magnitude of city MTEF implementation (Le Houerou and Talierci, 2002).

Table 2.1: Operationalizing MTEFs: Key Design Dimensions, Features, and Elements

Dimensions	Design Feature	Key Elements
General	Scope	<ul style="list-style-type: none"> • Sectors included • Type of expenditure included (recurrent and/or capital)
	Format	<ul style="list-style-type: none"> • Expenditures presented by classification (economic, functional, organizational, geographical, program-based)
	Government Levels	<ul style="list-style-type: none"> • Level of government encompassed (central, regional, and/or local)
	Length of Period	<ul style="list-style-type: none"> • Number of years (including budget year)
Technical	Macro/Fiscal Framework (MFF)	<ul style="list-style-type: none"> • Basis for framework (type of quantitative model) • Content of framework (projections, targets, aggregate and sectoral ceilings, etc.)
	Sector Expenditure Framework (SEF)	<ul style="list-style-type: none"> • Inclusion of policy framework and strategy • Type of costings of existing and proposed programs (level of detail)
Organizational	Status in Budget Process	<ul style="list-style-type: none"> • Fit in budget process (form and date of inclusion in annual process) • Approval/authorization process
	Management Structure	<ul style="list-style-type: none"> • Central and sectoral agencies' roles • Organizational location of MTEF management • Introduction of reform • Civil society input into process
	Dissemination	<ul style="list-style-type: none"> • Method and form of dissemination internally and externally (formality)
	Oversight and Support	<ul style="list-style-type: none"> • Oversight of sectors by central ministries (intra-sectoral allocations) • Level of sectoral autonomy • Oversight of central ministries by sectors (sectoral allocations, disbursements, etc.) • Training support

Source: Taken From Concept to Practice, Preliminary Lessons from Africa, Le Houerou and Talierci (2002).

2.1.1 Historical Background of MTEF

According to Moldova Ministry of Finance (2002) the concept of MTEF was derived from (in 1980s and 1990s) public finance management reforms that were undertaken in European Union and other Western countries. The study further states that New Zealand, the United Kingdom and Australia were among the leading countries in introducing these reforms. On other hand, Tibi (2006) explains that MTEF was a budget tool that was started in 1960s in U.S.A, UK, and France and it borrowed ideas from the Logical Framework Approach (LFA).

Developing countries, according to World Bank (1998), are related to the annual budgets and hand-to-mouth adjustments during the budget year which led these countries to witness accumulated over commitments and inefficiencies at operational level. Annual budgeting in these countries has been undermined by the demand rather than depends on reliable resource projection and this caused in a negative-sum budget process that challenges macroeconomic stability, and program and project effectiveness. These situations have led to the proliferation of MTEF as an important budget tool in these countries since 1990's with support of the World Bank (World Bank, 1998).

During the 1990s around 25 countries in Africa, Asia, Latin America, and Eastern Europe adopted the tool and other ten were considering it to implement (Le Houerou and Taliercio, 2002). These countries adopted over a relatively short time period, that is, of the twenty-five countries about 90 percent adopted the framework over the 1997-2001 periods. According to Le Houerou and Taliercio (2002), Africa is regarded as the regional leader in MTEF implementation and about half of the African MTEFs were adopted over the 1992-1997 period, which is prior to the adoption by other regions.

Nowadays, the international aid community fuels the enthusiasm for MTEFs and besides donors and lender countries including the World Bank supported MTEF as the logical mechanism to structure the design of government-wide instruments of budget support (World Bank, 1998).

In Ethiopia, the federal government has been using the MTEF since 1996/7 in order to set budgets ceiling for regions and federal bureaus (BoFED, 2008). Among regional governments only Southern Nation and Nationalities, and People Regional States (SNNPRS) and Addis Ababa City Administration implemented the MTEF which are now at their infant age.

2.1.2 The Role and Process of MTEF

The World Bank (1998) states that the implementation of MTEF is increasingly being accepted as an appropriate response to the poor annual budgeting in developing countries, it is noticed that in these countries annual budgeting failed to link budgeting with policy and planning. In many respects the World Bank recommends MTEF as the new panacea of public expenditure management and proposes as a cure not only for the inadequacies of planning and budgeting systems but also for the broader performance problems of government (Oxford Policy Management/OPM, 2000). As a result, the MTEFs have been serving as a key tool in supporting the implementation of budget reform agendas in a number of transition economies since late 1990s (World Bank, 1998).

Le Houerou and Taliercio (2002) explain that the implementation of MTEFs have the role of improving macroeconomic stability, leading to a better inter and intra-sectoral resource allocation through effective prioritization of expenditure on the basis of

government policy, and greater budgetary predictability by commitment to more credible sectoral budget ceilings. They further indicate that the MTEF is an important budget instrument that transforms countries into a more efficient use of public financial resources, gives greater flexibility for line ministries together with greater accountability in managing their budgets. This is a basis for greater political accountability for public expenditure outcomes through more legitimate decision-making, and greater credibility of budgetary decision-making through political restraint. On the other hand, Koh (2009) claims that MTEF has the role of a medium for dialogue between government and the public on medium to long-term policy issues and also to inform the public of government's fiscal strategy.

Based on the practical experiences of some African countries there are some criticism against the MTEF, these criticisms are: failure to improve macroeconomic stability and to reallocate resources between sectors; failure to deliver predictability, introduction of activity based budgeting is too laborious due to limited resources; the activity based budget is too rigid and inflexible, and pre-conditions such as inclusion of all donors funds, availability of sufficiently clear policies, sufficient capacity to implement the new system and others need to be in place before the full implementation of MTEF. Muggeridge (2010) argues that these problems are attributed to the failure to distinguish between the MTEF as a budget preparation process and the implementation of the budget, the unrealistic resource projections made in these countries, the failure to implement MTEF in phases, and failure to set realistic targets to be achieved through implementation of MTEF.

Based on reviewed literatures the role of MTEF can be expressed in more precise terms, that is, MTEF has the role of designing a policy driven budget process, better align and harmonize donors programs, prioritize expenditures within hard budget constraint and improve predictability of funding by the line ministries.

The experiences of different countries indicated in different literature put different stages in order to compile a complete MTEF, which ranges from 3 to 6. Therefore, the analysis in this study was carried out on the basis of the World Bank (1998) comprehensive six stages of preparing MTEF, which are;

Stage I) Development of Macroeconomic/Fiscal Framework- concerned with developing macroeconomic model for projections of revenue and expenditures in the medium term.

Stage II) Developmental of sectoral programs- involves a sector review process and agreement on sector objectives, outputs and activities. It also carries out cost estimation of programs.

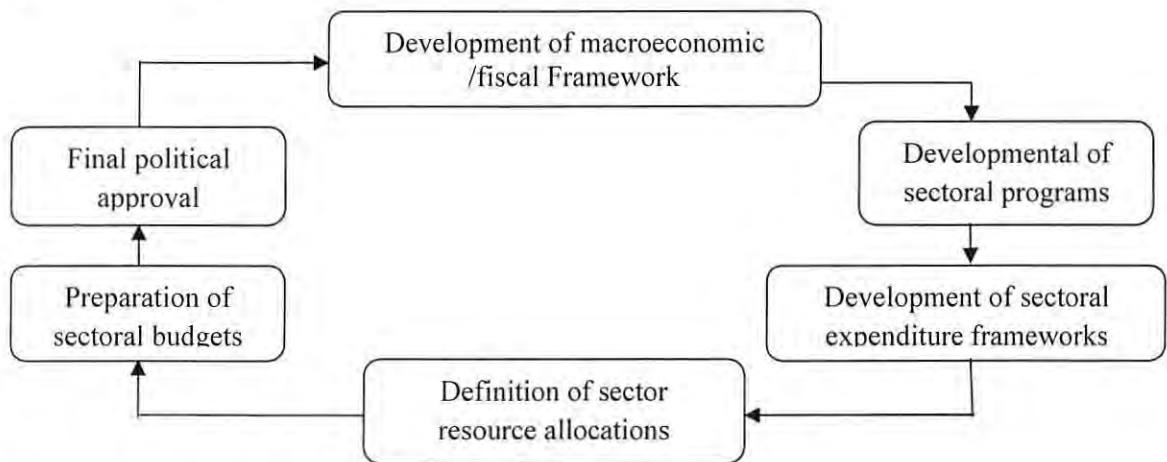
Stage III) Development of sectoral expenditure frameworks- it involves the analysis of the trade-offs between and within sectors of certain funding decisions and consensus reached on strategic resource allocation.

Stage IV) Definition of sector resource allocations- the cabinet approves the medium term sector budget ceilings on the basis of affordability and inter-sectoral priorities.

Stage V) Preparation of sectoral budgets- at this stage budget revisions will be made and prepare the medium term sectoral programs based on budget ceilings.

Stage VI) Final Political Approval- the revised budget estimates are presented to cabinet and parliament for approval.

Figure 2.2: Graphic Presentation of MTEF Process



Source: Adopted from the World Bank (1998)

2.1.3 Pre-Conditions for the Effective Implementation of MTEF

Studies in the area confirm that for the MTEF to be successfully implemented and bring its perceived benefits there are certain requirements which need to be fulfilled, these are, putting trust on MTEF, considering MTEF as a means to an end, designing MTEF as a policy driven budget process, providing high level political support to drive through necessary changes, and developing a means to adopt a new approach and way of working perceived benefits (European Commission Delegation to Ukraine, 2009). Le Houerou and Taliercio (2002) explains a good macro-fiscal model and a solid budgetary management foundation together with stable macro- economic situation, budget discipline, linking the MTEFs with reforms of budget execution and reporting, and budget comprehensiveness are important factors for successfully implementing MTEF.

The practical experiences of African countries indicates that strong leadership from the government, concurrent development of a basic but integrated financial management system and strong stakeholders participation in Tanzania, South Africa and Uganda facilitated the implementation of MTEF in these countries (Odi, 2005). Based on the experiences of OECD countries clarity of policy objectives, reducing the gap between policies and actual resource available, predictability in budget allocations, comprehensiveness of coverage and transparency in resource utilization are important pre-requisite for the MTEFs to help improve budget processes and outcomes (World Bank, 1998).

In general, in this study the following were considered as major requirements for the comprehensive implementation of MTEF:

- 1) Good macro-economic policies,
- 2) Adaptable fiscal policy and instruments,
- 3) Reprioritization and reallocation,
- 4) Budgetary discipline,
- 5) Institutional conformity and absence of bias,
- 6) Appropriate parameters,
- 7) Fiscal and policy transparency,
- 8) Integrating MTEF with key policy and planning process, and
- 9) Sustainable capacity building program and creating awareness on MTEF concept and process, policies, and planning (World Bank, 1998; MoF, 2000; Le Houerou and Taliercio, 2002; Odi, 2005).

2.2 Empirical Literature

2.2.1 Empirical experience on Features of MTEF

A number of studies mainly undertaken by World Bank on experiences of MTEF show that while there is similarity at the conceptual level but there are significant variations in the design of the reform at the operational level. The variations in designs at operational level caused by the needs of different countries to adapt the MTEF reform to their particular institutional and political circumstances, and due to the divergence in the MTEF experience.

Min (2006) examined international experiences on MTEFs and the finding of his study showed that MTEFs in these countries cover from 2 to 5 years in Sweden, UK, Australia, New Zealand, and Netherlands but in Norway with varying periods. With respect to spending items included with exception of Norway cover all spending units in Netherlands, Sweden, USA, Australia and UK. Cabinet approvals are mandatory in Australia, Netherlands, New Zealand and Norway but in USA approved by president, in Sweden approved by prime minister, and in UK by Ministry of Finance (MoF). MTEF is the basis of setting spending limit for ministries in all except Norway and USA. The study identified that in all these countries integrated multi-year planning with annual budget, separated total budget from detailed program, clarified new roles for MoF and line ministries with the introduction of MTEF, and capacity building and development of feedback mechanism facilitated the smooth implementation of MTEF in these countries.

Alantar (2009) based on the experience of Turkey pointed out that MTEF covers 3 years, the system has a rolling structure subject to revision annually according to economic

variables and the change in general policy choices, and integrated the process into annual budget process. Based on his study, in Turkey the MTEF was implemented in phases and accordingly set two levels of targets. The first aim was attaining reliable macroeconomic modeling and estimates, better macroeconomic and fiscal balance, and a strong tie between budgeting and government policies. Secondly, aimed at prioritization of expenditure on the basis of government socio-economic program, increasing foreseeability of the budget, and more efficient utilization of public resources that give more flexibility to line ministers. The study also indicated factors such as the rapidly changing of macro-economic indicators, infrastructural shortage in public administration, the shorter time allocated for budget preparation by line ministers, and the non-binding budget appropriation ceilings were major challenges in MTEF implementation in Turkey.

Based on the study of Tibi (2006) in Lao PDR, the MTEF was designed with the objective of assessing the resources needed to implement the National Poverty Eradication Program (NPEP) and covers a five-year period and targeted only four sectors namely agriculture, education, health and infrastructure. The study further explains that in Lao PDR, the MTEF required repeated trials and only in 2005 designed the last costly exercise, which was approved by the World Bank but there were some limitations in the process of implementation.

In Nepal, according to the Nepal Development Forum (2002), MTEF was prepared in response to the problems of past plans and to ensure that the outcomes envisaged in the tenth plan, which is a comprehensive poverty reduction strategy paper, will be delivered. The MTEF was designed for a 3 year period and included only five-core line ministries as follows: agriculture and co-operatives; education sector and health sector, water

resource, and roads; drinking water and urban development; housing and building. The study further indicates that the Nepal government initiatives however have coincided with unfavorable international and domestic developments, which have seriously eroded government revenues and created unprecedented new expenditure demands for security needs, putting severe pressure on public resource management.

Kim (2004) indicates that Korea introduced MTEF in 2004 associated with future fiscal risks and problems related with annual budgeting, which was characterized by short term perspectives with bottom-up approach, and the existence of inefficiency from managerial inflexibility. According to his study, the Korean MTEF covered three years and was developed on the basis of long-term perspective, top-down approach, strategic decision mechanism and decentralization.

On the basis of the preliminary review of the MTEF experience in Africa, Le Houerou and Taliercio (2002) found that there is high level of convergence around the general MTEF design features in the Africa region. They identified points of convergence as well as divergence in both technical dimensions, which are the macro/fiscal and sector expenditure frameworks, and reasonable degree of convergence in terms of organizational design features. Thus, out of the nine countries included in the review only 5 countries integrated the MTEFs in a meaningful way into the budget process, four countries get approved their MTEFs by both cabinet and parliament, and in two countries the MTEF is only issued by the Ministry of Finance as a technical document instead of serving as strategic framework without approval of cabinet.

2.2.2 African countries' perspective

On the other hand, on the basis of the preliminary review of MTEF experience in Africa Le Houerou, and Taliercio (2002) and Odi (2005) indicate that the design and implementation of MTEF vary quite significantly from one country to another. Thus, South Africa and Uganda are found at high level of development; Tanzania, Kenya, and Ghana at intermediate level and countries like Guinea, Malawi, Mozambique, and Rwanda are still found at basic level. Based on their findings most developed MTEFs are found in countries where capacity is high or has been introduced over a decade ago, by South Africa and Uganda, respectively. The study indicates that the experience in the implementation of MTEF in these countries does not provides support to the link between the MTEF and reduced fiscal deficits, but provided some limited support for the hypothesis that MTEFs are associated with reallocation of resources to government priorities. It does not lead to budget predictability, that is, deviation exists between budget execution results and approved budgets.

The study carried out in Nepal (2000) by OPM indicates that the Nepal Government's implementation of MTEF in the country maintained fiscal discipline and controlled debt. The study argued that such result was attained due to an intentional exaggerated revenue forecasts and compensatory actions to delay release of funds and control expenditure, which undermining the usefulness of MTEF as a budget tool of expenditure planning. Kim (2004) indicates that the Korea MTEF has enabled the country to successfully link the national policy with resource allocation on the basis of identified priorities, which in-turn links planning with budgeting and also established well-trained technocracy separated from political pressure. He further indicates that the Korean MTEF has

successfully linked yearly budgets with long-term national vision and changed the country's budget structure based on the strategic allocation of resources.

Most studies on MTEFs were undertaken with different motives and objectives, for example, Kim assessed international experiences to draw lessons for Korea whereas Le Houerou and Taliercio reviewed experiences of African countries, and others. Besides, some of the studies were undertaken immediately after two or three years after countries' implemented MTEF, which made the evaluation un-matured and un-satisfactory. On top of this, Kostopoulos (1999) argues that despite theoretical popularity of the MTEF, in practice there are few established MTEFs among developing countries. On the basis of his survey (1998), out of 19 African countries surveyed only 4 countries put an expenditure framework consistent with macroeconomic targets and as a result recommend fulfillment of those pre-conditions, before embarking to implement MTEF.

2.2.3 Empirical Evidences on the Benefit of the Implementation of MTEF

Uganda introduced MTEF in a simple form in 1996 and has enabled the country to use it as a key instrument of economic management, maintain the confidence of aid donors in the country, while at the same time retaining control over its own priorities. In South Africa MTEFs were introduced in 1997/98 and have stabilized the fiscal situation and reduced the country's debt but in Ghana though the country introduced MTEF as a sub-program in the Public Financial Management Reform Program (PUFMARP) in 1998, due to the combined pressure of terms of trade shocks and excessive pre-election spending together with the sophisticated implementation and shallower institutional roots, the

country faltered MTEF implementation in 2001 and as a result collapsed back into short term incremental budgeting (Stevens, 2004).

2.2.4 Empirical Literature on Ethiopia

Abebe (2002) points out that the country's MTEF is contained in the country's Poverty Reduction Strategy Paper that describes poverty profile, outline overall macroeconomic as well as key sectoral development objectives and strategies, and a framework for monitoring and evaluation of its implementation. According to Abebe (2002), the MTEF of the country presents revenue estimates and the allocation of these resources within a three-year macroeconomic framework as well as financing plan, and expenditure management and control aspects.

The multi-year framework covers both recurrent and capital budgets and allows a greater flexibility in reallocation of resources to changing circumstances. In the capital budget sectors such as agriculture and water resources, health, education and road network infrastructure, which have the most direct impact on poverty reduction, are included in the MTEF. The Federal Government designed the MTEF in a way that reflects the political and fiscal decentralizations process of the country. It incorporates donor funding, user fees, and also sectoral strategy, objectives, activities and output. The process starts by estimation of resource potential, then cost estimation of government policy and matching of the resource with the cost estimation. The MTEF is designed as a rolling plan subject to revision each year, which the first outward year's estimates become the basis for the subsequent year's budget after taking into account changes in economic conditions and policies (Abebe, 2002).

On other hand, a study carried out by Getachew in 2005 indicates that because the country Public Investment Programs (PIP) document prepared using unreliable data, the linkage maintained between MTEF, poverty reduction program and sector development program is inadequate. This could be further pronounced by looking at the budget performance of recurrent and capital expenditure, for example, the capital expenditure during 2001/02 to 2004/05 periods attained above 100 percent performance. In general the study concluded though the country implemented MTEF, the linkage maintained between government budget and macroeconomic policy as inadequate. Similarly based on Swaroop (2000) evaluation of Ethiopia's MTEF implementation, the MTEF has brought some improvement in budgetary planning particularly in the area of the capital budget, but little work has been done to get a medium-term perspective for recurrent spending.

The experiences of the regions indicate that there are practices of preparing and implementing a strategic plan ranging from three to five-years, but with regard to budgeting with the exception of SNNPRS and Addis Ababa City Administration are limited into one year (BoFED, 2008). In both these regions the frameworks covers three years period. Addis Ababa City Administration MTEF covers the recurrent and only major capital expenditure items which have strong influence on poverty reductions such as housing, road, water, education and health, Micro and Small-scale Enterprise (MSE), and others. But the framework in the city does not fully incorporate sectoral strategy, objectives, activities and output.

