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**An Analysis of the Prospects and Possible Challenges of Transition from  
Line Item to Program Budgeting Approach in Federal Democratic  
Republic of Ethiopia.**

**By: Michaele Gobezie**

**A Thesis Submitted to Department of Public Administration and  
Management, School of Graduate Studies, Addis Ababa University in  
Partial Fulfilment of the Requirement for the Degree of Master of Arts in  
Public Management and Policy specialising in Development Management.**

Addis Ababa  
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## **Approval**

The undersigned certify that they have read and here by recommend acceptance of the thesis submitted by Michael Gobezie, entitled "An Analysis of the Prospects and Possible Challenges of Transition from Line Item to Program Budgeting Approach in the Federal Democratic Republic of Ethiopia" in partial fulfilment of the requirements for the award of a Masters Degree in Public Management and Policy specialising in Development Management.

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## **LIST OF ACCRONYMS and ABBREVIATIONS**

AFRITAC	(East) African Technical Advisory Centre (IMF)
ARISIP	Annual Report, Infrastructure and Service Improvement Plan
BPR	Business Process Reengineering
BSC	Balanced Score Card
CoA	Charts of Account
CSRP	Civil Service Reform Program
EMCP	Expenditure Management and Control Program
GTP/ DTP	Growth/ Development and Transformation Plan
IBEX	Integrated Budget and Expenditure System
ID	Institutional Development
IFMIS	Integrated Financial Management and Information System
IMF	International Monetary Fund
MCB	Ministry of Capacity Building
MEFF	Macroeconomic Fiscal Framework
MoFED	Ministry of Finance and Economic Development
MTEF	Medium Term Expenditure Framework
OECD	Organization for Economic Cooperation and Development
PASDEP	Plan for Accelerated and Sustainable Development to End Poverty
PB	Program Budget
PEM	Public Expenditure Management
PFM	Public Financial Management
PPBS	Planning, Program Based Budgeting
SMART	Specific, Measurable, Achievable, Realistic and Time bound
WB	World Bank
ZBB	Zero Based Budgeting

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## **Abstract**

Identifying the importance of PB manner the government of Ethiopia has decided to replace the existing traditional line item budgeting approach by program budgeting. It has been argued in this thesis that the government of Ethiopia has made some good progress in introducing PB. It has been successful in initiating the shift in mindset of public servants and in instilling a performance culture in the public sector. The thesis uses in-depth interviews with the budget reform team members, questionnaires to budget experts in public bodies, discussions in training sessions and secondary data which are analysed qualitatively by categorising into themes. According to the finding the shift to PB was necessary to be more result oriented and responsive. All the formats are completed and trainings are given, public bodies are expected to prepare for the coming budget year, but there are a lot of challenges faced which are among others: low capacity of both MoFED to control and follow up and ministries to undertake the reforms genuinely and uniformly, methodological problems like complexity, agreements in terminologies, variations in understanding of objectives, programs, results/outputs, difficulties in costing methods and measuring outcomes, lack of attention and commitment of top level officials and also all staffs of the ministries. Finally based on the findings of the study, it is recommended that MoFED has to strengthen its capacity, keep the framework simple, ensure a genuine participation and ownership, design flexible and effective costing method and communicate it effectively in a gradual step by step approach to bring out the change. Therefore, it is recommended to delay the implementation of PB to the next fiscal year.

# CHAPTER ONE

## 1. INTRODUCTION

### 1.1 Background of the Study

The national budget is the single most important policy vehicle for giving effect to a country's economic and social priorities within the scarce resources that are available to government for public expenditure. It is through the budget process that competing policy objectives are reconciled and implemented in concrete terms. It plays a central role in the process of government, fulfilling economic, political, legal and managerial functions of the government (Richard and Daniel, 2001, OECD, 2009).

The line item approach to budgeting has been the most common system all over the world but it is not compatible with the demands accompanying the expansion of government. Budgets organized according to line items gave no information about why money was spent or on the efficiency and effectiveness of programs and there is no sense of what the money actually achieves. The line item budgeting has insufficient autonomy to spending agencies and hence it lacks accountability. Further, these line-item systems were almost associated with a short time horizon, leading to failure to take longer-term costs into account (World Bank, 1998, Dorotinsky, 2007, Tumanyan and Movisisyan, 2006, Kim, n.d).

Many subsequent budget reforms have attempted to remedy these deficiencies focusing on management through a budgeting approach known as performance budgeting, and later by focusing on policy and planning through the more ambitious program budgeting (WB, 1998). A program classification is often thought of as a first step in introducing a performance orientation into the budget process (Dorotinsky, 2007).

Effective budget reform enables countries to maintain fiscal discipline, ensures that resources are allocated according to priorities and facilitates the efficient delivery of services to citizens (OECD, 2009). However, budget institutions in sub-Saharan Africa (including Ethiopia) were particularly weak in areas of budget planning and implementation, reflecting fewer checks and balances in the budget process, and less public dissemination of information on the budget (IMF, 2010). This makes it difficult to implement budget reforms and get the maximum benefit from them in developing countries like Ethiopia.

In Ethiopia, the civil service reforms went ahead without appropriate improvements in the budgetary process, i.e., ministries were undergoing major changes without any corresponding improvements in the way their budgets were being prepared or executed. In 2005, the Ministry of Finance, with the idea from the prime minister, initiated work on introducing program budgeting on a pilot basis in three ministries. The number of ministries covered has been progressively expanded since then (Robinson and Last, 2009).

Program budgeting is the principal budget reform (beyond traditional line item budgeting) that has been exported to developing countries. In practice, program budgeting has not been very successful in either developed or developing countries. Criticisms range from those who believe that program budgeting is so flawed in concept that it would be inapplicable in any setting, to those who believe that the prerequisites that would be necessary to bring the reform to developing countries are currently not present (WB, 1998).

One of the major critics do not see program budgeting itself as a flawed concept, but rather stress the conditions that are needed for program budgeting to be successful. These may include adequate information about programs and about social, economic and environmental conditions. Critics argue that these conditions are not present in many countries, thereby making it impossible for program budgeting to take root and flourish. In addition, they argue that developing countries often lack the trained personnel needed to carry out the requisite analyses... but the more serious is the lack of stability necessary to enable longer-term budgetary planning and the lack of consistent political commitment necessary to allow the reform to be fully implemented (*Ibid*).

Despite Program budgeting have been implemented in a number of countries before, especially the OECD countries, There is limited material to be found that explains either of these terms in a detailed or definitive manner. However, there is an increasing demand for such material from many countries as developing countries attempt to adopt the better features and practices of modern budgeting systems, they often find their efforts hampered by the lack of the requisite infrastructure, i.e., a good program-oriented budgeting system, upon which their budgetary reforms can bear fruit. (Kim, n.d) In countries like Ethiopia it is new exercise which even not fully implemented up to now. Since Ethiopia is to implement program budgeting within this reality it is worth noting to overview the country context and the plan to implement the reform.

It is possible to execute poorly a well-formulated budget; it is not possible to execute well to a badly formulated budget. However, budget execution is more than simply assuming compliance with the initial budget. To paraphrase this to be successful in implementing budget reforms there should be well thought formulation of budget. It reminds the need for curiosity while formulating and adapting a budget and the link it should have with planning. This research paper aims to come up with a novel contribution to the literature by summarising the factors that influence budgeting reforms in different countries. This research is initiated with the intention to provide the situations, principles and cautions that have to be taken in order to implement programme budgeting efficiently and effectively. It specially aimed to investigate how it is conceived in different developing and transitional countries and their success and failure stories with their respective weakness and strengths.

The research gives an insight of programme budgeting in Ethiopian context, to investigate how the budgetary reform is conceived and how it is planned to undertake in the future, with the ambition to understand it and to show the prospects and possible challenges of the reform up on its implementation.

## **1.2 Statement of the Problem**

Management of public expenditure allocation has become an increasingly complex task especially in developing countries. This is due to the expansion of the role of the government in spite of the scarce financial resource they generate. It is mandatory to improve resource allocation through proper economic policy and expenditure planning so as to build the revenue raising capacity and use the available resources in a most efficient way.