2.3 Definition and Process of Budget

A budget is a document that translates plans into activities through spending the money at hand. To be budget functional it needs to be ensured by income that will need to be generated to cover the costs of getting the work done. More comprehensively, the term budget is used to mean a plan for financing an enterprise or government during a definite period, which is prepared and submitted by a responsible executive to a representative body whose approval and authorization are necessary before the plan may be executed (Hyde,1992). A public budget represents a plan/forecast by the government about its expenditures and revenues for a specified period. Budgeting could be conceived as a process for systematically relating expenditure of funds to accomplish planned objectives (Schick, 1992). In other words, a budget consists of a comprehensive listing of anticipated revenues and proposed expenditures for each organ of government for a future time period, or fiscal year. Ideally, the budget represents a comprehensive allocation of limited resources among potential users.

2.3.1 Budgeting process and Stakeholders involvement

Understanding the way budgets are put together is a crucial and first step in influencing decision making. Budget is a result of process. The priorities and choices it embodies reflect the power of various actors in this process. Budgeting is a set of procedures by which governments ration resources among claimants and control the amount each claimant spends (World Bank, 1998). While the details will differ from country to country, there are important similarities across most public budgeting systems. The budget process, particularly in MTEF implementing countries, regularly looking at the

stakeholders in the budget process, stages of the budget process, and how annual budgeting can be guided is vital. According to Kim, there are three main actors involving in the process; executive, legislative and general auditor. The *executive* discharges, in one hand, the responsibility to coordinate and drive the budget process in accordance with a schedule. The finance ministry plays the leading role in this regard to prepare macroeconomic projections which serves to assess the amount of money that will be available for spending which in turn plays as a crucial role in formulating fiscal policy, guide the drafting of the budget, and later in monitoring budget implementation. On the other hand, various spending departments are ultimately responsible for expenditures within their jurisdiction, such as health, education, municipalities, agriculture, and so on. In governments where executive budget making is not well developed, legislative organ review dominates the whole of the budget cycle.

In democratic constitutions, taxation and public spending are supposed to be approved by parliament- *legislative* body. The legislative plays the role to scrutinize and authorize revenues and expenditures, and to ensure whether the budget is properly implemented but the legislative's role, still, significantly varies across countries due to power and roles they are vested. For example, if the legislature's role is inadequate, then executive preparation dominates all phases (Bland and Rubin, 1997). Independent supreme audit institutions such as auditor general or audit courts carryout audit tasks of government accounts in order to determine whether government did in fact implement that budget as passed by the legislature. Some of them also consider whether this was done efficiently and effectively. While this basic job is similar across different systems, slight differences are noticed in the institutional design of supreme audit institutions. Furthermore, the

potential contribution to the budget process of civil society organizations, covering the full spectrum from think tanks to community-based organizations, is increasingly appreciated.

The budget process shapes the decision reached by these stakeholders through the budget cycle. The budget cycle has four main stages: preparation of budget request, legislative approval, executive budget implementation, and summary of reporting on actual budget transaction (Ibid.). Bland and Rubin have further substantiated the end product of each phase of budget cycle (see Table 2.2).

Table 2.2: Budget Cycle

Phases of the budget cycle	End product of each phase
Preparation of request	Proposed budget
Legislative adoption	Appropriation
Implementation	Disbursement of funds
Summary of transaction	Audited financial report

Source: Bland and Rubin, 1997:p.23

During the budget cycle they explains that the executive preparation stage starts with the call for estimates by ministry of finance or/and plan minister. These institutions give instruction and make supervision to public bodies in order to prepare their requests. The call for estimates notifies government priority areas, critical problems, and date for submission and supportive documents.

The public bodies or agencies conduct careful examination of their budget in line with ceilings, policy directives and sector priorities. After the public bodies or agencies have prepared their estimates, they will submit to the respective institutions. These institutions review, consolidate, recommend and if necessary modify formal national budget and submitted it to the cabinet. After review and adoption by the cabinet, it will be passed to parliaments for final approval. The parliament's approval of the national budget is based on specific government goals, policies, priorities, and resource generating capacity and over all socio-economic development. In the budget process, one of the principal issues is the degree of participation by interested parties. The chief executive bodies, policy-makers, budget analyst, department heads, citizens, and interested group representatives should all participate in the budget decision-making process (Bhatta, 1996).

Once the budget has been approved and the new fiscal year begins, spending agencies and the Ministry of Finance embark on its implementation. They use the resources allocated to them on various items of expenditure such as salaries, running costs for their offices, purchase equipment and maintenance and others. The Ministry of Finance manages the flow of funds and monitors, and makes in-year adjustments to ensure in compliance with plan deviations, Public Financial Management (PFM) rules and directives. Throughout the fiscal year, each spending public body records its expenditures (accounts), and ministry of finance consolidate these accounts centrally, at the end of the fiscal year, to issue a report that demonstrates how budget was implemented (Getachew, 2005). This report is then subjected to external scrutiny the Supreme Auditing Institution, an independent government body, which reviews the government's revenue collection and spending. This body issues its own statement on the execution of the budget and

strengthens of the PFM systems. In many countries, this audit report is presented to the legislature for further scrutiny and follow-up.

2.3.2 Budget Systems and Reform Initiatives

Budget systems evolved when government involvement in the economy was relatively limited and skilled manpower was scarce. It was natural then that these systems were designed to achieve control over inputs in a simple manner (Kiringai et al. 2002). The broad functions of budgeting that are contending for attention are: control of public resources, planning for the future allocation of resources and management of resources. On the modern view, the relative strength of each depends not only on the function of budgeting and budgeting tool and techniques, but also on the strength of particular organizations and/or institutional arrangements to support these functions. They have usually been supported by institutional arrangements whereby all revenues have to be paid into a central fund and only are drawn on by authority of the legislature (World Bank, 1998). Central budget agencies have to take the lead in focusing attention on these three dimensions.

Literatures on the same topic puts budgets from various views based on the techniques and tools, and designs used to control and manage. Gianakis and McCue (1999) have classified budget types into four parts. They are line item budgeting, performance budgeting, program budgeting and zero-base budgeting. These four basic types of budgets have evolved from controlling expenditure to improving financial management.

Line item budgeting is input- oriented budget system that optimizes the control function. In this type of budget system, expenditures for the coming year are listed according to objects of expenditure, or “line items.” These line items are often detailed in depth, specifying how much money a particular agency or sub unit will be permitted to spend on personnel, fringe benefits, travel, equipment, and the like. The most important focus of this budget system is to specify the line item ceilings in the budget allocation process and to ensure that agencies do not spend in excess of their allocations.

Its function is expenditure control and safeguarding of funds based on assigned budgets and the focus is on the attainment of balanced budget (Bhatta, 1996). The strength of such a system is in its relative simplicity, lack of ambiguity, and potential for control of overspending through easy comparison with precedent years and through the detailed listing of inputs. However it has own drawbacks more critically, the system does not provide information about why money was spent and no attention is given to the efficiency and effectiveness of the program (World Bank, 1998 b). Furthermore, these line-item systems were almost all associated with a short time horizon, leading to failure to take longer-term costs into account. These deficiencies encouraged governments to develop and implement the performance budgeting that focuses on enhancing efficiency and output.

Performance budgeting is basically based on defined programs, goals and objectives. It measures the amount of work to be accomplished, the efficiency with which the works will be completed and the effectiveness of the program (Bland and Rubin, 1997). A performance budget usually breakdown proposed expenditures into activities within each organization and a set of workload measures that relate the activity performed to cost. It

allows the budget to be built, not incrementally (as in traditional line item budgeting), but on the basis of anticipated workload. In other words, clear and measurable objectives, pre-determined standards or performance measurement in comparison with similar other organization, decentralization of responsibilities and accountabilities, and institutional financial autonomy is required.

Nevertheless, Bland and Rubin have argued that performance budgeting does not address the fundamental questions; such as whether a program is necessary at all, or how best to allocate limited resources among competing needs. It gives more emphasis to efficiency and effectiveness of resources rather than resource allocations among competing policies. What was considered necessary, according to these reformers, was a method of budgeting that would also considers whether the planned activity/project was necessary or not in the long run beyond the annual budget cycle. These considerations led to program budgeting. The predominant early reform of this type, program budgeting, is most closely associated with the efforts to institute a planning-programming-budgeting system (PPBS) during the administration of U.S. President Lyndon Johnson which is correspondently called program budgeting (World Bank, 1998). In contrast to performance budgeting, program budgeting was explicitly focused on budgetary choices among competing policies.

As Bhatta (1996) explained, program budgeting organizes government activities into program, identifies alternative for achieving each goal, determines the costs and benefit of each alternative, and selects the alternative that maximizes net benefit. Program budgeting attempted to link program costs with the results of public programs. Currently, public sector resource allocation needs such effective synchronization of budget process with planning. In contrast to the performance budgeting, program budgeting requires that

program objectives stretch beyond a single fiscal year. Program budgeting is the principal budget reform in the contemporary arena that has been exported to developing countries. But it requires sustainable political commitment, sound budgetary and accounting systems, skilled and knowledgeable personnel, sufficient and flexible resource allocations (Caiden, 1996). However, in practice, program budgeting has not been very successful in both developing and developed nations (World Bank, 1998 b). According to the Bank this is due to:

- 1) The attempt to create program that is independent of organization affiliation proved impossible;
- 2) It is difficult to compare on the basis of effectiveness and choose among them, since there is no common index of worth for public program;
- 3) Adequate information about program is not available in many countries; and
- 4) Lack of stability and political commitment to fully implement the program.

The other alternative approach to budget is zero- base budgeting. In this approach, decision-makers conduct annual evaluation of each program and give priority against available resources. Instead of concentrating on budgetary changes at the margin, all programs are evaluated each year. The process of arriving at a budget is literally to start from scratch (World Bank, 1998). The budget is entirely remade every year; there are no commitments that are carried forward to the next fiscal year. The operationalization of this budget system is highly limited in developing countries. This is because, in reality, some of the budget items such as contractual and legal payments of loans interest payments; contractual payments for salaries are carried forward to the next fiscal year.

Generally, budget reform is undertaken in order to design the best system of budgeting that will ensure: efficient allocation of resources, better estimation of budgets and effective attainment of objectives. Budget reforms have often focused on changing roles between the executive and legislative branch of governments, or shifting the location of decision making power and on budget formats and the kind of information needed for decision making (Rubin, 2000). Often, the reforms tend to bring those changes by tilting the balance between the central components of budgeting process, i.e., planning, management and control, and emphasize one or another of those components (Schick, 1969). This is almost always accompanied by a change in the form of budget expenditure classification for the purpose of expenditure control, budget allocation and expenditure appraisal (Robinson, 1992).

2.4 Linking PEM, Poverty Reduction Strategy (PRS) and MTEF

In response to the PRS, many developing countries were confronted with growing resource shortfalls which force them prepare resources envelop so as to realize the targets planned to be achieved. Governments introduced a medium-term expenditure framework (MTEF) as part of their budgetary reform process initiated to strengthen implementation of PRS. The reform process objectives include: developing a consistent and realistic resources framework for sustaining macroeconomic stability; improving budget allocations to support PRS priorities in various sectors; increasing incentives for the efficient and effective use of resources by government agencies; and adopting a result-oriented focus (Nepal, 2010). Le Houerou and Taliercio (2002) also explains that MTEFs are receiving renewed attention in the context of the formulation of Poverty Reduction

Strategy Papers (PRSPs), which have in the MTEF an ideal vehicle for actually incorporating them into public expenditure programs within a coherent macroeconomic, fiscal, and sectoral framework. MTEFs are considered as an essential condition of good PEM since it is a reform in its own. But Le Houerou and Taliercio concludes that MTEFs alone cannot deliver improved PEM in countries in which other key aspects of budget management, notably budget execution and reporting, remain weak. In countries with weak capacity, in which a full-fledged MTEF, which should be seen as a package of bundled reforms, cannot be introduced all at once, sequential PEM reform program in is required. Therefore, one can understood from this PRSP to be implemented successfully both MTEF and PEM should be practiced harmoniously and complementarily.

Chapter Three

3. Public Financial Management Reform Initiatives in Addis Ababa City

Administration

3.1 Planning and budgeting

The corresponding availability of resource is vital to realize countries' development policies and plans which usually needed to coexist. The challenge is to manage the tension between "needs" and "availabilities" more effectively. After government policies and targets plans are formulated, the resource allocation is made through budget process. Planning chiefly contains components which enable to determine development priorities and government objectives in terms of sectoral policies and resource constraints. The main arguments for planning or government intervention are failure of competition, the existence of public goods and externalities, incomplete market, information failure, unemployment, inflation and poverty (Stiglitz, 1998; and Todaro, 2009). In fact, some economists argued that in perfect market; the forces of supply and demand would achieve an efficient resource allocation through price mechanism without the need of public intervention. But in the real world, there are cases where economic activity is highly dominated by monopoly and/or limited firm/s and this firm/s controls the whole market operation. This argument suggests that the deficiency of perfect market competition which call for public intervention. As Stiglitz (1998) further noted, public intervention is very important for some goods that are not supplied by market or if supplied by the market, they may be in insufficiently supplied.

Primarily plans in developing world were formulated to set out government priorities, objectives, and target of development and help for the guidance of long-term public expenditure programs. However, after more than three decades, the result of development planning in these countries has been generally disappointing (Todaro, 2009). But latter a medium-term approach provides such a linking framework and facilitates the management of the tension between policy and budget realities to reduce pressure throughout the whole budget cycle.

In the city administration, the adoption of development planning to guide resource allocation has undergone remarkable changes in the area of government policies and development priorities with respective varying regimes and political system in the country (AARSP, 2010/11). For several reasons, recently implemented planning and budgeting practices mostly influenced by the process and systems of the federal government. The city BoFED is mandated to prepare and coordinate sectors and stakeholders to produce city's final development and annual leading plan documents. Currently, city level Medium term strategic type of planning document has been implemented from 2006/2007 to recent.

The recently implemented city level strategic plan was continued and revised form of the five year strategic plan prepared in 2007/08; when EPRDF won the city level political election held in 2007/08. As an input to the strategic plan several documents such as the federal government GTP, MDGs, reform documents (BPR and BSC) and relevant federal documents were used (AAMTEF, 2010/11). In addition it is guided by city's policy priority areas and political restraint to achieve vision and development targets to be

reached in 2020. The city's MTEF is witnessed to be significant in integrating the existing city's limited budget with strategically identified problems (ibid.).

3.2 Expenditure Management and Control Program

The city administration has embarked on a comprehensive Civil Service Reform Program (CSRP) drawn from the federal government in 1996. The program sought to build a fair, transparent, efficient, effective and ethical civil service primarily focusing on strengthening core technocratic systems within the public sector. The reform will make a qualitative change in governance, transparency and accountability within the public sector (MoFED, 2002).

Five sub-programs components are identified to form CSRP, namely: Expenditure Management and Control, Human Resource Management, Service Delivery Reform, Ethics and Top Management System Development. The logic behind the introduction of Expenditure Management and Control program (EMCP) is the existed poor functioning of the public expenditure management system. According to DFID (2003) among others these are listed:

- a. Lack of legal framework to reflect significant devolution of authority away from central institutions;
- b. Planning and budgeting system lacked coordination, and the budget process was very much input oriented;
- c. The accounting system was single entry and on cash basis;
- d. In key audit areas there is no clear definition of responsibilities between various institutions; and

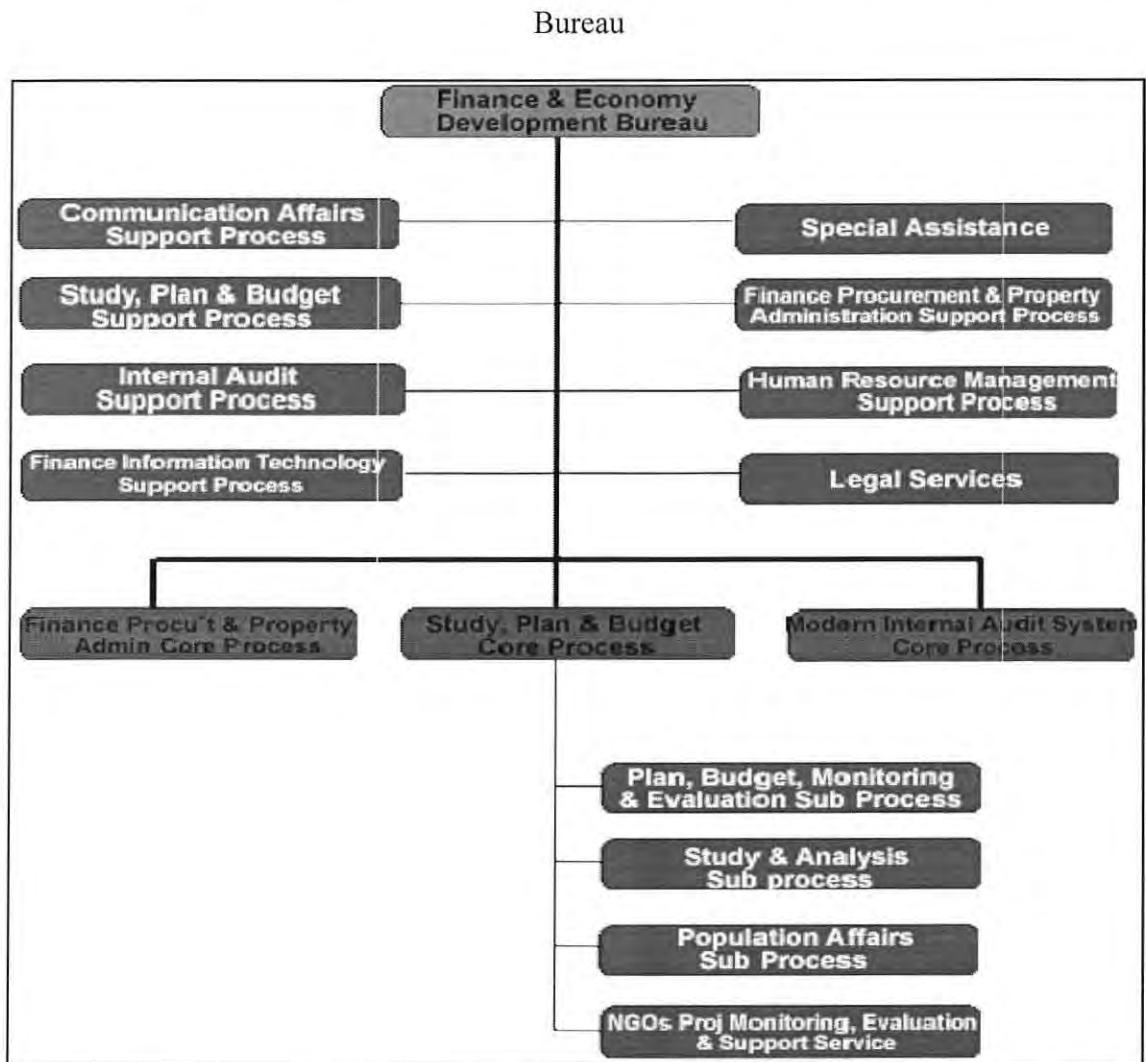
- e. There was no real effective control over a number of important areas, such as cash and other assets mainly because of the prevailing burdensome bureaucracy.

Furthermore, EMCP is organized into the following nine components/projects:

- a) Legal Framework Project;
- b) Budget Reform Project;
- c) Expenditure Planning Project;
- d) Accounts Reform Project;
- e) Cash Management Project;
- f) Internal Audit/ inspection Project;
- g) External Audit Project;
- h) Financial Information Systems Project; and
- i) Project for the Development of the Accounting and Auditing Profession

The City BoFED supervises and supports for effective implementation this sub-program. Though the bureau takes the lead to undertake various actions according to financial administration legal framework, respective lower line offices and supportive task process at other public bodies also involve in managing and controlling the city's resource. In this regard, the general responsibilities of the BoFED can be described using the following organizational structure (Fig 3.1).