Budget is a policy statement, which reflects a government's social and economic priorities and the fulfilment of its political commitments in monetary terms. A government may have different priorities in social and economic development. However, those priorities will not be real government priorities unless they are backed by its budget (PANE, 2008).

Poor countries like Ethiopia are facing many challenges such as poverty and destitution, poor access to education and health, pandemic of HIV/AIDS and malaria, poor access to roads and safe water, and so many other problems. Citizens can do very little to avoid all these problems but the government can address them. This can be done through formulating

various policies such as poverty reduction policies, education and health policies, and infrastructure policies. Thus, policy is a proposed course of action of a government to cope with various problems of the country/society and to realize the needs and interests of its people. Governments use policies to determine their budgets ó the actions in the policies are where the resources should go. If any policy is to be implemented it will need resources through the budget (Budget basics, n.d).

Due to the failure of previous budget systems like the so called the traditional line item budgeting to effectively utilise resources, Budget reform is adopted from the experience of other countries in order to design the best system of budgeting that will ensure the effective attainment of objectives, the efficient allocation of resources and better estimation of budgets. Budgeting reform imply the performance of many activities, of which the most important is the application of modern optimized methods of budgeting. Program and Performance budgeting are such methods, which are being used by central government and local governments of many countries.

Based on the pressure from the prime minister and other international institutions like the WB, Ethiopia has introduced a program structure to the budget. This reform was introduced in order to create a mechanism to evaluate performance of ministries, particularly in the context of civil service reforms such as strategic planning and management and service delivery improvement.

Program budgeting is not an initiative that is appropriate for all countries. A decision about whether to introduce such a system in any specific country should be based on serious consideration of the governance conditions, the state of the basic public financial management (PFM) systems, and the available human and financial resources. Technical improvements like performance-based (program) budgeting cannot be expected to succeed in improving the efficiency and effectiveness of public expenditure in countries with very poor governance. If, for example, the political and bureaucratic leadership is highly corrupt and rent-seeking, with little interest in improving public sector performance, performance-based budgeting, [program budgeting] and other "managing-for-results initiatives" will be a waste of effort (Robinson and last, 2009).

A policy-maker about to adopt advanced features or best practices from other countries will face the inevitable question, "Will this work here?" Such scepticism may indeed be well-founded, especially if the originating countries of the policies or institutions in question differ markedly from the prospective newcomers in their socio political systems and culture. Even more caution is called for when it comes to budget systems, which are the cumulative product of political and administrative exigencies. There always seems to be an element of uncertainty over whether the textbook "generalities" from the few forerunner countries will carry over and apply also to other countries, notwithstanding the latter's "idiosyncrasies" (Kim, n.d).

In developing countries like Ethiopia an analysis of the prerequisites should be done before any consideration is given to "second generation" initiatives such as program budgeting. Among others the prerequisites include the existence of sound macro fiscal policy management so that spending agencies will not suffer massive uncertainty about the funding they will receive during the budget year, an ability to enforce the execution of budget as planned which requires respect of budgetary rules and procedures and capacity to apply them in execution with the help of good accounting and auditing procedures and existence of adequate staff capacity to address the informational requirement of program budgeting. Besides it seems apparent that there is scant research conducted with related to this issue being it is new in the country. Further more the result can be policy input and precautions to consider in the course of implementation.

### **1.3 Research Question**

This research has tried to answer the following basic questions:

1. Why the federal government of Ethiopia changes its budgeting system from the traditional line item budgeting system to program budgeting system?
2. What have been done by the responsible bodies of the Ethiopian government in order to implement program budgeting in Ethiopia?
3. How is the program going to be implemented? What are the procedures that are planned to put it in to action?

4. Are the prerequisites to implement program budgeting system in Ethiopia available?
5. What are the possible challenges that Ethiopia will face on the implementation of program budgeting?
6. What should be done to internalise program budgeting and utilizing it in a best way by reducing its costs and increase its benefits?

#### **1.4 Research Objectives**

The purpose of this research is to identify and indicate the prospects and possible challenges of implementing program budgeting in Ethiopia and show how it can be best utilised within country context and this has been achieved by pursuing the following main objectives:

1. To understand why program budgeting is incorporated in Ethiopian expenditure management and control reform program by substituting the traditional line item approach to budgeting,
2. To analyse the existence of the prerequisites for effective and efficient implementation of program budgeting in the country,
3. To show the prospects of program budgeting in Ethiopia with the existing economic, social, political and institutional framework based on lessons from other countries, and
4. To identify possible challenges in advance and suggest pre cautions to be considered again based on other countries experience.

#### **1.5 Research Methodology**

##### **1.5.1 Research Design**

This is an economic research which is exploratory in design. Jarol and Rich (1995) define exploratory research as "research intended only to provide greater familiarity with the phenomena (one) wants to investigate so that (one) can formulate more precise research questions. Such studies can be essential when (one) is investigating new phenomena or

phenomena that have not been studied before. Program budgeting system is a new phenomenon in Ethiopian context; the research is designed in such a way that can give an input for other researchers making familiar the concept to the country context so that further researches will be done.

### **1.5.2 Data Collection and Analysis**

The research had lean itself on both primary and secondary data. The first primary data have been based on an in depth interview with budget experts in Ministry of Finance and Economic Development of Ethiopia with the budget reform team members who have been working with PB. The number of the reform team members is five but one of them the directorate of the budget division of MoFED was in extremely tight schedule so the interview was conducted with four of them. In the first the interview was planned to be taped but unfortunately the respondents are not volunteer so it was made manually but to make sure that concepts are well conceived written responses are also provided by the respondents.

Carolyn and Palena, (2006) says that In-depth interviewing is a qualitative research technique that involves conducting intensive individual interviews with a small number of respondents to explore their perspectives on a particular idea, program, or situation. For example, we might ask participants, staff, and others associated with a program about their experiences and expectations related to the program, the thoughts they had concerning program operations, processes, and outcomes, and about any changes they perceive in themselves as a result of their involvement in the program. Guion (n.d) also explains that In-depth, qualitative interviews are excellent tools to use in planning and evaluating programs. An in-depth interview is an open-ended, discovery-oriented method that is well suited for describing both program processes and outcomes from the perspective of the target audience or key stakeholder. The goal of the interview was deeply explore the respondent's point of view, feelings and perspectives. In this sense, in-depth interviews yield information.

The primary data were also collected using questionnaire with the budget officers of the line ministries to triangulate responses using convenient sampling taking 30 respondents. Observation technique is also used by participating in training with budget officials in federal spending agencies and asking questions for discussion in the sessions. The training that this

paper utilised was conducted at the ministerial and national levels between January 3, 2010 and January 6, 2010.

This research had also employed secondary data published by various Government and non government organizations and scholars. The secondary data will be collected from annual/periodic report, budget document, research papers, MoFED publications, World Bank documents, OECD and IMF publication. These secondary sources of information will support the primary data. This is justified because Documents reveal what people do or did and what they value. This behaviour occurred in a natural setting, so that data from documents have strong validity. (Qualitative research, n.d) For triangulation purpose interview results will be compared with the documents available about the organisations capacity and the literature about the countries contextual facts. Documents about program budgeting from both developing, transition and developed countries will be used to analyse the contextual importance of adopting the reform. Success and failure stories have been reviewed with their respective reasons for and the availability of those reasons with in Ethiopia will be checked.

The strategy for data analysis in this paper is a case study approach. In a case study the researcher explores a single entity or phenomenon (the case) bounded by time and activity (e.g., a program, event, institution, or social group) and collects detailed information through a variety of data collection procedures over a sustained period of time. The case study is a descriptive record of an individual's experiences and/or behaviours kept by an outside observer (Mmuya, 2007).

The data that was collected through in-depth interview has been analysed using inductive approach. According to Talja (1998) qualitative analysis often started by analysing and counting the distribution of answers question by question. The researcher had selected some section of participants discourse as providing the satisfactory to his or her questions, whereas other participants discourse are ignored because they are treated as unimportant. It is assumed that this procedure will result in a logical and coherent picture of the research groups actions or views, and can be generalised.