Figure 3.1: Organizational structure of City's Finance and Economic Development



Source: Addis Ababa City Administration BoFED, 2012

It is shown above (Fig 3.1) that study, plan and budget core process is one the three core process under bureaus organizational structure where overall budget process (formulation through execution) is implemented, consolidated and submitted for approval and appropriation specifically by Plan, Budget, Monitoring and Evaluation sub process. Throughout the execution process responsibilities of the sub process majorly include to

control, supervise and monitor city's budget, and fiscal and financial plan of sector bureaus creating smooth interfaces with other core and support task process. City's MTEF and other research works are undertaken by study and analysis sub process which is another structural constituent of this core process. In general it can be understood that BoFED is a responsible organ to entire activities of the city finance, procurement and property administration (from budget formulation to auditing and supervision) with collaborative effort of other public institutions. Therefore, good working environment, strong and smooth relationships created within and outside bureau's organizational structure is inevitable and very vital to achieve the goal and vision, and short term and long term objectives of BoFED and the city as well.

3.3 Expenditure Planning and Budget Reform Projects

Recently, like other regions the city administration provided with the authority to manage and control its resource through decentralization process. In the past times the city administration paid little attention to the budget systems although it is generally recognized as the main instrument for resource allocation to address recurrent and development activities. In recent years, particularly after 1991, budget is increasingly considered as the key tool for economic management and development. This recognition has led to the launching of the expenditure planning and budget reform projects in 1990s as a part of public expenditure management reform extended from the federal government.

More recently, it is also learned that the importance of the medium term expenditure planning and budgeting in the resource allocation urged the fulfillment of the Budget

Reform Project under CSRP. The newly adopted budget system by the federal government reviewed existing budgeting system of the city and recommended wide-ranging reforms in the expenditure and budget process as well. The recommendation comprises of the link of capital and recurrent expenditure with common activity codes, introduced cost center budgeting, rationalize planning and budgeting role, use of public investment program to develop a list of projects (MEDaC, MoF and DSA, 2000).

Therefore, the main reasons for the introduction of expenditure planning and budget reforms are:

- a. To develop a process for the planning and programming of public expenditure that will clearly link Government's plans and policies with expenditure of public bodies and the outcomes and output achieved;
- b. To prepare medium term macroeconomic and fiscal (MEFF) plans including projection model that would provide an estimate of the resource available for the programming of expenditure;
- c. The structure of the existing government accounting and budgeting systems does not provide an adequate technical base on which the allocation of public resources is improved;
- d. Consolidation of federal and regional budgets, details of pro-poor expenditure;
- e. Modernization of public sector financial systems; are major requirements for countries that wish to improve their credit ratings and attract foreign investment (DFID, 2003). As a result, the city is expected to be benefited from this reform like any other region.

The budget reform has produced different design manuals. The first one describes process of capital and recurrent budgeting at Federal and Regional levels (MoF and MEDaC, 1998). The second budget reform design manual (Version 2.1) introduces changes in the structure of the budget in five areas: classification, expenditure codes, revenue codes, financial calendar and budget formats (MoF, MEDaC and DSA, 2000). The main technical achievement of the budget reform project is the establishment of new design and implementation of a completely new Chart of Accounts. It permits accounting (the management and recording of financial transactions) and allocation decisions (where should public money be spent on?) to be integrated and related to government priorities.

The development of a new computerized Integrated Budget and Expenditure System (IBEX) was the other achievement of budget reforms. The IBEX has been developed at federal as well as the city government, and is continuously being improved in order to generate consolidate budget and expenditure data of the city. It helps to produce aggregate budget and expenditure for macroeconomic management and other data manipulation purposes. IBEX is user friendly and has several features: it enables to operate in multiple regional languages (Amharic, Oromiffaa, Tigrigna and Somaligna); it facilitates the preparation and generation of the annual budget documents and notifications.

Although there have been several attempts to address the weaknesses of the Ethiopian budgetary system and try to reconcile conflict between annual budget perspectives with medium term planning horizons, successful modern budgeting system remains a continuous problems of the city. Modern allocation requires budget system to include a wide range of components including policy review processes, which are up-dated

regularly; development priorities, output based budgeting, standardization of activities and unit cost, accounting and reporting systems. Therefore, the prevalence of sustainable modern budgeting systems couldn't happen overnight. It requires continuous effort for proper function of these components, unless otherwise, the budget system is unlikely to perform appropriately.

In Addis Ababa, there are outstanding problems in the current budget allocation and budget process. Budget process has little credibility and that systematic public sector program review and performance evaluation was not addressed. As a result, the budget allocation and process is only input oriented. It did not take into account longer and medium term planning as well as cost estimation of future recurrent budget comprehensively. Resources are poorly utilized and their contribution to achieve city development objectives and performance of economic activities were not critically evaluated by city administration.

3.4 Fiscal Decentralization, and Financial Transparency and Accountability

Literally, decentralization (political, administrative, and fiscal) ensures the transfer of decision making power from the center to lower tiers (i.e., sub-national) of government, and the private sectors and/or to the non- government organizations (NGO), community based organizations (CBOs) and to other else. According to Conforti et al. (1998) as cited by Derrese (2003), the reason for fiscal decentralization is that local governments often loose some degree of resources and are frustrated if they are not given command over some degree of resources and are frustrated if their role is limited to approving policies that are decided elsewhere. This newly emerging phenomena of decentralization

envisaged regional and local regional development in the political, social and economic of developing countries.

However, much of the literature on decentralization focuses on the fiscal dimensions of it since intergovernmental fiscal relations is behind much of the rationale for decentralization in general (Derrese, 2003). Fiscal decentralization is one among the several powers devolved to local and regional entities. While there are various rationales behind, its ultimate goal is to strengthen existing local government units achieve their assignment effectively. According to the World Bank staff (2000: P.6) as cited by Tegegne (2009), 'countries everywhere are devolving political, fiscal and administrative powers to sub-national units of government. Tegegne (2009) further explains: fiscal decentralization, that is, the proper location by level of government of various taxes, spending programs, grants and regulations is becoming an important issue not only in the literature but also in the real world.

Almost all literature emphasizes that the motive for the need of decentralization in Ethiopia is political pressure. Measures are currently under way to pave the ground to render *woredas* as the center of socio-economic development (Derrese, 2003). If sub national governments do not carefully balance their annual expenditures with revenues and transfers, this will result in sub national defects and the occurrence of debt. For instance, the Ethiopian constitution recognizes the significance of service delivery at each level. Regions and *woredas* need to have adequate finance in order to execute their service delivery responsibility (Tegegne, 2009). Proclamation no. 33/1992 is the most important legal instrument in fiscal decentralization of Ethiopia (Ibid.). After the fall of the Derg regime in 1991, the Government of Ethiopia initiated a broad spectrum of

economic reforms. The reform programs among others include reorienting the economy from command to market economy, creating policy environment to promote private sector investment, reallocation of expenditure towards to poverty oriented sectors, process of structural adjustment, introduction of Civil service reform, and policy of fiscal decentralization (MoFED, 2002). As a result, the constitution recognized the right of regions and two city administrations to formulate and executes their economic and social development policies and strategies, and administers their expenditure planning and limited types of taxes.

As adopted in the 1994 Ethiopian constitution, it established decentralized regional states and two city administrations. Addis Ababa city is one the two city administrations, Dire Dawa being the other. EPRDF delegated Addis Ababa City Administration based on reformed city's charter and other proclamations the power to administer itself politically and economically (AACMTEF, 2010). And hence, dividing the city based on the three tiers of administration (city, sub-city and woreda level); the fiscal decentralization ensured the power sub-cities to plan, allocate and manage the budget approved by the city council between sub-city's sectors through their own respective councils. The sub-city's manager office has the power to collect annual report, evaluate and to pass decision.

Based on this the city undertakes budget allocation between sub-city's to enable them achieve their targets, development projects and service delivery properly. Among the budget allocated by the city administration to sub-cities include *specific purpose grant* which aims at costing specifically isolated activities which in turn ensure competitiveness and efficiency between sub cities. To establish a base for meaningful participation of the people at woreda level, the government is planning to effect block grants directly to

woredas by ensuring the woredas autonomy on resources (Derrese, 2003). In addition, the city council may subsidizes, based on computed cost-formula, woredas of sub-cities for special projects that the council needs to be given due attention in the form specific grant. However, sub-city's do not have the power to assign revenue (planning revenue collection and decision where to spend) rather it is at the hands of the city administration; even though they are granted the power to allocate and manage their budget the charter does not clearly specify the area where sub-cities were privileged limiting the fiscal decentralization process (AACMTEF, 2010). The reason behind, among others, include limited capacity of sub-cities and difficulty to manage various kinds of revenue from various exposed to embezzlement.

Another important agenda which can be seen as extended part of fiscal decentralization is financial transparency and accountability (FTA). FTA is an environment in which the objectives of policy, its legal, institutional, and economic framework, policy decisions and their rationale, data and information related to monetary and financial policies, and the terms of agencies' accountability, are provided to the public on an understandable, accessible, and timely basis (Elzabeth, 2005). As civil society organizations increasingly began to engage in budget analysis they will have superior power over their representatives and closely supervise nearby development activities with full sense of worth. On the other hand, the absence of timely and accurate information and the closed process of budget planning and implementation have presented major challenges.

The Ethiopian Constitution grants access to public information, more apparently, including budget. However, the implementation of this right is limited. Information held by public authorities is not easily accessible to the public and comprehensive guidance on

how to obtain such information is limited (Ibid.). The effort of government in collaboration with donor countries has been instrumental in helping to enhance transparency and accountability in Ethiopia. For instance, DSA supports the Ethiopian government Expenditure Management and Control (EMC) sub-program of the Civil Service Reform, which is managed by Ministry of Finance and Economic Development (MoFED). FTA is incorporated as part of the fiscal decentralization process in Addis Ababa like some pilot regional states.

As discussed in the previous chapter active involvement of stakeholders determines the successful implementation of budget cycle. Various levels of administrative organ in the city employ various ways methods to reach the public on issues of budgeting. To progress FTA activities undertaken include; media disclosures (TV, radios), on board postings, brochures and face to face conference and gatherings are held to announce budget allocations and priorities of development. In addition access to directives of property purchase and finance administration to the public serve to supervise efficient the utilization of public resources and withhold anti-corruption activities.

Chapter Four

4. Data Analysis and discussion

4.1 Introduction

This chapter presents discussion of the primary data obtained from respondents of sample population which is further supported by secondary data of various sources. Characteristics of the respondents and the rationale for their selection from the total population are presented at first section. And then, the city's process and features of MTEF, and budget allocation as perceived by the respondents and supplemented by important empirical evidences are analyzed based on their order of significance.

4.1.1 Response Rate Analysis

The field survey result indicates that 70 questionnaires distributed to respondents out of which 63 of them (43 males and 20 females) returned representing 90% from the total addressed (Appendix- 6 and 8).

Table 4.1: Summary of Response Rate by Categories

No	Categories	Number of questionnaires distributed	Response rate out total	Response rate in%	Usable rate out total	Usable rate in%
1	Managers (heads and experts)	66	59	89	55	93
2	Technical team members	4	4	100	4	100
	Total	70	63	90	59	94

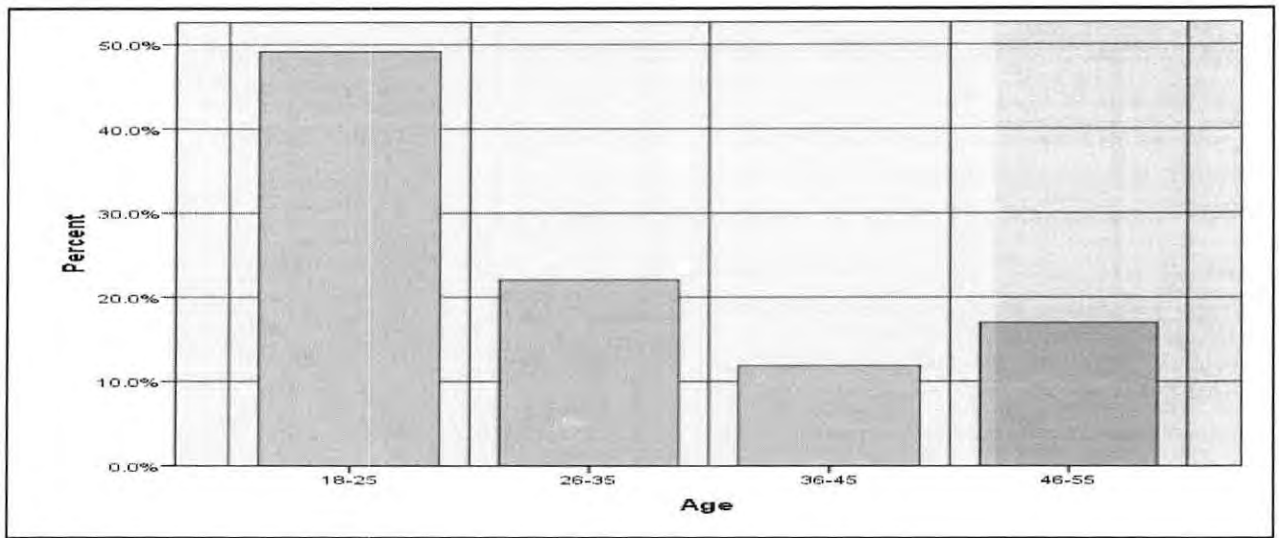
Source: Field survey data 2012.

The highest response rate is accounted by the technical team members, four of them responded which constituted for 100% and the lowest rate is accounted by the managers that accounted for 89%. Of these total questionnaires responded, 94% were found to be usable, the highest usable rate was accounted by technical team and the least was accounted by the managers who attained 92% and 100% respectively.

4.1.2 Characteristics of Respondents

The selection of public bodies is based on functional classification; type of budget they have and magnitude of their spending out of total. Based on this classification, the city's budget system is divided into five categories; administrative and general service, economic, social, others and municipal services. As the amount of budget that goes to sub cities constitutes big share, sub cities are also included in the sample frame. According to their level of significance to the research, 22 public bodies and 5 sub cities were selected (see Appendix 5). The questionnaire data was collected from two groups' consisting of managers of respective public bodies and experts who involve in city's MTEF preparation (technical team members) working under city administration's BoFED. Accordingly, a total sample size of 66 and 4 respondents were considered under the former and later respectively. The distribution and some characteristics of managers have the following features.

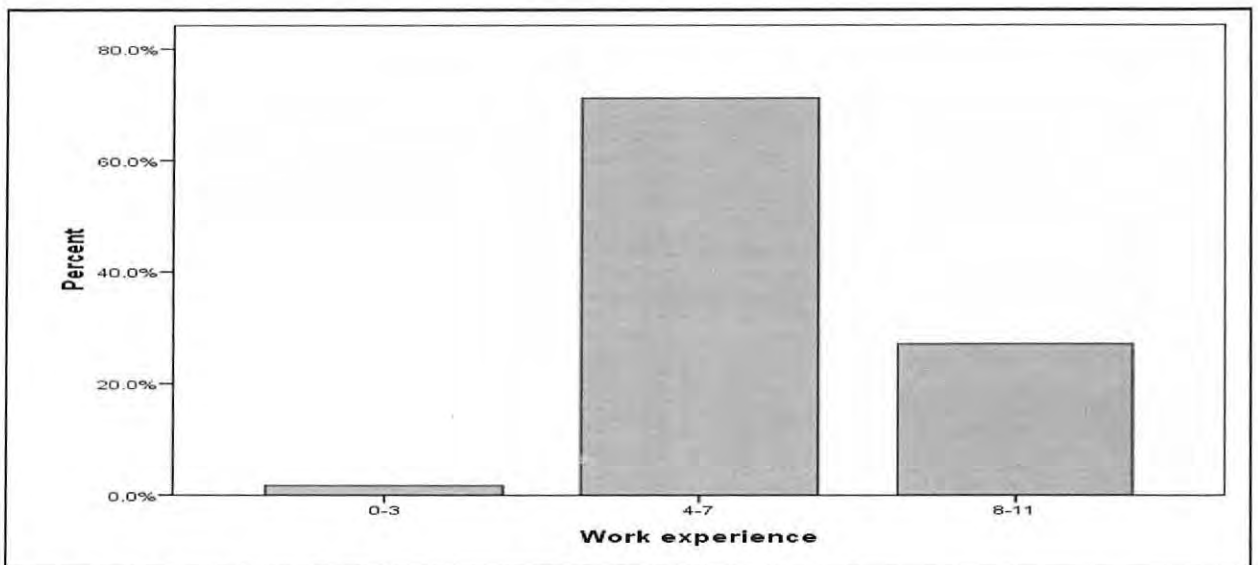
Figure 4.1: Age Distribution of Managers in%



Source: Field survey result 2012.

As indicated above in the figure, the age of the respondents' ranges from 18 to 55 years and among the different age groups relatively the highest share accounted by managers within the age group 18 to 25 representing about 48%. This is followed by age group which ranges from 26 to 35, which accounted for 22%. Managers within age group 36 to 45 and 46 to 55 constituted 12% and 17% each out the total respectively.

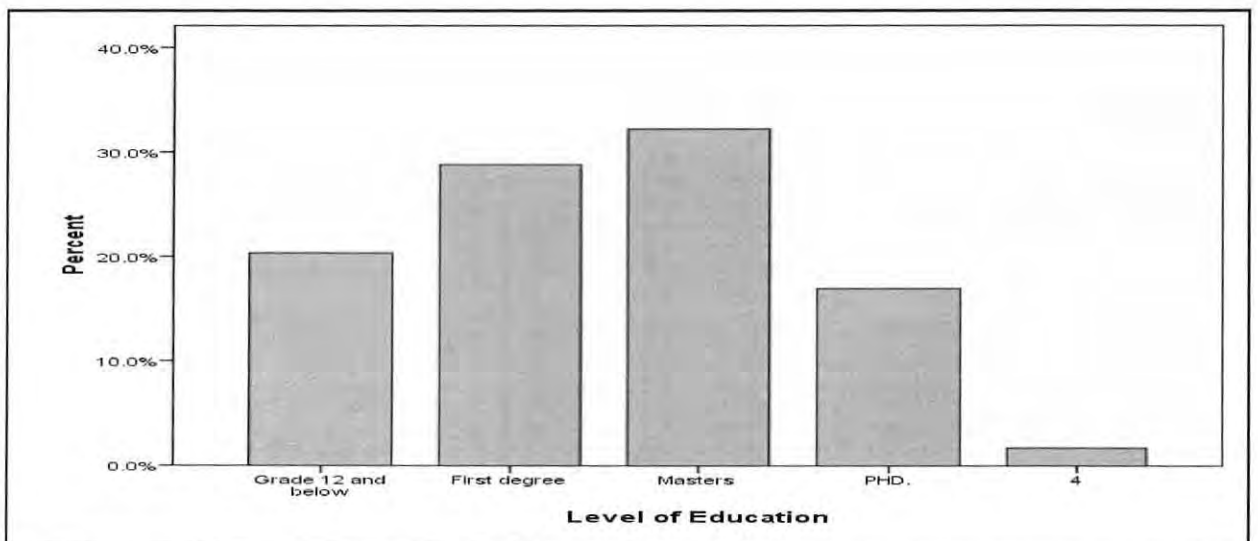
Figure 4.2: Service in Years Distribution of Management in%.



Source: Field survey result 2012.

Based on the field survey data result majority of managers have 4 to 7 years of work experience accounted for 70% and as indicated in the figure 4.2, the managers constituted 27% and 2% each under the age category of 8 - 11 and 0 - 3 respectively. The remaining 1% being preferred not respond.