Using this method, the researcher aggregated and categorized the data into different themes. He also used vignette taken from the field to support the analysis, coding, categorizing conceptualizing, comparing and examining, according to Bryman and Emma, (2007), includes reviewing transcripts, field notes and gives labels to component parts that seem to have

potential theoretical significance. The advantage of this type of data analysis is because it brings concepts which can later be grouped and turn into categories, (Bryman and Emma, 2007). Finally, the data collected through the interview, questionnaire, documents and training sessions were then analyzed and findings presented in the third chapter.

### **1.6 Scope and Limitation of Research**

The scope of the study is limited to the analysis of program budget allocation in the public sector in Federal Democratic Republic of Ethiopia. Even though, it has a bird's eye view about the expenditure management and control reform program the paper will concentrate about the budget reform among the Expenditure Management and Control Program Reform (EMCP) components. Since program budgeting is on the first stage at the federal level it will also be limited to what has been experienced up to now and on the plan of action to proceed. Since the research bases itself on in-depth interview the validity of the information is somehow biased and this will be tried to be minimized by triangulating with the available documents and understanding of the researcher.

### **1.7 Significance of the Study**

Budgeting plays an important role in the developing countries like Ethiopia. It has a number of social and economic objectives. For the rapid development of the economy, budget should fulfill the objective of increasing employment opportunities, reducing poverty and inequality, increasing the standard of living of its people and the most important the stability in the economy.

The most of the investment comes from the government sources. Private sector is not well developed and more social investment is needed which cannot be brought out in the economy from private sector due to the existence of public goods, externalities in consumption or production, indivisibilities, market imperfections, problems of the income distribution, and so forth prevent the private market from allocating goods efficiently or equitably. Government investments are only the alternate for such projects. Decision on the government fiscal transaction has a direct and immediate influence in the national economy. As the government makes decision considering the national interest, attention has to be focused on the process

through which public revenue is collected and public expenditure is determined, allocated and controlled.

Government has just started to implement the five year transformation and development plan with an ambition to transform Ethiopia into middle income country within the coming 15 years by 2025. This Plan puts special emphasis on increasing public expenditure to assist relief and generate employment as well as on peace building, reconstruction, rehabilitation, reintegration, inclusion, and revitalization of the economy.

To tackle with the adverse and challenging issues regarding Ethiopia's budgeting system, further researches and studies in this field are relevant. Since the literature regarding the Ethiopia's budget is scanty, the work in this field will be of great importance. Therefore this study entitled "An analysis of the prospects and possible challenges of transition from line item to program budgeting approach in Federal Democratic Republic of Ethiopia" will help to add additional information in the preparation and implementation of budget in Ethiopia. It will also introduce avenues for future research about the public expenditure reforms in general and budgeting in particular.

### **1.8 Organisation of the Paper**

The thesis is divided into four chapters. Chapter one is the introduction part which also consists of the methodology that was applied. Chapter two presents the literature review regarding the research area of the paper and therefore set the theoretical foundations for the research. Chapter three presents empirical data and analyses results of the research while the final and fourth chapter summarises findings and gives recommendations which pave the way for the government to make improvements in the program budgeting and enable scholars to do further research. A bibliography related to the subject and other formal documents also constitute the parts of this manuscript.

## CHAPTER TWO

### REVIEW OF LITERATURE

#### 2. Introductory Remarks about the Literature Review

This literature review aims at providing necessary theoretical background of the topic under investigation. The theoretical background includes the Ethiopian budget reform experience and the studies done on the expenditure management and control reform in Ethiopia. On the other hand, the theoretical background includes an overview of the meaning and history of budget, types of budget with their respective merits and demerits with special treatment for line item and program budgeting, budget reform perspectives, the need for budget reforms in both developing and developed countries. It is also relevant to the study because it deals with theoretical framework of program budgeting in relation to developing countries including Ethiopia.

#### 2.1 Budgeting and Its Historical Perspective

In this section an attempt has been made to show the concept of budget and its historical background of budget in the globe and in Ethiopian context.

The word budget is derived from the old French word *bougette*, meaning a small bag or pouch. (Edwards and Hines, 1959). The word budget originally is used to express the money bag or public purse which served for holding the revenue and expenditure of the state. It was first used in England to describe the white leather bag that held the seal of the medieval court of the exchequer. Later the term came to mean the documents which were contained in the bag, plans for government finances submitted for the approval of the legislature. (Burkhead, 1956: Edwards and Hines, 1959)

Now in contemporary world there might be different definitions of budget but here is a definition given by Dionko is quoted below:

*“Budgets are variously referred to as financial plans, work plans or programs, or political and social documents. A budget can be viewed from various frames of reference: as an economic process (resource allocation); as a political process competition among various groups for limited resources; and as an administrative process (planning, co-ordinating, control and evaluation). A budget can also be viewed as a human rights process (allocation of funds in compliance with state obligations towards the full*

*realisation of human rights). In its strictest, most technical sense, a budget is a document containing words and figures that propose expenditures for certain items and purposes” (Diokno, as cited by budget basics, 1999).*

Accordingly, a budget from an economic perspective is a reflection of a country's policy priorities and political commitments into expenditures, from a political perspective it is a representation in money terms of state's activity or preferences in national policy. A budget is, therefore, outlined as the most important economic and political instrument. From an administrative perspective, a budget is understood as a resource plan that serves for the utilisation of financial, manpower, material, and other resources.

Collection of taxes and using the revenue for supporting the military and civil administration have been there even before the creation of money for transaction purpose. However, the roots of contemporary budgetary practices can be traced to the development of the English Constitution. The Glorious Revolution of 1689 established the supremacy of Parliament over the monarchy. Thereafter, at least in principle, the King, and later the Prime Minister, could request certain taxes or various expenditures, but only Parliament could authorize them (California Department of Finance, 1998).

California Department of Finance (1998) further explained by citing Balfour (1866) and Hill (1961) that changes were very slow and the budgetary control practice were extended to the armed force only. There was no complete written budget, budgetary control was not exercised annually, and there were no controls on what purpose the money is actually spent, there was haphazard record keeping and no reporting and auditing.

The concept of systematic budgeting in government is a recent phenomenon. Even though, organised governments have been there for thousands of years, a budgetary system apparently was not available until the nineteenth century. It is after the nineteenth century that states began to establish budgetary practices. For example In United States, the federal government had no formal executive budgets until 1921. It was at this time the bureau of the budget and the concept of executive budgeting were introduced (Babunakis, 1976). However, considerable progress has been made after that and gradually expenditure controls have improved, accountability has increased, and long range planning has entered in to practice of budgeting and the end result of all these developments ideally could become program budgeting which is the subject of this thesis.

In developing countries, the influence of donors through loans and technical assistance and the existence of different shocks have influenced the importance of budgeting system and the adoption of planning as an instrument of economic development. The Ethiopian experiences with respect to the budget system have not been significantly different from experiences of other developing countries. During 1950s and 1960s, the country has engaged in detailed planning exercise, which was the main instrument for resource allocation. It has undergone significant change in the area of policy and planning, revenue collection and expenditure allocation, and overall financial management (Getachew, 2005).

Ghirmai cited on Getachew 2005 noted, for the first time that government budget was published in Ethiopia in 1945. The budget format that was established during the time was used for a long period of time. The 1955 constitution specified the definition of powers of Ministries, Council of Ministers, and Legislative body with regard to budget preparation and execution. The specified powers and responsibilities for executive and legislative bodies were the starting point for effective budget allocation.

Public finance management in Ethiopia got into more complex process recently because of a radical program of decentralization to regions and lower tiers of the government, civil service reform, including a variety of measures to strengthen expenditure management and control, and sector development programs (WB, 1998).

## **2.2 Meaning and role of Public Expenditure Management (PEM)**

In order to perform the roles assigned to it by its people, the government needs, among other things, to first collect resources from the economy, in efficient and appropriate manner and secondly allocate and use of those resources responsively, efficiently and effectively. The national budget is the main instrument through which these transactions are planned and carried out. Public expenditure management relates only to the second part. It is thus only one instrument, albeit a key instrument, of government policy (Richard and Daniel, 2001).