Figure 4.3: Educational Qualification of Managers in terms of% age Share



Source: Field survey result 2012.

Of the total managers who filled the questionnaire those who held masters and bachelor degree accounted for 32% and 28% respectively. The remaining fell under the category of grade 12 and below, and PhD, to constitute about 20% and 17% of managers respectively. From the total number of managers 4% of them preferred not respond. On the other hand, of total number of interviewed respondents about 80% of them have masters degree and above, and the remaining 20% are bachelor degree holders.

4.2 Analysis of Medium Term Expenditure Framework

4.2.1 Preconditions and characteristics

As mentioned in the theoretical part of this study, MTEF alone cannot be effective and it does not provide a panacea for the problems of public expenditure management. Without implementing sequenced public financial management (PFM) reforms, achieving the full benefit of MTEF program is elusive. Among the different pre-conditions, which are indicated in the literature review section as important for the successful implementation of MTEF, the study was assessed only with respect to those which are supposed to be relevant and critical for the city wise MTEF.

Table 4.2: Preconditions and level of familiarity as perceived by respondents

No.	Issues addressed	Number of respondents agreed	Rate of agreed respondents (in%)
1	Clarity of city policies and fiscal planning is partial	47	81.0
2	There is adequate level familiarity with city policy and fiscal plan	35	59.3
3	The level of understanding on concept and process of MTEF is satisfactory	33	55.0
4	Strategic plan of the city is basis for MTEF	44	74.5
2	MTEF is integrated to the budget process	45	75.0
5	The political commitment and institutional arrangements made for MTEF is inadequate	36	60.0

Source: field survey 2012

As could be observed in Table 4.2, more than 81% of respondents confirmed the city has partially articulated development policy and fiscal planning which identifies government objectives, priorities and shapes expenditure planning. The contribution of appropriate macroeconomic and fiscal instruments improves the implementation of MTEF. On the other hand, it was confirmed through interview that city's fiscal planning is limited to guide public expenditure strategy due to poor institutional performance, and not complemented by good development planning. This condition partly affected MTEF's role in providing importance of predictability to the maximum level of expectation. In relation to policy and fiscal plan of the city 59.3% of cited respondents confirmed to have adequate level of understanding.

The other investigation of this study leaned on respondents' level of familiarity from concept to process of MTEF. Out of the total cited respondents 55% of them found to have satisfactory and better level understanding. In this regard, interviewed technical team members claimed that there is high turnover and lack of skill which results in submission of misleading data affecting the resource projection and expenditure ceiling setting. The fact that most public bodies' officers do not fill the data format properly limited effectiveness of MTEF (AA MTEF, 20010).

It is discussed previously that MTEF primarily serves to link government policy, and plan within existing resource envelop. It is learned from the survey result that 74.5% of cited respondents confirmed city strategic plan and policy is basis for MTEF preparation. Moreover, interviewed respondents strongly agree that MTEF is prepared to prioritize poverty oriented sectors which the strategic plan put them as main targets. Similarly, about 75% of the respondents strongly agreed for the presence of integration between budgeting and city policies due to the introduction of MTEF in the city. However, the political commitment and institutional arrangements that exist in the city are witnessed to be inadequate (60% of the managers). Le Houerou and Taliercio in their preliminary study stress that political motivations and incentives for launching MTEFs to be very important further explaining that some African countries are more successful than others in part due to their better performance in this aspect.

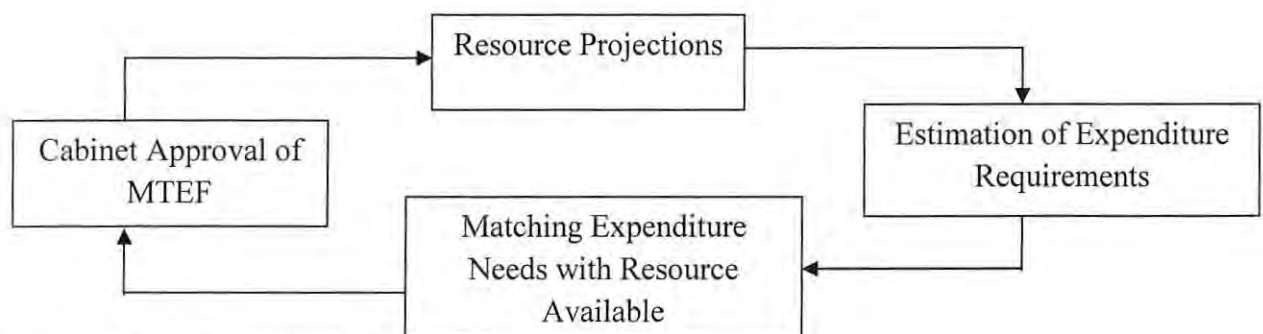
4.2.2 Process and role

The questionnaire was also designed to assess the process passed in preparation of MTEF by the city administration and evaluate the benefits of city MTEF. Thus to address these

issues the questionnaire was designed in a manner so as to include parameters of benefits: fairness and transparency, budget predictability, and flexibility in budget utilization due to the introduction of MTEF.

It is indicated in the literature review section that World Bank defines six stages in order to compile a comprehensive MTEF but the city's MTEF is compiled through four steps. These are resource projection, estimation of expenditure requirement by sectors and sub cities, balancing of the expenditure requirement with the financial resources available, and cabinet approval of the MTEF (Fig. 4.4). The approved three years (mid-term) MTEF would become an indicative plan for coming budget year. It is a three years rolling expenditure plan subjected to review to address changing circumstance in each year.

Figure 4.4: The City MTEF Process



Source: Field Survey Result 2012.

a) Resource Projection

The city mid-term resources are projected either using elasticity calculated on the basis of the relation between city GDP and tax revenue or/and weight assigned based on subjective evaluation. The city's total resources include tax revenue, non-tax revenue, capital revenue, municipal revenue and external resources. The city tax revenue is

projected using income elasticity and the rest with the exception of external resources are projected on incremental basis through subjective weights assigned to each sources. The external resource includes aid and loans which projections are made on the basis of written agreements made with the bilateral and multilateral institutions.

b) Estimation of Expenditure Requirements

The city's mid-term expenditure requirements are the sum total costs of existing and new emerging city policies. BoFED requests each bureau and sub city to submit their all capital projects expenditure demand planned to be implemented in the coming three years filled on the format consisting of column heading- the name of the project, separating the new and on-going projects together with the cash flows over three years. Then BoFED consolidates these capital expenditure demands and estimates the recurrent expenditure requirement using employment index, that is, the weighted employment growth rate, and other operational costs on incremental basis from the precedent year.

c) Matching of Expenditure Requirements with the City Resources Available

The study team at BoFED compares the expenditure needs with the projected resources in the coming three years and the actual data's indicate that always the expenditure needs significantly exceeds the resource available. Then the city's BoFED allocates the resources to projects and programs based on sector priority as indicated in the city strategic development plan. For each sector on the basis of its priority assigned a subjective weight and allocated the total resources to different programs and projects.

d) Cabinet Approval of MTEF

The consolidated document after incorporating all relevant comments given by the participants (experts and heads) in the workshop submitted to the city cabinet for approval. Finally the approved document becomes an indicative budget plan for the subsequent year. As indicated in Table 4.3, this stage of the process is reinforced by the field survey result, 76.7% of managers responded MTEF to be submitted annually to city cabinet for final approval.

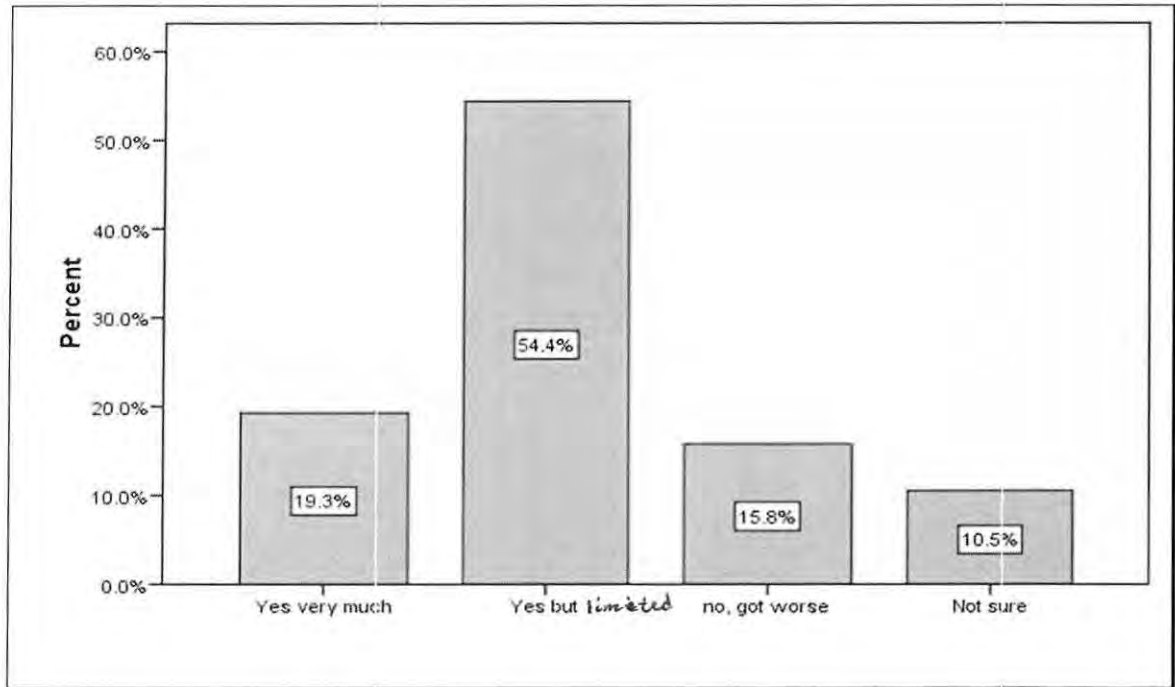
In general as indicated in the literature review part of this study, the strength of medium term expenditure planning is determined based on three factors - general, technical and organizational designs. By considering these parameters and research findings, the city's MTEF exhibits only some of these standard features and still these features are not properly defined in the city MTEF document.

Table 4.3: Process and role of MTEF as perceived by respondents

No.	Issues addressed	Number of respondents agreed	Rate of agreed respondents (in%)
1	Medium term expenditure planning is submitted annually to cabinet or parliament for approval	46	76.7
2	MTEF avoided bias (ensured fairness and transparency) considerably among sectors during budget allocation partially	31	51.7
3	The role of MTEF to ensure budget predictability in the city is adequate	26	43.3
4	MTEF enabled public sectors to enjoy budget flexibility in managing their budgets	41	69.4

Source: field survey 2012

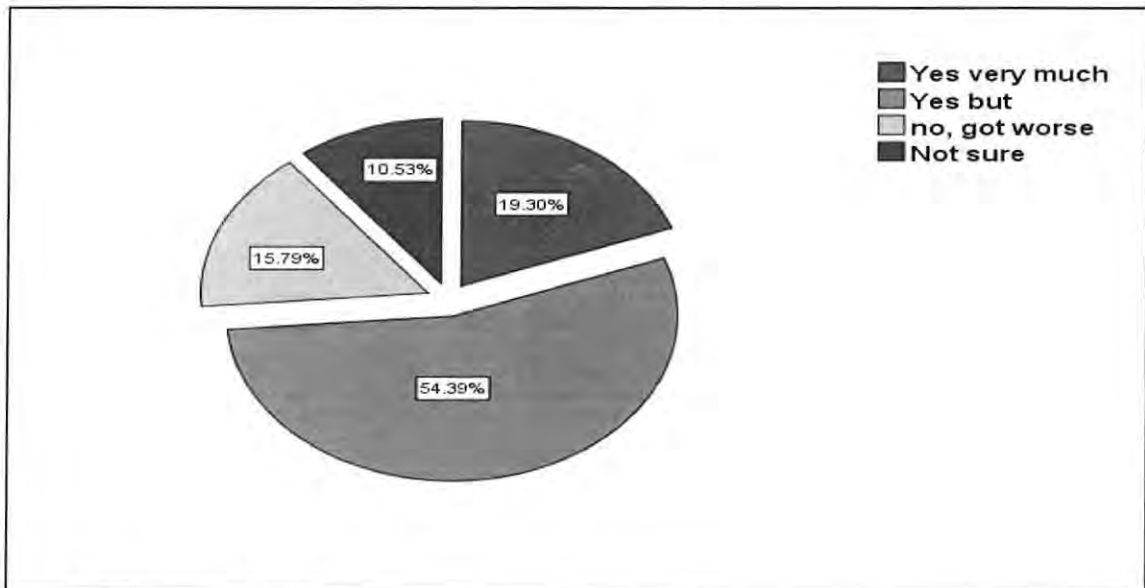
Figure 4.5: Respondents' Perception on the Fairness and Transparency of MTEF



Source: field survey 2012

A properly implemented MTEF ensures the allocation of budgets in a fair and transparent manner, because budgets are allocated based on the objective and priorities indicated in the city policy and planning. In this regard, out of the total respondents cited 51.7% and 18.3% believed partially and strongly respectively; city's MTEF has brought fairness and transparency in budget allocation. On the contrary, due to the introduction of MTEF by the city administration about 15% of the respondents claimed that the city's MTEF rather caused to decline the fairness and transparency associated with annual budgeting. The remaining respondents accounted by 10% and 5% are not sure and remained without response, respectively.

Figure 4.6: Respondents' Perception on Budget Predictability of City MTEF



Source: field survey 2012

Experiences of developing countries indicate that successfully implemented MTEF provides budget predictability to line ministries/sectors. According to the field sample survey, about 78.9% of respondents confirmed to the prevalence city's MTEF role in adequate and more level, in terms of providing budget predictability to sector bureaus and sub cities to bring effectiveness and followed by inadequate, which accounted for 21%. Some about 3% of respondents preferred not respond on this issue.

The other significance of a successfully implemented MTEF is to provide line sectors and sub cities autonomous flexibility in budget utilization. In this aspect it is observed above that 69% of respondents considered it as a means to enjoy flexibility in adequate and above manner, 25% perceived as no change, while 3.6% were not sure, 2% claim instead declined. Of the total interviewed managers only 9% believe that the city MTEF has brought high flexibility in budget utilization to sector bureaus and sub cities.

4.3 MTEF and Budget Process

As discussed in chapter three, the Federal Civil Service Reform attempts to introduce expenditure planning and budget reform projects so as to strengthen the relationship between planning and budget process. According to the city budget preparation and management manual (2009) expenditure planning has five parts:

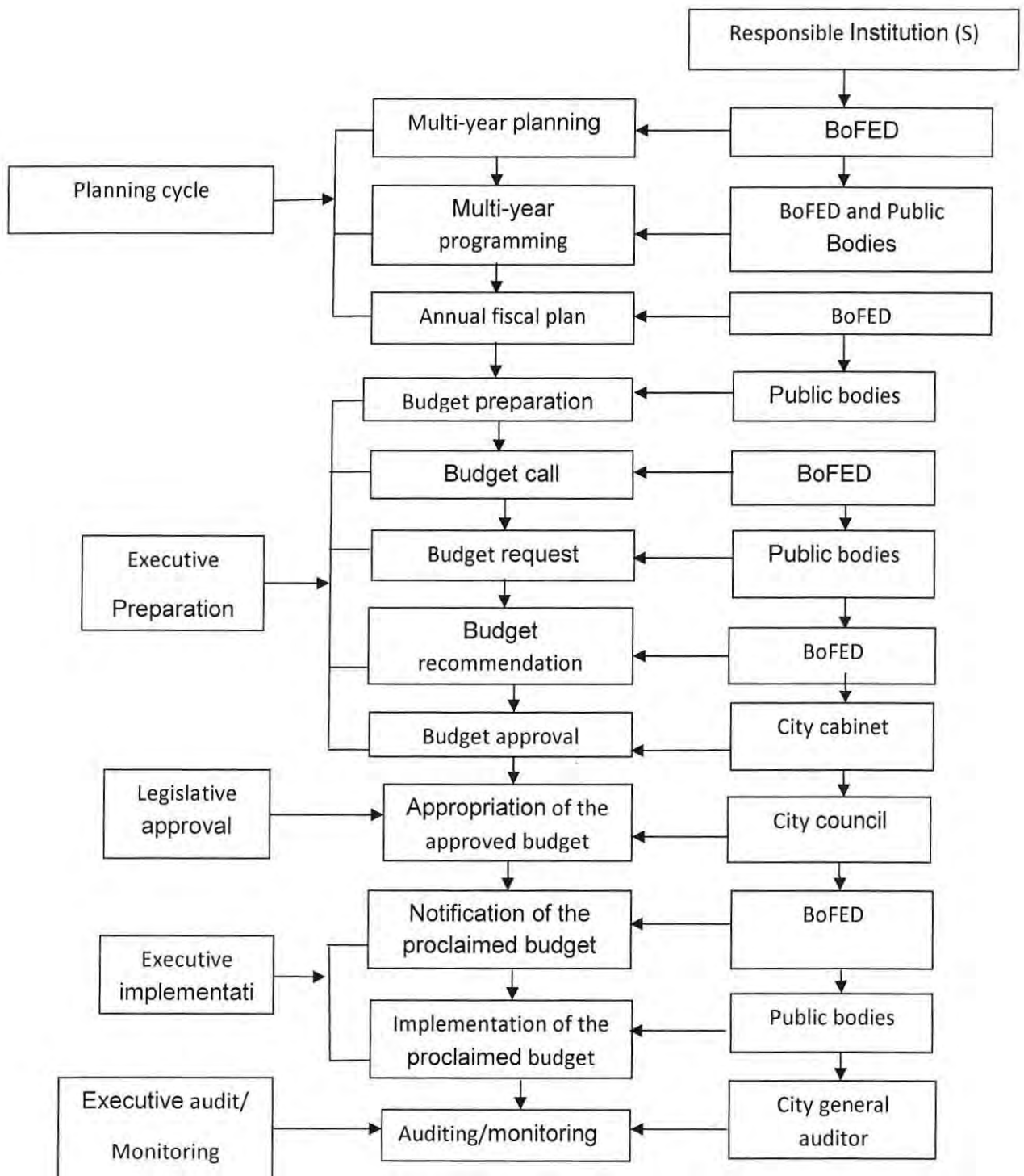
- 1) development of Macroeconomic and Fiscal framework (MEFF)
- 2) multi-year expenditure planning
- 3) annual fiscal plan
- 4) budget technique paper
- 5) sub cities general budget allocation formula

As could be seen in Figure 7, a team consisting of members from BoFED and public bodies engaged in formulating city strategic plan, then after MEFF (city's MTEF) will be prepared by BoFED. The programming stage (PIP) practiced by MoFED is skipped by the city instead development projects of the city strategic plan serves as a guiding document for sectors investment project. In other words the city's MTEF plays as instrument to allocate resources based on prioritized areas in the strategic plan.

The city's budget process/cycle includes preparation, review, approval, appropriation, and implementation of the annual budget. In other speaking, the budget cycle has four parts (1) executive preparation (2) legislative adoption (3) executive implementation, and (4) audit and evaluation. The executive preparation has seven parts and the legislative adoption and executive implementations have three parts each.

After approval of MTEF budget calling letter will be sent to bureaus notifying their recurrent and capital budget ceiling as indicated on the MTEF document. In addition, various supporting budget formats (*Mebema-1,2,3 and Kabema-1,2,3*), used to assign budget to each activity (budget code), is attached. Each public body will be notified of government priorities, guidelines on treating external loan and assistance (if any), general and detailed instructions and formats to be used for budget preparation (MEDaC, MoF& DSA, 2000). The planning and budget cycle is depicted in the following figure.

Figure 4.7 Budget Cycle and Institutional Responsibilities



Source: Field survey, 2012

Public bodies are responsible for preparing their budget request based on the aforementioned procedures and budget ceiling. The budget preparation involves an assessment of new and existing program, and performance of ongoing projects with their work plan. They have to prepare a justification for each expenditure item by using cost build up in each project and sub agency. Based on the outcome of the review and extent of financial absorption, budget proposal is prepared and submitted to BoFED as of the date indicated on the budget calling letter. Here, attention should be taken that though each activity of the budget process is indicated on the finance time schedule, but it lacks proper implementation. The finding of this study also indicates the time given to public bodies for budget preparation is partially sufficient to review and analyze activities to estimate their spending which in-turn increase budget transfer rate. As indicated in Table 4.4, out of respondents addressed 47.5% of them confirmed that there is shortage of time for the same purpose.

Table 4.4: Budget Process and preparation as perceived by respondents

No.	Issues addressed	Number of respondents agreed	Rate of agreed respondents (in%)
1	The time given to city councils to approve the recommended is insufficient	31	52.5
2	Budget request of public bodies do not rely on reliable data and current market price	39	66.1
3	The time available to public bodies for budget preparation is partially sufficient	28	47.5
4	Inadequate attention given by heads of public bodies is the major reason for using of unreliable data	37	63.8
5	The performance capacity of public bodies during budget allocation is considered partially	37	63.8
6	The city budget lacks comprehensiveness to control spending	31	55.4
7	Level of media and civil society involvement in budget allocation process is limited	31	52.5
8	Onboard notice and publications are major means budget disclosure in the city	28	48.3

Source: field survey 2012

After public bodies have submitted their expenditure request, the head of public bodies', budget process owners and officers, and relevant department heads defend their budget request on a formal and time scheduled budget hearing with BoFED. Then after the budget request of public bodies will be revealed, adjusted, consolidated by BoFED for recommendation. The recommended budget has four parts (1) an estimate of resources (domestic revenue, external assistance, and external loan) to finance expenditure, (2)

subsidies to each sub cities, (3) recurrent budget and (4) capital budget by public bodies (AA/BoFED budget manual, 2009).

The total recommended budget by each public body is being submitted to the city cabinet for approval. Once the budget is reviewed and approved, it will be submitted to the city council for final approval and appropriation then after publicized by city's *Negarit Gazeta*. After approval, public bodies would be notified their exact authorized budget in terms of cost centers and Projects by BoFED. The public bodies are then required to prepare a work plan and cash flow on monthly basis and submit to BoFED. BoFED will control the performance of capital budget through financial and physical report as well as subsequent on-field monitoring and evaluation. In the implementation phase recurring budget deficits can be adjusted through transfers and supplementary budget within and/or between public bodies.

As stated in AA/BoFED budget manual (2009) the city council is vested with the ultimate power to play central role on accountability and responsibility in the budget process. The experiences of different countries revealed that debates are conducted largely on the issues of development priorities, medium term expenditure framework and level of budget deficits regarding the proposed budget. The policies of government is reviewed and updated to allocate meager public resources in accordance with government objectives and priorities. In practice, there are parliamentary budget approval passing a wide range of works including yearly policy review; defining national development priorities and medium term planning horizons. For instance, in one of best expenditure planning practitioner-Uganda, (Uganda Debt Network, 2003/04) the parliamentary budget office facilitates and provides the parliamentarian's vital information about

government policy and priority, and argument to demand for more efficient resource allocation.

In the city government, however, policies and strategies are not formally reviewed and updated for the purpose of budget allocation, 52.5% of the respondent have unanimous idea on insufficiency of time given to the council for this purpose. All interviewed technical team member's (100%) agreed on fact that city's MTEF is not subject to formal approval by city council rather only by the cabinet. The city council's role in budget process is only in the final authorization of the city's budget, which is prepared by BoFED, without appropriate review and understanding. In addition to this, mostly they do not have sufficient time to go through the budget proposal. Keeping the questions, do they have required level of knowledge on the area of budget and budgetary process; skill and information to influence and control over city administration budget? within our mind.

The most important issue should be raised in relation to budget process is the data that is used for cost estimation purpose of activities. As observed in Table 4.4 above, the survey result of this study shows (66% of respondents) the city budget is doubtful for reliability of the data used for budget preparation. The technical team members are also suspicious about the data provided to them which leads the expenditure planning to inaccuracy. Out of the total respondents (63.8% of them) claimed heads of public bodies not to give adequate attention to address the problem. Some others also strongly confirmed that lack of skill, training and employees and heads turnover as a cause for the inconvenience. Moreover, past years data also reinforces this argument; the wide gap between requested and recommended (Table 4.5) is the cumulative effect of the above factors.

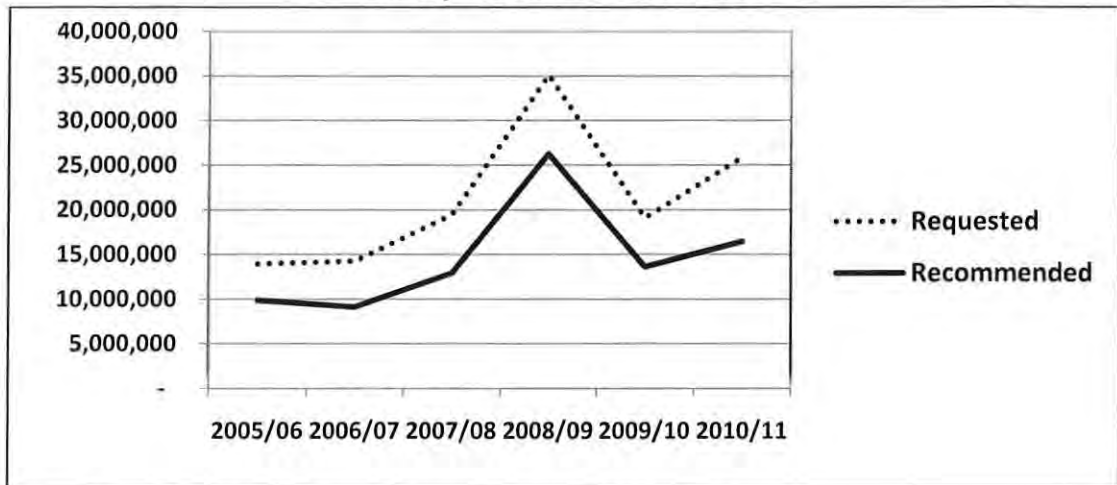
Table 4.5: The increasing trend between requested and recommended budget from 2005/06 to 2010/11

Years	Total (Recurrent and Capital)			
	Requested	Recommended	Difference	Change (in%)
1998	9,821,124	4,082,123	5,739,001	140.6
1999	9,081,017	5,160,959	3,920,058	76.0
2000	12,871,157	6,562,000	6,309,156	96.1
2001	26,240,192	8,838,020	17,402,172	196.9
2002	13,594,508	5,458,562	8,135,946	149.0
2003	16,415,216	9,431,424	6,983,792	74.0

Source, A/A BoFED, IBEX, 2012

It is indicated in Figure 4.8 below, that the increasing gap between requested and recommended budget considerably declined when MTEF implemented in 2008/09 and then increasing trend is observed due to unprecedented and country wide inflation on price of goods and services is mostly liable to aggravate the difference in the city.

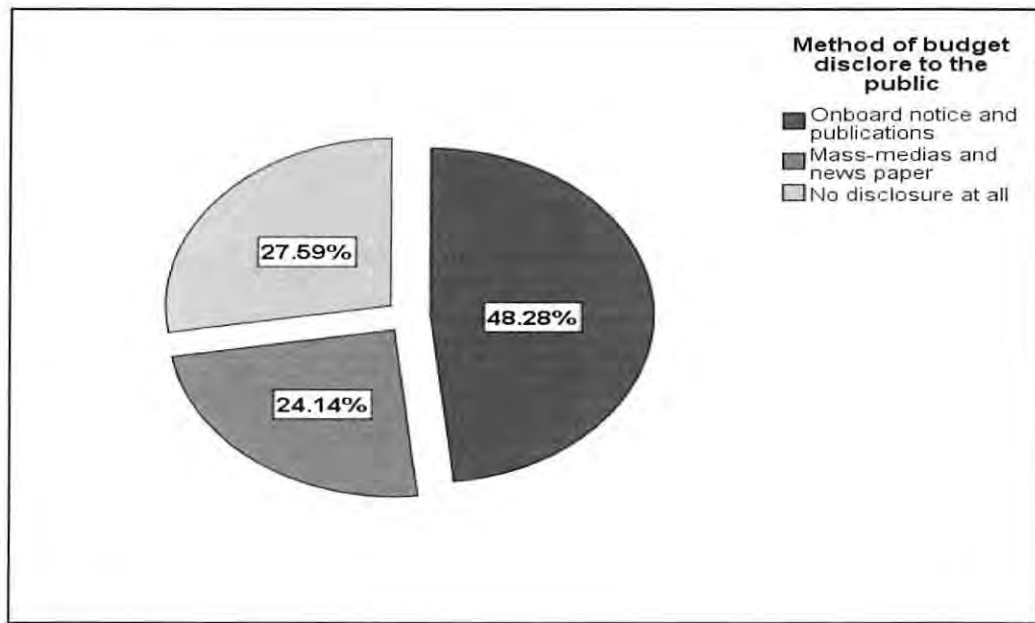
Figure 4.8: The increasing trend between requested and recommended budget through the fiscal years 2005/06 to 2010/11



Source: Compiled from various annual report of BoFED, 2012

The other discovery of the survey was that 63.8% of respondents noted that the performing capacity of public bodies is partially considered during budget allocation. At the same time, 55% of respondents expressed that the city budget is partially comprehensive to encompass every financial transactions. According WB Public Expenditure Management Handbook (1998), aggregate (comprehensive) fiscal discipline is one of the basic elements and these totals should be set before individual spending decisions are made, and should be sustainable over the medium-term and beyond. While in the city, it is to indicate that there is off budget (extra budget) outside the control of the city aggregate financial transaction system.

Figure 4.9: Methods of budget disclosure to the public



Source, field survey 2012

The other most important aspect of budget process is the extent to which policy decisions and rationale, data and piece of information provided to the public on understandable, accessible and timely basis. A transparent budget process is one that offers clear information on all aspects of government fiscal policy. According to the respondents, 52.5% of them revealed the involvement of both civil society and mass-medias is limited. As observed in Figure 4.9 above, onboard notice and publications, mass-medias and newspaper, and no disclosure are manager's responses methods of budget disclosure each accounted for 48.28%, 27.59% and 27.59% respectively. It is also further witnessed from interviewed officials and officers that at sub cities and wereda level on-board postings and brochures are major means of budget disclosure to the public. On the other hand, sector bureaus rarely inform their budget to the public. Since the mandate of this responsibility goes to BoFED and city's multimedia agency they employ various ways

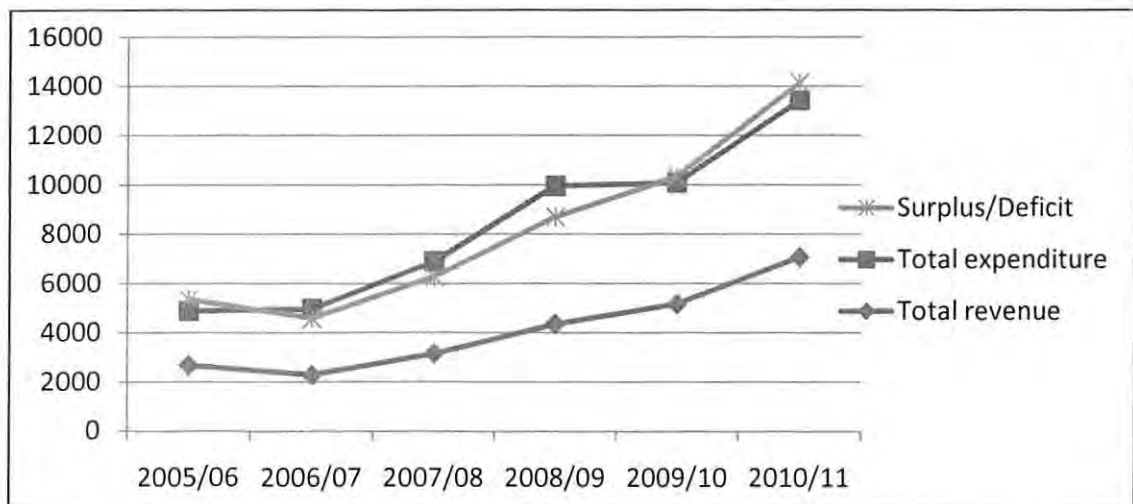
such as notice board, leaflets, TV and radio channels and *negarit gazeta* to disseminate information related to budget.

4.4 Financial performance of the city administration

4.4.1 Fiscal Instability

Successfully implemented MTEF improves countries macroeconomic balance and fiscal stability. Fiscal stability is attained through sound projection of the available resource envelope which will serve to allocate budgets in strictly earmarked manner; that is, a hard budget constraint. In this regard after 2005/06 the city spent more than the revenue it generated for three consecutive fiscal years during 2006/07 to 2008/09 (Fig 4.10). But later it is observed that the revenue surpasses total spending for the fiscal years 2009/10 and 2010/11, indicating the city expenditures were not governed by the concept of hard budget constraints consistently. The city finances the extra expenditure requirements through short term loans secured from domestic banks by issuing bonds.

Figure 4.10: Budget deficit/surplus during 2005/06 to 2010/11



Source: Addis Ababa City Administration, BoFED 2011.

As indicated in Figure 4.10, the aggregate deficit of the city administration is increasing after the city started to implement MTEF as total expenditure has been exceeding revenues at higher rate. In 2006/07 the city had a deficit of Birr 388 million, in 2007/08 this amount grew by 63.65% per annum and reached to a deficit of Birr 635 million, and in 2008/09 the deficit amount grew by 98.26% per annum and reached Birr 1,259 million. But after a year when MTEF is implemented (in 2008/09) surplus budget takes its turn showing significant improvement to avoid fiscal deficit observed in the previous periods and even reached to birr 714 million budget surplus in 2010/11.

4.4.2 City Government Revenue and Expenditure Trends

Addis Ababa, like other regions, is not subsidized by the federal government to finance its socio-economic need and infrastructural projects, and municipal services. The city is privileged to collect tax from identified areas as indicated on the city charter. Thus the city administration generates its revenue from ordinary tax and non-tax, capital income, municipal services and other sources. From these domestic sources, taxation is the dominant and most imperative source of city's government revenue. The external financial resources of the city are external loan, aid and different kinds of grants through approval of MoFED. Hence, relationship between tax revenue, government expenditure and economic growth has been remarked to be the most important elements in economic development and municipal service delivery to the public. The city fiscal reports during 2005/06 to 2010/11 were used to analyze the performance of revenue and expenditure before and after the implementation of MTEF by the city administration.

4.4.3 City's Revenue Structure and Performance Trend

The city total revenue consists majorly of tax revenue, non-tax revenue, capital revenue, municipal revenue, and external assistance and loans.

Table 4.6: Summary of Average share of revenue by sources before and after the implementation of MTEF (during 2005/06 to 2010/11)

Revenue shares by source	Average for 2005/06 to 2007/08 period	Average for 2008/09 to 2010/11 period
Tax revenue	49.1	65.7
Nontax revenue	21.1	12.2
Capital Revenue	9.1	8.1
Municipality Revenue	19.7	12.8
External Assistance & Loan	1.0	0.6
Total	100.0	100.0

Source: Addis Ababa City Administration, MTEF 2012, BoFED.

During the period under analysis (see Table 4.6) the city total revenue was dominated by tax revenue, which contributed, on average, about 57%. The share of tax revenue accounted, on average, for only 49% after implementation of MTEF (2005/06 to 2007/08) and this share increased to 66% during 2008/09 to 2010/11. Before the implementation of MTEF it was the non-tax revenue, which followed tax revenue in terms of its share to the city's total revenue but after implementation both municipality and non-tax revenue became the second largest contributor to city's total revenue. External assistance and loans contribute almost nil to the city total revenue indicating that the city has been generating nearly all its revenue from domestic sources. From this analysis it can be understood that introduction of MTEF has not brought any major changes to the structure of city revenue though there are some minor changes in the shares of different revenue sources.

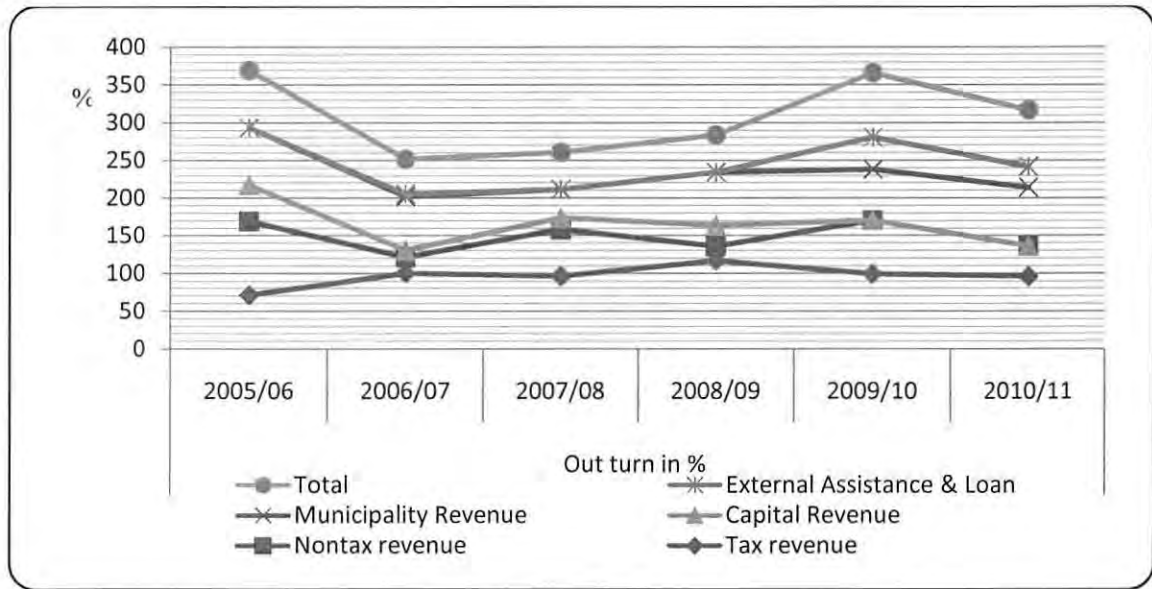
Table 4.7: Summary of the Performances of Revenue by Sources during 2005/06 to 2010/11

Revenue Type	Out turn in%								
	2005/ 06	2006/ 07	2007/ 08	Average of 05/06 to 07/08	2008/ 09	2009/ 10	2010/ 11	Average of 08/09 to 10/11	% Incremen ts
Tax revenue	71.2	100.2	96.2	89.2	116.5	99	96	103.8	14.6
Nontax revenue	97.7	20.9	61.7	60.1	19	71	40	43.3	-16.8
Capital	48.2	9.4	15.3	24.3	27.9	0	0	27.9	3.6
Municipality	76	71.5	38.2	61.9	70.7	68	78	72.23	10.33
External	0	3.3	0	1.1	0	42.5	27.5	35	33.9
Total	75.8	46.1	48.8	56.9	49.1	85	75	69.7	12.8

Source: Addis Ababa City Administration, MTEF 2012, BoFED

As shown in Table 4.7 the city total revenue during 2005/06 to 2007/08 was performing, on average, 57%. The city revenue performance after the city implemented MTEF, (2008/09 to 2010/11) revealed significant improvements and reached on average 70%. Among the different revenue sources relatively a highest improvement attained by the tax revenue and external assistance and loan; their performance improved by net 14% and 33.9% as it laps from 2005/06 - 2007/08 through 2008/09 - 2009/10.