Public expenditure management is instrumental in nature. There is a necessary distinction between the expenditure policy question of *ōwhatō* is to be done, and expenditure management question of *ōhowō* it is to be done. Even though, attempts to set over rigid boundaries between policy and implementation eventually leads to unrealistic policies, ad hoc implementation and, over time, both bad policy and bad implementation, the distinction

between the soundness of PEM procedures and processes and the goals that they are meant to achieve remains very important. Besides the mechanisms, techniques, skills, and data required for good PEM are different from those needed to formulate good policy (*Ibid*).

### **2.2.1 The Need for Public Expenditure Management Reform**

State effectiveness is both an essential and a challenge for many African countries. The challenges of deep poverty and few domestic resources to assist citizens are often coupled with low human resources capacity in the state and with inadequate systems to ensure that the available resources are used to their maximum effect. Therefore, it is not surprising that reforms to budget management systems have been a priority for African governments and their development partners (Folscher, 2006).

Budget officials and economists view program budgeting primarily as a framework that streamlines resource allocation decisions, while officials and scholars oriented toward public administration or accounting seem to regard it mainly as a vehicle for making performance management operational in the public sector. Still others find themselves hard put to grasp what is so important about what they understand as a mere reshuffling of budget classifications (Kim, n.d).

The broad functions of budgeting that are competing for attention are: control of public resources, planning for the future allocation of resources and management of resources. The relative strength of each depends on the current view of the function of budgeting and budgeting tool and techniques, but also depends on the strength of particular organizations and/or institutional arrangements to support these functions. Throughout much of the century, Ministries of Finance and Central Banks (and the IMF) have been aggressive advocates of control of public resources. 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. This helps to explain why line item budgeting has been so enduring. Support for the other two functions has been much more transient (WB, 1998).

According to Allen Schick's argument 1997 cited in WB (1998) "Getting the Basic Right," i.e., focusing on the basics on which reform is built, not on particular techniques, means encompassing all three functions as legitimate and building institutional mechanisms that

support a performance orientation for all of them. Central budget agencies have to take the lead in focusing attention on these three dimensions.

Government budget is the sole tool for the successful implementation of fiscal policy designed for attaining specific objectives. Financial operations of the government are properly planned and administered through budgeting. The budget provides a scientific and systematic way of presenting items of public expenditure and revenue.

### **2.2.2 The Public Expenditure Management Reform and Its Components**

Although public expenditure management system varies from one country to another, it necessitates accomplishing some complicated and determined duties. The basic goals (principles) of public expenditure management are accomplishing macro financial discipline, strategically priorities (productive source allocation) and functional application (technical productivity). All three goals are in very strong interaction (World Bank, 1998,) both theoretically and practically. These three objectives are complementary and interdependent. Without fiscal discipline, it is impossible to achieve effective prioritisation and implementation of policy priorities and programmes. Improving the internal management systems to achieve efficiency without a hard constraint is not credible. But mere fiscal discipline in the presence of arbitrary resource allocation and inefficient operations is inherently unsustainable (Todorovic and Djordjevic, 2009).

According to MOFED, (2009) in Ethiopia the expenditure management and control reform is introduced as part of the five sub programme of the civil service reform program. There are eight projects under the EMCP these are the legal frame work, government procurement reform project, budget reform, cash management reform, accounts reform project, internal audit reform, government property management reform and integrated financial information management system.

Throughout the last century, state and local governments were laboratories for budget reform. Many reforms were heralded but never implemented: others were implemented initially but did not survive changes in administration. Others at least partially succeeded, only to be followed by still more reforms. The result is a landscape of hybrid budgets in which fragments of the latest budget reform are overlaid and integrated with the most useful parts of previous budget reforms (Grizzle and Pehijohn n.d).