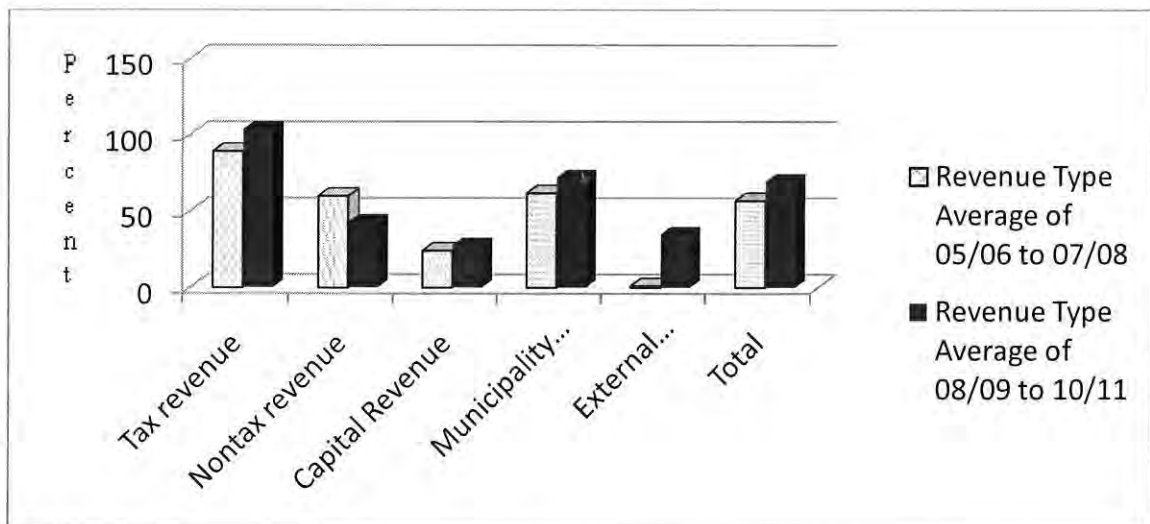
Figure 4.11: The Growth Pattern of Revenue by Sources during 2005/06 to 2009/10



Source: Addis Ababa City Administration, MTEF 2010, BoFED.

The city non-tax revenue mostly generated through land lease during 2005/06 to 2007/08 was performing, on average, 60% but the decline during 2008/09 to 2010/11 was associated with inadequate accessibility of land lots for leases failed to 40%. As it can be seen in Figure 4.11, with the exception of non-tax and foreign aid all other types of revenue showed improvement in 2008/09 still 2009/10 once again except capital revenue all the rest witnessed increments. The detail in comparison of city’s revenue performances by sources before and after the implementation of MTEF is presented in the Figure 4.12 below.

Figure 4.12: Comparison of Revenue Performance before and after the Implementation of MTEF.



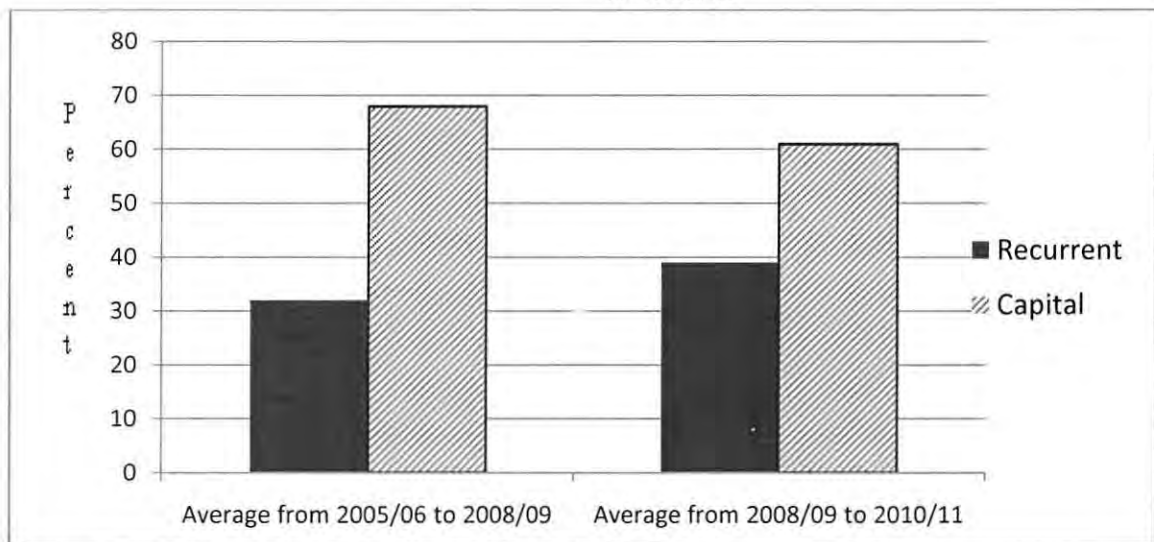
Source: Addis Ababa City Administration, MTEF 2012, BoFED.

The performance of city's revenue by sources with exception of non-tax revenue all the rest showed enhancement in their performance as a result of the implementation of MTEF by the Addis Ababa City Administration. But the improvement may also be attributed to exogenous factors other than MTEF.

4.4.4 City Expenditure Structure and Performance Trend

The city expenditure is composed of capital and recurrent expenditure. The capital expenditure is an outlay on projects whereas the recurrent expenditure is spending on activities which exhibit recurrent nature including expenditure on wages and salaries, maintenance and operating expenses and the like.

Figure 4.13: The Average Share of Capital versus. Recurrent Expenditure during 2005/06 to 2010/11



Source: Addis Ababa City Administration, MTEF 2012, BoFED.

It is observed in Fig 4.13 that capital expenditure, on average, is accounted for 68% of total city's administration expenditure during 2005/06 to 2008/09. Thus recurrent expenditure accounted for about 32%. This proportion steadily declined in 2007/08 to 25%. However, between 2009/10 and 2010/11 its share decreased to 59% and 51% respectively. The salary increment made for civil workers and scarcity of construction materials throughout the country are highly appealed to be as main factors for this sharp decline of capital expenditure. It is understood that from the secondary data, before the implementation of MTEF the ratio of recurrent to capital expenditure was 32:68 but after implementation the ratio remains almost same 31:69. Nevertheless, it is highly expected that capital will surpass recurrent expenditure in the near future due to the strong intent of MTEF which targets to orient budget towards pro-poor projects.

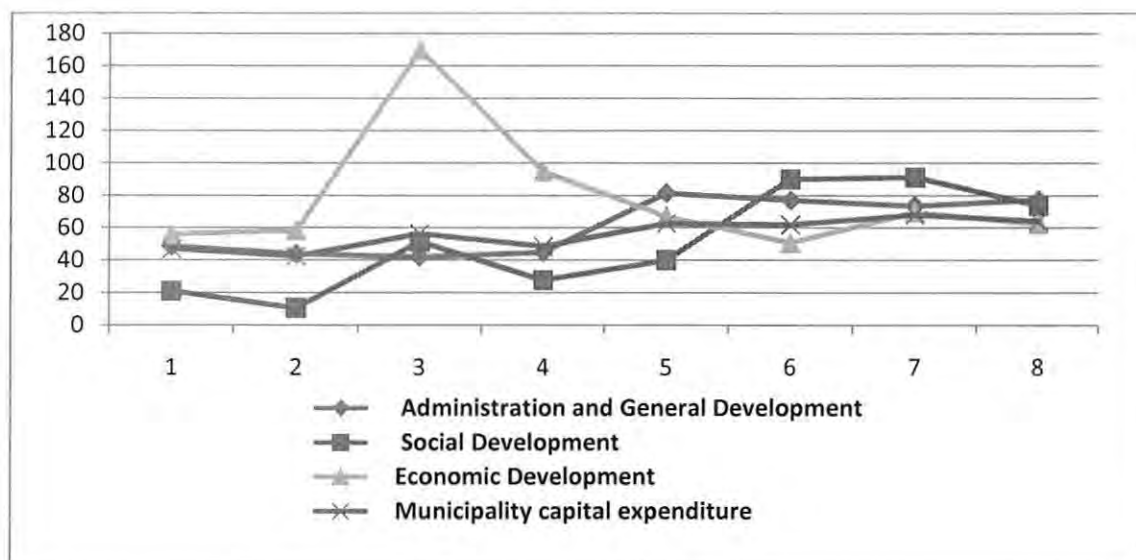
Table 4.8: Summary of the Performances of Expenditure by functions during 2005/06 to 2009/10

Expenditure types	Out turn in%							
	2005/ 06	2006/ 07	2007/ 08	2005/06 to 2007/08	2008/ 09	2009/ 10	2010/ 11	2008/09 to 2010/11
Recurrent	74.1	64.8	68.3	69.1	61.8	85.07	90.99	79.28
Capital	47.8	44.1	55.3	49.1	62.9	80.00	65.79	69.56
Administration and General Development	48.5	43.8	41.9	44.8	81.3	77.00	73.40	77.23
Social Development	21	10.5	51.3	27.6	40	90	91.22	73.74
Education	19.8	21.8	23.7	21.7	39.4	67	70.15	58.85
Health	16.6	3.7	4.8	8.4	40.1	94	63.17	65.75
Economic Development	56.1	58.2	169.8	94.7	67	50.78	69.47	62.41
Municipality capital expenditure	46.9	42.4	56.3	48.5	62.7	61.95	67.98	64.21
Land Development & Administration	34.2	31.4	33.9	33.2	16.6	30.81	30.82	20.07
Infrastructure Development & House Construction Affairs	12	43	49.9	35	75.6	50.26	50.27	58.71
Sanitation, Beautification and Park Development	15.1	24.4	40.6	26.7	4.2	40.6	40.57	85.37
Road construction	27.9	57	52.6	45.8	69.3	87.13	93.63	83.35
Housing projects	44.1	39.4	66	49.8	59.4	88.04	85.77	77.73
Water and Sewerage Authority	21.2	12.8	33.9	22.6	53.3	68.29	83.01	68.2
Fire and Emergency Service	1.5	14.2	5.9	7.2	16	24	19	21
Total Expenditure	54.9	48.7	58.1	53.9	62.6	82.11	76.03	74.00

Source: Addis Ababa City Administration, MTEF 2012, BoFED.

The city recurrent expenditure before the implementation of MTEF was performing, on average, 69% and after the city started to implement MTEF its performance improved to 74%. The capital expenditure, on the other hand, was performing only 49% during 2005/06 to 2007/08 but in 2008/09 its performance showed significant improvement and reached 63%. This substantial improvement in the capital expenditure performance was mainly attributed to intensive construction of roads, housing and water and sanitation project works. There was a tremendous enhancement in the performance of administration and general development, and social expenditure. But due to the fact they have lesser share in the capital expenditure their contribution was banished by the overall capital expenditure. On the other hand, it shows the extent the city administration has undertaken investment better on the social capitals, education and health, than the past periods. Before the implementation of MTEF, the performance for capital expenditure on economic was 95% and land development was 33% and after implementation their performance declined to 62% and 20%, respectively.

Figure 4.14: The Growth Patterns of Expenditure by functions during 2005/06 to 2010/11



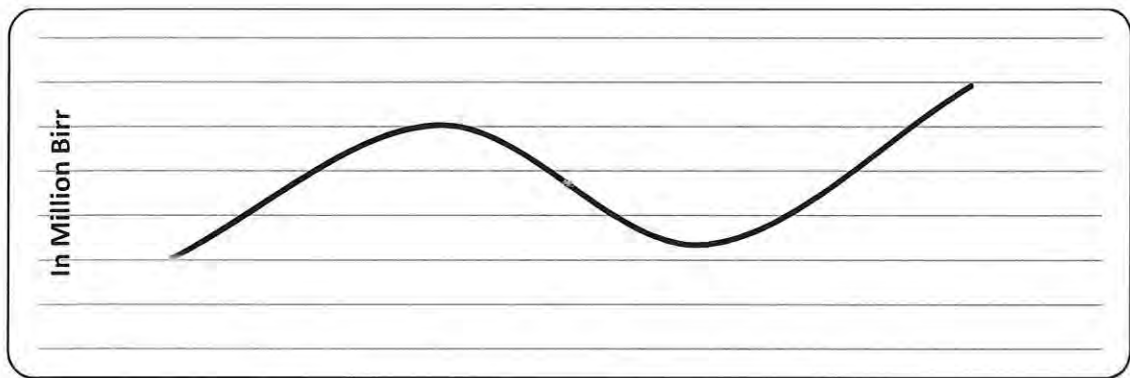
Source: Addis Ababa City Administration, MTEF 2012, BoFED.

The decline in economic capital expenditure is associated with the disruption of the then on-going Micro and Small Enterprise (MSE) activities due to the 2005 political election, which forced EPRF to handover the responsibility to the caretaker administration. The prime responsibility of caretaker administration was to restore peace and security to the city. The detail growth pattern of capital expenditure by major expenditure items is presented in Fig 4.14 above.

4.4.5 The Growth Pattern of Budget Transfers made by City Administration

In Addis Ababa City Administration public bodies, after approval of annual budget, usually undertake a budget transfer to trade-off budget deficit within and between public bodies.

Figure 4.15: The Trends of Budget Transfers made during 2005/06 to 2010/11



Source: Addis Ababa City Administration, IBEX 2012, BoFED.

The transfer amount increased considerably over time mounting to more than a Billion Birr each year and, on average, 34% of the city total approved budget. The trend increased in 2006/07, but dropped in 2007/08 to the lowest point and then after the city implemented the MTEF in 2008/09 the transferred budget grew consistently undermining the city's budget discipline once again.

4.5 Problems of Budget Allocation and Remedial actions taken by the City Government

Making analysis of policies and practices on budget allocation is difficult in data scarce case study areas, like Addis Ababa City, where the existing documents are mainly empirical, disorganized and unreliable. The prevailing institutional arrangements and performance capacity is poor. There is no well-established and complete public expenditure management system. Public expenditure review of the country is not comprehensive, budget does not include off-budget or extra budget funds (World Bank, 1998b).

Apportioning budget between recurrent and capital expenditure is built on categorical steps moving from the most general kinds to the most detail. These items of expenditure have been grouped into four areas of expenditure: personnel service (6100), goods and service supplies (6200), fixed assets and construction (6300), and other payments (6400). These items of expenditures are further detailed into sub-components. For example, Personnel Services is divided into three sub-components of expenditures: (1) emoluments (6110), (2) allowances/benefits (6120), and (3) pension contributions (6130). These sub areas of expenditures further divided into more than 74 detailed expenditure codes.

The basis for estimating the expenditure proposal has broadly divided into two parts. The first one is personnel requirement with respective salary and allowance scales approved by Civil Service Commission or Boards. The second one is concerning about the estimation of operating expenditure, purchase of fixed assets and implementation of project works. Here attention should be given how limited funds are allocated to each sector or program rather than focusing on the expenditure code arrangement, core feature of conventional (traditional) budget system is merely full of procedures. This statement raises the question of efficiency of public expenditure and priority of government program as critical issue that lies at the heart of contemporary (modern) public financial management. The efficiency criteria reflect that resources should be allocated so as to exploit sector programs exhaustively while government priority considers that budget should be allocated in harmony with its objectives. But possibly both programs can be reconciled through budget reforms. Budget reforms on planning, programming and budgeting are expected to serve both political priorities and allocative efficiency.

The research findings and results discussed above have been revealed numerous problems related to the expenditure planning and budget allocation of the city administration. The allocation of operating expenditure is mainly based on ad hoc unit costs, previous year budget allocation and performance. Arbitrary budget allocation is the technique by which budget is allocated on the basis of inadequate information, unreliable unit cost and fragmented process, sometimes without enough knowledge of how the preceding budget year spending pattern looks like or what was accomplished. This practice dictates that money is allocated on public sector without or limited detail review of programs and objectives.

Hence, from the analysis the strengths observed on expenditure planning and budgetary process in the city administration is unsatisfactory. The general problems that are discussed previously based on respondents' perception and data accessed from secondary sources as weaknesses of city's administration budgetary systems are more precisely listed as follows:

- a) It has limited medium term perspective (63% of respondents);
- b) Capital and recurrent budget are not properly integrated (55% of respondents);
- c) The budget system doesn't provide incentives for efficiency (79% of respondents);
- d) No parameters were used to measure performance during budget execution (84% of respondents);
- e) Budget preparation is undertaken based on unreliable data and estimation (66% of respondents);

- f) The budget system was weak to ensure financial transparency and accountability (48.3% of respondents);
- g) There is high level of turnover of professionals (budget officers) in public institutions (92% of respondents);
- h) BoFED and public bodies do not have appropriate and standard unit costs to estimate their recurrent budgets (71% of respondents);
- i) The head of public bodies did not give much attention for formulation process of budget (63% of respondents);
- j) Civil society and stakeholder involvement in the budget process is restricted (52.5% of respondents);

However, the city administration is on the track to transform currently working line item and incremental based budget system towards program budgeting which allows to measure the efficiency of allocated budget with respect to the city intended program and objectives. In addition, some remedial actions have been already taken on budget accounts which exhibit similar natures of expenditure, though it is its nascent stage. For instance, measures taken on expenditure accounts that are believed to be highly exposed to misuse and personal benefit; such as fuel and lubricants (6217), official entertainment (6233), vehicles maintenance and servicing (6241), telephone services (6258). The budget allocated for these accounts is based on predefined and calculated formula computed by the '*study sub process*' of BoFED that prepares a norm document and finally approved by the cabinet. After authorization of the document, spending on these accounts above the allocated budget is prohibited. However, still incompleteness of the

document and discrepancies of implementation is witnessed, which calls for periodic revision and effective implementation to enjoy the benefit to its optimum level.

4.6 Sub-City Budget Grant

The downfall of Derg regime in 1991 resulted in change of country's socio-political system to ethnic based federal arrangements and fiscal decentralization. According to the 1994 constitution, the system of government comprises the Federal Government, nine Regions, and two Special City administrations. Then after, Addis Ababa City administration is privileged with the supreme power to finance city responsibilities through mobilizing resource and manage finance from its own revenue sources assigned legally by the federal government. The city administration on the other hand decentralized the fiscal power and responsibilities to sub cities and weredas through district level decentralization program. Therefore, the existing 10 sub cities and 116 weredas took part in the fiscal decentralization process.

This kind of power and fiscal intergovernmental transfer in the city had begun in 2006 cascaded from the federal government. City transfers (subsidies or grants) to sub cities take place in the form of recurrent block grant, and specific purpose grants based on a formula and subsidies aimed to ensure fairness and efficiency between sub cities. The block grant formula working before 2008/09 lacks fairness and efficiency between sub cities; it is based on general budget allocation and individual expenditure (A/A/MTEF, 2010). After implementation of MTEF only selected sector offices are made to be incorporated (health, education, police and solid waste management) in the formula. The rationale behind for selection of these sectors in the formula lies majorly on importance

of their service in the daily living of residents, accessibility to the mass population, and their political implication for the city government. The newly developed formula is based ad hoc unit cost formula; it is calculated as shown below:

Unit cost = Total expenditure /total service or product

Where, total expenditure includes sum of all incurred costs to produce a product/service, whereas, total service/product is the final output delivered by an institution/firm

For example, for education sector offices the unit cost for 1st cycle school can be calculated as,

$$\Rightarrow \text{1st cycle operational unit cost} = \frac{\text{average operational cost}}{\text{total no. of students in the fiscal year}}$$

$$\Rightarrow \text{1st cycle operational budget} = \text{average operational unit cost} \times \text{total no. of students in the sub city during the fiscal year}$$

$$\Rightarrow \text{1st cycle formula budget} = \text{1st cycle operational cost} + \text{salary of workers (teachers and administrative staffs) in the school}$$

Similar formula and process is applied for 2nd cycle and Technical and Vocational Training Colleges (TVTC). The unit cost formula has advantages over the previous per capita expenditure due to the fact that it improves equity, efficiency and transparency regards to budget allocation, and supports the budget process to be guided by hard budget constraint. Based on these parameters and specific grant, the subsidy transferred to sub cities for the budget year 2005/06 to 2010/11 is shown in Table 4.9

Table 4.9: Budget Subsidy to sub cities from 2005/06 to 2010/11 (in Million Birr)

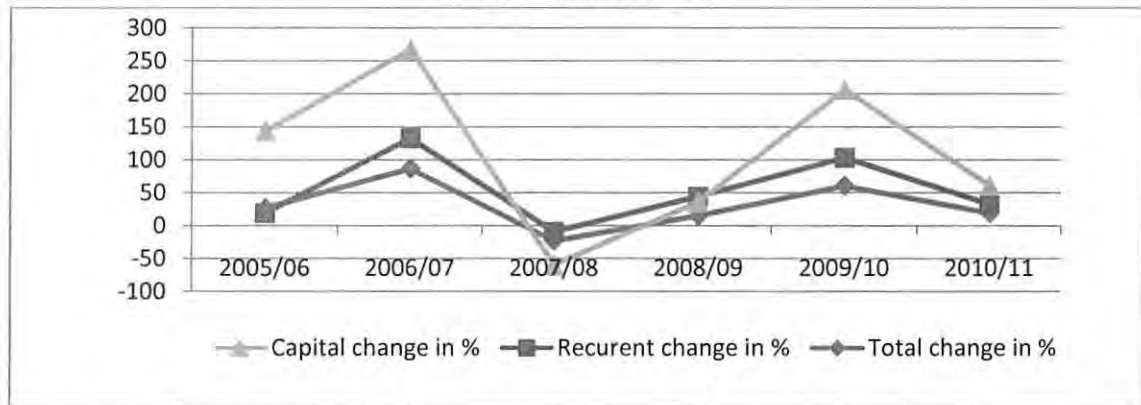
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Total subsidy	578	1,078.6	827.4	951.7	1,527.6	1,818
Recurrent	311.4	454.6	518.1	668.2	953	1,079.8
Capital	266.6	624	309.3	283.5	574.6	738.2
Total change in%	26.8	86.6	-23.3	15	60.5	19
Recurrent change in%	-7.6	46	14	29	42.6	13.3
Capital change in%	124.5	134.1	-50.4	-8.3	102.7	28.5

Source: Addis Ababa City Administration, MTEF 2012, BoFED.

Subsidy transfer for recurrent budget to sub cities is made according to the principle of incremental basis from the precedence year. But some assumptions are taken in to account each year to determine the budget amount allocated to sub cities. Among the rest, the rising inflation of price, vacant position intended to be hired, prioritizing old projects and the budget required to accommodate them in material, human power (if finalized in the fiscal year) ... are major. As it can be observed in Table 4.9 above recurrent budget transferred by the city administration remained steadily increasing throughout the whole period (2005/06-2010/11) showing an average increment of 13.3%. Similarly, the capital budget is still characterized by continuous rise except in 206/07 when extraordinarily higher recurrent budget transferred to the sub cites. The total subsidy shows an increasing trend each year but in the fiscal year 2006/07 it is doubled by amount of the previous year due to the transfer of political power from the then provisional (care taker) government to country wide leading EPRDF. This budget year is characterized by improved capital

budget allocation especially due to establishment of micro and small enterprise to absorb the unemployed active labor in the city.

Figure 4.16: The growing trend of budget subsidy transferred to sub cities between 2005/06 and 2008/09



Source: Addis Ababa City Administration, MTEF 2012, BoFED.

In Fig 4.16 it is noticed clearly that throughout the period under analysis both capital and recurrent budget competes each other to surpass one over the other affecting the total subsidy line to make ups and downs. After MTEF is implemented by the city in 2008/9 out of city total budget an average of 31.6% goes to sub cities in the form of budget subsidy (A/A/MTEF, 2012).

4.7 Comparative analysis of Addis Ababa and other Regions' Budget

Performances

Except Addis Ababa other regions are subsidized by the federal government to enable them finance socio-economic and infrastructural development demand of their respective region based on their own priority. But Addis Ababa city administration has been utilizing its own source of finance to accommodate the city's municipal services and development needs. In order to improve decision making power of regions and realize

fiscal decentralization, the system of intergovernmental transfers (subsidies) had begun in 1999. The Federal government transfers fund to regions (except Addis Ababa) in the form of block grant. This block grant formula is computed based on a weighted average of four elements; relative population, a development index, poverty index and an index of revenue raising effort. The weight of the population, which increased from one third prior to 1998 to 60% in 1998 and currently, it has been reduced to 55% (World Bank, 2001).

Based on these parameters, the subsidy allotted to regional states (and Addis Ababa's budget being from its own source) for the budget year from 2005/06 to 2010/11 is indicated in Table 4.10 below. Out of the total expenditure the lion share of the aggregate goes to Amhara, Oromiya, Addis Ababa and SNNPRS reaching 78.2%, while the remaining 21.8% is allocated to the other regions for the year 2010/11. More specifically, Oromiya stands 1st taking 27.4%, Amhara and Addis Ababa follows taking nearly equal budget 17.5% and 17.2% respectively. Subsidy transferred to all Regions shows increment throughout fiscal years except Addis Ababa which is characterized by fluctuation. In 2008/2009 the transfer of city's political power from the care-taker mayor to EPRDF brought higher budget but declines again in 2010/2011 once again increased.

Table 4.10: Regional Budget Subsidy (in Million Birr)

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/2011	% From Total (2010/2011)
Total Subcidy	13,487.57	16,661.28	23,136.54	29,211.11	30,614.78	33,988.77	100
Tigray	840.92	894.33	1,415.24	1,587.04	2,086.79	2,365.81	7
Afar	351.13	414.19	535.58	609.48	778.40	853.28	2.5
Amhara	2,135.81	2,650.56	3,877.92	4,926.76	5,773.13	5,947.12	17.5
Oromiya	3,116.77	3,803.41	5,549.55	6,939.55	8,308.38	9,311.93	27.4
Somale	561.06	712.12	1,095.88	1,323.42	2,082.03	2,391.32	7
Benishangul	251.94	286.34	297.75	346.35	471.50	558.24	1.6
SNNP	1,709.99	2,151.02	3,126.05	3,992.69	4,854.44	5,645.22	16.6
Gambela	157.78	201.45	205.95	217.75	363.77	452.07	1.3
Harar	123.83	148.53	164.08	183.61	232.35	263.00	0.8
Addis Ababa	4,082.13	5,159.37	6,562.20	8,774.53	5,982.00	8,357.00	17.2
Diredawa	156.21	239.96	306.34	309.94	335.95	361.12	1.1

Source: Compiled from Annual Actual Report of the MoFED (from 2005/06-2010/11)

On the other hand, Secondary data revealed that regional governments have wide differences in utilizing their resources due to the variances of available skilled staff, particularly lack of specialists such as accountants, economists, managers, planners and lawyers. These problems hinder the implementation and efficiency of public resources (World Bank, 2001). The government has carried out different tasks to solve these capacity problems. The establishment of Civil Service College is one of the strategies to alleviate the capacity gaps of regions (Tegegne, 2009). Politically committed people are recruited from different regions and trained in this college to become accountant, economist, lawyers and other high government officials. This process is based on creating a cadre-based national civil service, particularly at the top level of regional and local

ernment. Here it is frequently rumored on the requirements and procedures, and even is claimed that only members of the governing party EPRDF were benefited. There is a threat in the quality and methods used to evaluate performances of students. Consequently, the cumulative effect leads to lack of skilled and technical manpower; high turnover of civil servants in turn results in a poor quality investment decision and inadequate utilization of the existing financial resources (Getachew, 2005).

Table 4.11: Regional Total Actual Expenditure from total Planned Budget (%)

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Average
Tigray	102.97	97.76	87.98	99.40	94.00	113.29	99.23
Afar	93.11	59.73	73.08	92.39	101.80	197.62	102.96
Amhara	81.74	80.33	97.55	93.67	95.56	116.46	94.22
Oromia	102.33	100.20	104.12	103.59	95.55	112.96	103.12
Somale	104.53	92.79	93.65	79.04	76.13	98.30	90.74
Benishangul	104.34	100.04	107.86	96.76	88.31	107.70	100.84
SNNP	112.29	13.32	10.27	79.96	94.44	106.86	69.52
Gambela	97.67	93.97	113.38	113.74	95.24	106.42	103.40
Harar	99.30	127.46	85.34	87.03	92.33	90.61	97.01
Addis Ababa	70.99	54.28	61.22	70.43	86.74	83.65	71.22
Diredawa	69.84	72.97	88.22	91.52	87.33	103.28	85.53

Source: Compiled from Annual Actual Account Report of the MoFED (from 2005/06--2010/11)

As shown in Table 4.11, because of the shortage of skilled manpower and limited institutional capacity, capital budget utilization in different regions is undermined and inadequate. SNNPRS utilizes, on average, less than 69.5% of the total budget for the

years 2005/06-2010/11 being the least performance recorded. It is followed by Addis Ababa by an average performance of 71.2%. Afar, Oromiya, Benishangul and Gambela has utilized over the approved budget. The low expenditure performance of Addis Ababa is observed to be even below regions that are remote and believed to have low educated professionals such as Afar, Somale and Gambella though significant improvement is recorded after 2009/10.

Tax assignment is the other important substance related to issue of fiscal decentralization. The current tax assignments in Ethiopia have led to a large vertical fiscal imbalance. According to Tegegne (2009) narrow tax base, inefficiency (or lack of capacity) and financing gap at federal level are explained to be major reasons for prevailing financial gap. As can be seen in Table 4.12 below, in the last six years, regional governments were able to finance, on average, only 29.2% of their expenditure from their own revenue source. The federal government in the form of subsidy financed the remaining 70.8%. However there is divergence of average figures to have large differences among regions. For instance, Gambella financed only 10.5%, Afar, Benishangul and somale clustered on average around 14.3% of their total expenditures from their own revenues for the years 2005/06 to 2010/11. The remaining regions such as Tigray, Amhara, Oromiya and SNNP, and Dire Dawa, on average, have covered 19% to 36% of their expenditure. On the contrary, Addis Ababa has generated revenue above its expenditure to reach at budget surplus since 2009/10. In other words, the revenues generated by all regions altogether finances, on average, only 29.1% of the total expenditures of their own except Addis Ababa; none of the regions are left own revenue to accommodate their capital

penditure need. This suggests that regional governments highly depend on transfers from central government to cover their expenditures.

Table 4.12: Financing Capacity of Regions: Ratio of Regions Revenues to Total Regions Expenditures (%)

Regions	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Average
Regions	42.49	56.3	61.6	49.95	54.29	56.35	29.18
City	22.511	4.36	27.93	19.64	41.42	39.78	25.94
	11.626	15.40	10.88	26.58	9.41	9.07	13.83
ara	21.781	18.92	14.15	15.96	18.62	23.36	18.80
nia	19.575	21.20	14.91	19.75	22.36	26.45	20.71
ile	5.286	9.21	8.18	41.08	13.15	12.06	14.83
hangul	8.747	9.53	13.58	14.59	17.39	19.14	13.83
	13.688	118.73	145.98	21.92	20.61	23.72	57.44
ela	8.033	9.42	9.74	7.52	13.19	14.91	10.47
	16.665	13.64	23.32	24.34	20.33	25.44	20.62
	95.623	83.90	74.08	73.96	101.50	102.68	88.62
lawa	31.428	33.47	26.89	34.39	47.79	41.48	35.91

Source: Compiled from Annual Actual Report of the MoFED (from 2005/06--2010/11)

One can infer from this analysis except Addis Ababa high level of vertical imbalance exists and calls for a review of the tax assignment mechanism and other factors meticulously to narrow the gap. High level of vertical imbalance could result in efficiency problems. It is not unclear, therefore, the nationwide development strategy is based on balanced social and economic growth; it gives less attention for the efficiency of resource allocation. Attaining the highest marginal return in terms of the overall development plans is a subsidiary.

5. Conclusion and Recommendations

5.1 Conclusion

MTEF is an important budget instrument which in the medium-term links government budgets with the government policy and planning. According to the World Bank (1998) MTEF is an integral part of financial reform, which aims at ensuring fiscal discipline, allocating scarce public financial resources in accordance with strategic priorities, and maintaining efficiency and effectiveness in the use of resources in the implementation of strategic priorities. Empirical literature in the area of MTEF indicate that a successfully implemented MTEF help countries to align the meager unit of money a government spends in harmony with policy priorities and finally, the spending will produce the intended results at optimum cost. However, there are certain pre-conditions that the city should put into place before full practice and enjoy its maximum benefit. Most importantly, MTEF alone cannot deliver improved PEM in countries at which other key aspects of budget management, notably budget execution and reporting, remain weak. Therefore, comprehensive, detailed diagnoses of budget management systems and processes precede MTEF, in order to ensure appropriate design of reform programs.

The Addis Ababa City Administration with the objective of accommodating the ever increasing demand for socio-economic development; integrated budgeting with city policies and planning that transformed to MTEF in 2008 abandoning the previous annual budget system. On the other hand, the city administration embarked on a comprehensive Civil Service Reform Program to address city's weak public expenditure management practice devolved from the federal government. Among others, budget reform and expenditure planning projects have been attempted to improve the quality of budget

process and medium term expenditure planning. Despite all these measures, taking World Bank's design feature element as a standard, practice of MTEF is at infant stage relative to other African countries which calls for policy makers and other stakeholders work together for its success. The collaborative effort of various groups helps as panacea for problems of city's budgeting system such as efficiency and effectiveness.

To identify the extents and causes of these problems, survey has been undertaken on different government institutions related with the expenditure planning and budget allocation. The survey employed structured questionnaire with close-ended types of questions, and carried out interviews with some government officials in selected bureaus and sub cities. The analysis is also supported by secondary data collected from different sources. From the survey it is learned that, unlike the six stages of MTEF recommended by World Bank, the city's MTEF passes through only four stages and the two basic stages were skipped; development of sectoral expenditure frameworks and definition of sector resource allocations, which are necessary to grant autonomy in budget utilization to sectors and sub cities. The city did not clearly define the major features MTEF in terms of organizational, technical and general, thus the city has not designed a clear, standardized and measurable kind of MTEF excluding the basic elements indentified World Bank.

The frequent structural change made on public institutions forced the in the city to revise the development plan repetitively and sometimes to divert budget from its intended purpose. The study finds out that the respondents have limited knowledge on concepts of MTEF in general and city's MTEF preparation procedures particularly. However, MTEF introduced the concept of budget ceiling and has brought budget reprioritization related to

prioritized sectors which created an opportunity to trade-off among competing projects. Avoiding bias among sectors to some extent, through reprioritization it helped the city to allocate more funds towards poverty oriented project expenditures. After implementation of MTEF by the city, budget predictability improved but it does not mean the observed improvement on the budget balance is solely attributed to MTEF. Furthermore public bodies enjoyed flexibility in managing their budget. The study confirming the full integration of MTEF in to the budget process, the analyzed data revealed to the enhancement of fiscal performances.

However, expenditure planning and budget reform projects are unable to bring a system that was effectively based on output or performance budgeting, standard activities, proper budget approval and reporting systems. The budget allocation process is a result of unreliable data and market price, time available for the city council to approve and for public bodies to prepare is insufficient. Moreover, inadequate attention of public heads, lack of appropriate professionals due to high turnover, lack of the necessary skill, limited consideration of institutions capacity are problems observed during the budget process. Currently, budget is highly input oriented rather than a performance oriented system; and there is no mechanism that allows and facilitates policy review process, which is plays an essential role for budget allocation. There exists limited level of involvement by the civil society and other stakeholders on budget transparency and accountability which needs much work to be done.

In general, the survey result obtained from respondents and interviewed, and secondary data sources reveals that MTEF is most importantly practiced by the city to narrow the gap between existing resource and expenditure planning. Although MTEF is integrated in

to budgeting process, a full-fledged MTEF, which should be seen as a package of bundled reforms, is not sequenced by overall PEM reform program restricting its full benefit. The budget system lacks policy clue, standards and unit costs, and performance to estimate recurrent and project cost. Budget reforms are not best managed by the city; there are no mutually reinforcing organizational structures, some of which should be specifically established to handle the MTEF. And lastly, political motivations and incentives for MTEF's successful implementation and its corresponding budget allocation remained weak preventing from bringing a paradigm shift and affected the full transition of annual budgeting to medium perspective.

5.2 Recommendations

In fact MTEF is a recent phenomenon to Addis Ababa City Administration. There is room for improvement and more remains to be done to scale up the implementation of MTEF and enhance the budget system to bring efficiency and effectiveness. This requires the close scrutiny and getting lessons from the experiences of developing countries, particularly the experiences of Uganda and South Africa. Therefore, based on research findings, the following measures are recommended to address the problems identified by the study that can serve as an input to policy making and will be an initiative for further study. To promote effective MTEF and budget allocation:

- a) Redesign MTEF to incorporate key features to make compatible with city's distinct existing conditions. Lay the foundations; fulfillment of preconditions is primary to step up to forward stretching the benefit to its optimum level. It could include strengthening existing capacity of the technocratic system.

- b) Sequencing and phasing the MTEF reform by overall public financial management reform program to exhibit realistic paradigm shift in its nature. Since the city is weak in its capacity a full-fledged MTEF cannot be introduced all at once rather a package of bundled reforms is mandatory. MTEFs alone cannot be a panacea although it is potentially valuable for public expenditure management tools, both should be redesigned so as make them reinforcing each other.
- c) Make the city administration understand the relevance of the Political and Institutional dimensions more strictly. Bureaucratic incentives to support the MTEF must be taken into account and addressed by specific measures to increase the overall credibility of the reform.
- d) Develop a Fully Integrated Management Information System (MIS) so as to generate accurate data in the projection process. A realistic macro-fiscal projections and consistency between the budget and its execution is precondition for transparency, predictability, and accountability. It also facilitates opportunity for monitoring and evaluation of the performance of city MTEF.
- e) Develop a budget reform, which considers policy review process, output/performance based budgeting, standard of activities, efficiency and effectiveness of resources and comprehensiveness of budget including foreign aid flows into the planning and budgeting process.
- f) Invite stakeholders to enjoy the music; inclusion of the feeling and comments of all stakeholders through the budget process creates sense of worthiness and hinge to effective implementation which in turn serves as means of resource mobilization.

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Appendix 1: Addis Ababa City Government Revenue Collection Data, EFY 1998 -2003 (2005/06-2010/11)

Ethiopian fiscal year	1998			1999			2000			2001			2002			2003		
Fiscal Year ending July 7	2005/06			2006/07			2007/08			2008/09			2009/10			2010/2011		
	Budget	Actual	% O.turn	Budget	Actual	% O.turn	Budget	Actual	% O.turn	Budget	Actual	% O.turn	Budget	Actual	% O.turn	Budget	Actual	% O.turn
Tax revenue	1445.9	1029.7	71.22	1300.4	1302.9	100.19	1708.5	1643.6	96.20	1916.9	2234.2	116.55	3489.0 5	3445.3 8	98.75	5156.4	4935.28	95.71
			#DIV/0! !			#DIV/0! !			#DIV/0! !			#DIV/0! !			#DIV/0! !			#DIV/0! !
Income and profits tax	788.4	759.3	96.31	836.7	826.4	98.77	920.7	1170.6	127.14	1309.4	1582.7	120.87	1978.1	2391	120.87	2948.55	2473.33	83.88
Domestic indirect taxes	657.5	270.4	41.13	463.7	476.5	102.76	787.8	473	60.04	607.5	651.5	107.24	1014.7	1536.8	151.45	1784.15	1493.82	83.73
Value added tax	233	116.3	49.91	213.1	207.6	97.42	315.5	325	103.01	316.3	457.8	144.74	663.5	1215.7	183.23	1236.69	1176.75	95.15
<i>On domestically produced goods</i>	133	105.1	79.02	184.6	179.8	97.40	254.5	241.5	94.89	255.1	81.2	31.83	491.4	156.5	31.85	261.28	18.51	7.08
<i>On domestically produced services</i>	100	11.2	11.20	28.6	27.8	97.20	61	83.6	137.05	61.2	376.5	615.20	172.2	1059.2	615.10	975.41	1158.24	118.74
Excise tax	10.3	2.4	23.30	13.9	6.3	45.32	42.6	4.8	11.27	6.2	4.1	66.13	13.9	9.2	66.19	24.95	11.08	44.41
Turnover tax	360.2	108.2	30.04	144.9	155.7	107.45	266.5	127.4	47.80	168.2	164.5	97.80	292.9	302.4	103.24	456.73	225.51	49.37
<i>On domestically produced goods</i>	89.7	13.3	14.83	88.7	95.4	107.55	127.2	81.2	63.84	80.3	99.7	124.16	171.5	213	124.20	250.41	134.47	53.70
<i>On domestically produced services</i>	270.5	95	35.12	56.1	60.3	107.49	139.3	46.1	33.09	87.9	64.7	73.61	121.4	89.4	73.64	206.32	91.03	44.12
Stamp sales & duties	54	43.5	80.56	91.8	106.9	116.45	163.2	15.8	9.68	116.8	25.1	21.49	44.4	9.5	21.40	65.78	80.48	122.35
			#DIV/0! !			#DIV/0! !			#DIV/0! !			#DIV/0! !			#DIV/0! !			#DIV/0! !
Nontax revenue	805.2	787.1	97.75	1355.8	282.8	20.86	1028	634.2	61.69	2754.6	524.8	19.05	1336.4 8	952.92	71.30	2550.21	1025.44	40.21
Charges and fees	32.4	15	46.30	0	0	#DIV/0! !	140.3	26.9	19.17	26.9	28.4	105.58	40	42.3	105.75		75	#DIV/0! !
Sales of goods & services	67	118.1	176.27	63.5	54.2	85.35	105.5	170.9	161.99	26.6	28.7	107.89	23.3	25.1	107.73		34	#DIV/0! !
Government Investment Income	685.8	534.5	77.94	1254.2	180	14.35	685.2	238.3	34.78	2586.7	330.6	12.78	1097.7	589.9	53.74		1153.6	#DIV/0! !
Miscellaneous Revenue	20	57.4	287.00	38	21.3	56.05	54	162.6	301.11	29.5	110	372.88	38.3	143	373.37		362	#DIV/0! !

Capital Revenue	425.2	205.1	48.24	1279.1	119.6	9.35	2696.1	411.8	15.27	3336.1	932.1	27.94	4	0	0.00		0	#DIV/0!
Subsidy revenue	0	62.1	#DIV/0!	0	27.2	#DIV/0!	43.1	35.5	82.37	85	27	31.76	130.5	41.5	31.80			#DIV/0!
Municipality Revenue	800.2	649.4	81.15	842.5	573.2	68.04	981.7	374.9	38.19	851.5	600.3	70.50	935.3	637.38	68.15	1201.31	932.14	77.59
Tax Revenue	145	81.3	56.07	119.8	77.9	65.03	130.3	87.2	66.92	115.1	83.8	72.81	115	83.7	72.78	147.49	160.28	108.67
Rent income	178.4	162	90.81	148.3	116.7	78.69	103.8	141.6	136.42	177.1	158.2	89.33	202.6	180.9	89.29	315.78	177.13	56.09
Service charge	93.8	74.6	79.53	97.2	34.7	35.70	66.9	47.9	71.60	91.3	66	72.29	83.1	60.1	72.32	74.19	95.2	128.32
Goods and services	383	331.5	86.55	477.2	343.9	72.07	680.7	88.1	12.94	468	288.6	61.67	533.2	328.8	61.67	39.48	124.67	315.78
Other capital revenues	0	0	#DIV/0!	0	0	#DIV/0!	0	10.1	#DIV/0!	0	3.7	#DIV/0!	0	0	#DIV/0!			#DIV/0!
External Assistance & Loan	0	6.4	#DIV/0!	245.3	8	3.26	0	66.4	#DIV/0!	0	56.1	#DIV/0!	200.18	85	42.46	478.78	131.76	27.52
External Assistance	0	6.4	#DIV/0!	245.3	8	3.26	0	66.4	#DIV/0!	0	56.1	#DIV/0!	0	56.1	#DIV/0!		80.4	#DIV/0!
Public contributions	0	0	#DIV/0!	0	0	#DIV/0!	0	0	#DIV/0!	0	0	#DIV/0!	0	0	#DIV/0!			#DIV/0!
Road fund	0	0	#DIV/0!	0	0	#DIV/0!	0	0	#DIV/0!	0	0	#DIV/0!	0	0	#DIV/0!			#DIV/0!
External Loan	0	0	#DIV/0!	0	0	#DIV/0!	0	0	#DIV/0!	0	0	#DIV/0!	0	0	#DIV/0!		4.6	#DIV/0!
			#DIV/0!			#DIV/0!			#DIV/0!			#DIV/0!			#DIV/0!			#DIV/0!
Total revenue and grants	3476.5	2739.8	78.81	5023.1	2313.7	46.06	6457.4	3166.4	49.04	8944.1	4374.5	48.91	6095.54	5159.92	84.65	9431.7	7067.99	74.94

Appendix 2: Addis Ababa City Government Expenditure Data, EFY 2005/06-2010/11

Expenditure Item	Budget Year																	
	2005/06			2006/07			2007/08			2008/09			2009/210			2010/2011		
	Budget	Actual	Outturn in %	Budget	Actual	Outturn in %	Budget	Actual	Outturn in %	Budget	Actual	Outturn in %	Budget	Actual	Outturn in %	Budget	Actual	Outturn in %
Recurrent	1099.6	814.8	74.1	1141.6	740.1	64.8	1452	991.8	68.3	2223.2	1374	61.8	2363	2010.3	85.074	3,396	3,090	90.989
																		#DIV/0!
Capital	2982.6	1427.1	47.8	4017.9	1771.7	44.1	5266.3	2914.5	55.3	478.8	282	58.9	3,619	2,902	80	4,961	3,264	65.793
Administration and General Development	22.5	10.9	48.5	49.5	21.7	43.8	119.3	50	41.9	189.8	154.3	81.3	201.3	154.3	77	225	165	73.401
Social Development	76.6	22.4	21	79.3	16.4	10.5	170.2	87.4	51.3	154	61.7	40						#DIV/0!
Education	33.8	6.7	19.8	23.6	5.1	21.8	53.2	12.6	23.7	43.3	17.1	39.4	32.1	21.6	67		33.6	#DIV/0!
Health	35.8	5.9	16.6	50.9	1.9	3.7	104.3	5.1	4.8	99.6	40	40.1	35.6	33.5	94		25.9	#DIV/0!
Economic Development	336	188.3	56.1	439.9	255.9	58.2	457.7	231.4	169.8	0	0	#DIV/0!	489.3	248.5	50.787	529.7	368	69.473
Municipality capital expenditure	2527.5	1185.4	46.9	3419	1449.7	42.4	4484	2525.8	56.3	0	0	#DIV/0!	5264.1	3261.4	61.956	6895.2	4687.5	67.982
o/w: Land Development & Administration	222.7	76.3	34.2	119.4	37.5	31.4	113	38.3	33.9	181.8	30.2	16.6	159	49	30.818	159	49	30.818
Infrastructure Development & House Construction Affairs	27.9	3.3	12	15.4	6.6	43	13.7	6.8	49.9	16.5	12.5	75.6	18.7	9.4	50.267	18.7	9.4	50.267
Sanitation, Beautification and Park Development	42.7	6.4	15.1	37.3	9.1	24.4	38.7	15.7	40.6	160.4	6.8	4.2	38.7	15.7	40.6	38.7	15.7	40.568
Road	841.2	234.7	27.9	1173.5	668.9	57	1632.3	858.1	52.6	4100.6	2842.4	69.3	1563.2	1362.	87.135	1236.8	1158	93.629

construction														1				
Housing projects	998.7	440.1	44.1	1740.3	685.2	39.4	2212.1	1460.1	66	2585.1	1535	59.4		1460.1	#DIV/0!	1789.6	1535	85.773
Water and Sewerage Authority	360.3	76.5	21.2	312.7	40	12.8	413.1	140.1	33.9	525.8	280.3	53.3		25.2	#DIV/0!	31.2	25.9	83.013
Fire and Emergency Service	16.3	0.2	1.5	17.2	2.4	14.2	52.7	3.1	5.9	94	15.1	16			#DIV/0!			#DIV/0!
Total Expenditure	4082.2	2241.9	54.9	5159.5	2511.8	48.7	6718.2	3906.3	58.1	2702	1656	61.3	5,982	4,912	82	8,357	6,354	76

Appendix 3: Region's Actual expenditure

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Share from total in 2010/11 (%)
Total region's expenditure	12,181.52	11,649.74	17,527.10	25,389.12	28,271.02	36,772.73	100.00
Tigray	865.88	874.30	1245.15	1577.50	1961.48	2680.26	7.29
Afar	326.95	247.41	391.42	563.10	792.42	1686.29	4.59
Amhara	1745.92	2129.18	3782.77	4615.07	5516.57	6926.20	18.84
Oromia	3189.31	3811.11	5778.18	7188.48	7938.75	10518.42	28.60
Somale	586.49	660.80	1026.29	1046.03	1584.97	2350.71	6.39
Benishangul	262.89	286.44	321.16	335.13	416.38	601.22	1.63
SNNP	1920.21	286.44	321.16	3192.52	4584.58	6032.33	16.40
Gambela	154.10	189.31	233.50	247.67	346.45	481.09	1.31
Harar	122.95	189.31	140.02	159.80	214.53	238.30	0.65
Addis Ababa	2897.71	2800.34	4017.20	6180.17	4621.51	4884.97	13.28
Diredawa	109.10	175.09	270.25	283.65	293.38	372.95	1.01

Source: Compiled from Annual Actual Expenditure Report of the MoFED (from 2005/06 - 2010/11)

Appendix 4: Region's Actual revenue performance

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Total Revenue	4,392.39	4,384.70	5,487.28	8,520.47	9,835.14	12,751.20
Tigray	194.92	255.76	347.78	309.74	812.40	1,066.11
Afar	38.01	38.09	42.58	149.69	74.56	152.91
Amhara	380.28	402.91	535.09	736.71	1,026.96	1,618.14
Oromia	624.30	808.00	861.36	1,420.05	1,775.20	2,781.64
Somale	31.00	60.87	83.98	429.67	208.41	283.58
Benishangul	23.00	27.29	43.61	48.89	72.42	115.08
SNNP	262.85	340.10	468.81	699.76	944.88	1,430.69
Gambela	12.38	17.84	22.74	18.62	45.70	71.75
Harar	20.49	25.82	32.65	38.89	43.62	60.63
Addis Ababa	2,770.88	2,349.42	2,976.00	4,570.90	4,690.78	5,015.99
Diredawa	34.29	58.60	72.68	97.54	140.21	154.68

Source: Compiled from Annual Actual Revenue Report of the MoFED (from 2005/06--

2010/11)

Appendix- 5

Section 1: Questionnaire Management

Questionnaire code: 00 - _____

Dear Respondent

My name is Yetmgeta Abera, Regional and Local Development Studies Masters student of Addis Ababa University. As part of my studies, I am undertaking a study on the title: 'Analysis of Medium Term Expenditure Framework and Budget Allocation: The case of Addis Ababa City Administration'. This study is designed for academic purpose and aimed at assessing process and implementation of MTEF, and budget allocation in the city. I strongly believe that the study will help the city to learn the constraints against the successful implementation of the MTEF and budget allocation, which contributes to the enhancement of resource control and management in the city. I hereby request you that to answer all questions to the best of your knowledge.

Confidentiality

I hereby assure you that all information obtained through this questionnaire shall be used for only and only academic purposes, and will be handled and stored with the highest order of confidentiality. Please do not write your name anywhere on the questionnaire.

Thank you!

Yetmgeta Abera

(Put tick mark “√” on your appropriate answers)

Part 0 - General Information

1. Current position of respondent: _____

2. Gender: Male Female

3. Work experience in the current position?

0 to 3 years 4 to 7 years 8 to 11 years 12 years and above

4. Level of Education?

Grade 12 and below First degree Masters PhD.

5. Age of respondent?

18 to 25 years 26 to 35 years 36 to 45 years 46 to 55 years above 55

Part 1: Characteristics, process and implementation of MTEF.

6. Are you familiar with MTEF?

a) Yes b) Partially c) No

7. How do you evaluate your familiarity on city’s policies and strategic plan?

a) Extremely high b) High c) Satisfactory d) Inadequate

8. Is MTEF submitted annually to cabinet for approval?

a) Yes b) Rarely c) No

9. Do you believe that MTEF strengthen the implementation of city strategic planning and sustainable fiscal planning?

- a) Yes b) Rarely c) No

10. Is MTEF important for budget allocation?

- a) Comprehensively b) Not at all c) To a limited extent

11. What do you think as to the level of MTEF integration with regard to budget?

- a) It is part of the budget process
b) It is partially integrated into the budget process
c) Not yet integrated into the budget process

12. In your opinion, the linkage between MTEF, poverty reduction strategy and budget allocation is

- a) Strong b) Fair c) Weak d) No systematical linkage

13. What is your understanding of city's MTEF?

14. If you are familiar with the concept of MTEF, how do you evaluate the performance of city MTEF? (Skip if you are not familiar with MTEF)

- Very good Good Fair Poor Not sure

15. In your opinion, what should be done to improve the performance of MTEF by the Addis Ababa City Administration?

16. Do you agree that the budget allocated through MTEF is in complete agreement with development priorities indicated in the city revised strategic plan?

- Strongly agree Agree, but partially No, got worse Not sure

Explain _____

17. Is there transparency, accountability and fairness by the city administration on budgetary allocations among competing programs/ projects through the use of MTEF?

- Yes, very much Yes, but partially Not sure No, got worse Not at all

18. How do you rate the improvement in the share of general grant and specific grant to your sub city after the implementation of MTEF? (Only for sub city's respondents)

- High Fair Not sure No change Declined

19. Are city's sectoral policies the basis for the preparation of MTEF?

- a) Yes b) partially c) No d) Not sure

20. In your opinion, what measures should be taken to improve the performance of MTEF by the City Administration?

Part 2: Budget preparation and process

21. Do you think that budget request of public bodies strictly based on reliable data and current market price?

- a) Yes b) Partially c) No d) Not sure

22. If budget request of public bodies doesn't strictly based on reliable data and current market price, what are the major reasons? (Tick appropriately)

Lack of skilled manpower

Low attention by head of public body

Lack of training

If any others please specify _____

23. In your opinion, the level of media and civil society participation to enhance transparency and public debate on budget allocation by the city is

- a) Extremely High b) Adequate c) Satisfactory d) Inadequate e) Not sure

24. Which method of disclosure in your bureau/sub city is used to publicize budget?

- a) Onboard notice and publications (brochures, magazine) b) mass media (TV, Radio, newspapers) c) No disclosure at all d) Not sure

25. Do public bodies have appropriate standards and unit cost to prepare their budgets?

- a) Yes b) Partially c) No d) Not sure

26. Do you believe that government policies are thoroughly disintegrated into cost estimated programs and projects to achieve their objectives?

- a) Yes b) Partially c) No d) Not sure

27. How much time is available to the cabinet /city council to approve and appropriate annual budget?

- a) Less than a week b) 1-2 months c) More than 2 months d) Not sure

d) If any others please specify _____

28. Recurrent budget recommendation by BoFED is based on

- a) Full costs b) Partial costs c) Arbitrary allocation

d) If any others please specify _____

29. Do you think that the time given for budget preparation is sufficient?

- a) Yes b) No c) Not sure

30. Does foreign aid, loan and donations (in kind) included in the city's administration budget?

- a) Fully b) Partially c) Not at all d) Not sure

d) If any others please specify _____

31. How do you evaluate the consideration of bureau's/sub city's capacity during budget allocation?

- a) Considered, Fully b) Considered, Partially c) Not considered at all

32. What are the major problems to carry out efficient budget allocation in the city administration? Please list at most 5 (in order of importance).

1. _____
2. _____
3. _____

Part 3: Checklists of Budget Process, Practices and Characteristics.

Instructions: For each practice listed below, Please tick your choice, which represent budget allocation and process in Addis Ababa City Administration using the mark, '✓'.

Budget	Measurement			
	Inadequate	Satisfactory	High	Extremely High
Does it have medium term perspective?				
What does its links with planning and resource allocation looks like?				
Are capital and recurrent expenditures well integrated?				
Is the link between policy and budget transparent and accountable?				
Does it effectively control spending aggregates?				
Is it implemented as authorized?				
Does it give greater flexibility for line sectors to manage their budget?				
Does it provide incentives for efficiency?				
Are out puts achieved measured during budget utilization?				

Thank you!

Appendix: 6

Interview and Discussion Guide

Medium Term Expenditure Framework (MTEF)

the relationship between policy, planning and budgeting?

macro economic and revenue forecast and budget ceiling linked (Budget
ity)?

the linkages between MTEF, Sector Development Programs and poverty
strategy?

priorities are set at sectoral level and how often are priorities changed?

many years expenditure demand of your sector/sub city, provided to MTEF
n?

Budget preparation and process

the objectives and impacts of budget reform on budget allocation?

the mechanisms, procedures and systems used in budget allocation?

donor funds included in government budget? (If not) Why?

the roles of city's cabinet and council in the fiscal planning and budget
?

is your standard to estimate the cost a project and method of budget request for
budget year?

extent of transparency and accountability in budget/financial management and
your bureau/sub city?

are the bottlenecks to carry out efficient budget allocation at your bureau/sub

Appendix 7: Respondents sample population frame

No	Account by Function	Total Number of Organization
1	Administration and General Service	15
	Bureaus included in the sample	3 (20 Percent of subtotal)
2	Economic	11
	Bureaus included in the sample	6 (55 percent of subtotal)
3	Social	32
	Bureaus included in the sample	4 (13 percent of subtotal)
4	Others	3
	Bureaus included in the sample	1 (33 percent of subtotal)
5	Municipality	12
	Bureaus included in the sample	3 (25percent of subtotal)
6	Sub cities	10
	Sub cities included in the sample	5 (50 percent of subtotal)
	Total Population	68
	Total sample size	22 (32 percent of total population)

Note: A total of 3 respondents from each Bureaus/Sub cities were included in the research sample size. (Bureau- head, Plan and budget unit head, and plan and budget officer; Sub city- Finance and Economic Development head, budget unit head as well as officer).

Appendix 8: List of bureau's and sub cities included in the sample study

No	Name of Bureaus	Remark
1	Administration and General Service	
1.1	Police commission	
1.2	Finance and Economic Development Bureau	
1.3	Revenue and customs authority	
2	Economic	
2.1	Small and Micro Enterprises Bureau	
2.2	Water & Sewerage Authority	
2.3	Trade and Industry Bureau	
2.4	Roads Authority	
2.5	Design and Construction development Bureau	
2.6	Housing development and management	
3	Social	
3.1	Education Bureau	
3.2	Entoto TVET	
3.3	Civil service commission (Capacity Building)	
3.4	Health Bureau	
4	Others	
4.1	Anbessa City Bus	
5	Municipality	
5.1	City Mayor	
5.2	Land development bank and urban renewal	
5.3	Sanitation management agency	
6	Sub Cities	Based on budget share
6.1	Arada Sub city	
6.2	Kirkos Sub city	
6.3	Addis Ketema	
6.4	Gulele	
6.5	Bole Sub city	

Declaration

This thesis is my original work and all sources of materials used for the thesis have been duly acknowledged.



Yetmgeta Abera

Addis Ababa University

June, 2012