States have been transitioning to program based budgets in an effort to focus resource allocation decisions on outcomes or results rather than on control over inputs. The theory behind program based budgeting is that in return for greater accountability for results, agency managers will be given increased flexibility to manage inputs as necessary in order to produce the desired results. "Programs" often provide the platform for a performance based system because of the intuitive idea that a program is the appropriate budgetary unit for assigning managerial flexibility and responsibility for results (Georgia Fiscal Research centre, 2007).

Program budgeting is the principal budget reform (beyond traditional line item budgeting) that has been exported to developing countries. In practice, program budgeting has not been very successful in either developed or developing countries. Criticisms range from those who believe that program budgeting is so flawed in concept that it would be inapplicable in any setting, to those who believe that the prerequisites that would be necessary to bring the reform to developing countries are currently not present (WB, 1998).

The principal argument is that it flew in the face of existing budgetary traditions and relationships; in particular, many people strongly objected to the suggestion that the budget process, which is inherently political, could be made "rational." To these people, even the idea of a program (not at all self-evident) is political. Further, the effort often failed because the attempt to create programs independent of organizational affiliation proved impossible, in light of the incentives present for civil servants to think in organizational terms. Program budgeting has an impact where programs have been agency or, at most, sector specific. Other critics say that developing countries lack trained personnel and stability in economy (*Ibid*).

## **2.3 Role and Types of Budget**

### **2.3.1 The Role of Budget**

An emerging consensus on the role of the budget across all countries centres on how the budget affects: (a) macroeconomic performance; (b) allocation of resources; and c) efficiency and effectiveness of resource use (WB, 1998). The broad functions of budgeting that are competing for attention are: control of public resources, planning for the future allocation of resources and management of resources.

According to Allen and Tomassi (2001) it is generally accepted that all budget system need to achieve the following three objectives:

- i. To maintain aggregate fiscal discipline- fiscal discipline pertains to effective control of the budget totals, by setting ceilings on expenditure that are binding both at the aggregate level and on individual spending entities. An effective budget system is one that has disciplined (in contrast to accommodating) totals. Control of the totals is the first purpose of every budget system. There would be no need for budgeting if the totals were permitted to float upward to satisfy all demands.
- ii. To allocate resources in accord with government priorities- allocative efficiency is the capacity to establish priorities within the budget, to distribute resources on the basis of the government's priorities and the programme's effectiveness and to shift resources from old priorities to new ones, of from less to more productive activities, in correspondence with the government's objectives. Effectiveness, which refers to the extent to which the objectives of the policy, the program or the activity are met, depends on resource allocation decisions.
- iii. To promote the efficient delivery of services- technical or operational efficiency in the use of budgeted resources refers to the capacity to implement programs and deliver services at the lower cost (e.g. minimising costs per unit of output).

The objectives of budgeting are different among them budgeting report provides information to determine whether current-year revenues were sufficient to pay for current-year services, Budgeting report demonstrates whether resources were obtained and used in accordance with the entity's legally adopted budget, It also demonstrates compliance with other finance-related legal or contractual requirements and Budgeting report provides information to assist managers in assessing the service efforts, costs, and accomplishments of the organisational entity.

### **2.3.2 Types and Reforms of Budget**

Prior to the late 19th century, budgeting in most countries was characterized by weak executive power, little central control and processes that were idiosyncratic. Traditional öline itemö budgeting is itself a reform born of a concern that the lack of adequate spending controls was contributing to an environment where there was increasing danger of substantial

corruption. For this reason, the budget reformers of the late 19th and early 20th century advocated budgeting systems that would promote accountability over the detailed use of resources. The early reform movement focused on the effective control of budget accounts, establishing economy and, to a lesser extent, efficiency as the primary values of budgeting (WB, 1998).

The budget reforms have started in the late of 19th and early 20th centuries to promote accountability and efficiency. The reforms have generally fallen into one of the two categories: (1) innovation designed to improve the budget type (2) innovation designed to improve the budget preparation process. This division may be overlapped each other, since change in the process inevitably affects the information (Bland and Rubbin, 1997).

Budget can be classified in four types based on the approach which is used to prepare the budget. 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 (Gianakis and McCue as cited by Getachew, 2005).

### **I. Line Item Budgeting**

Classification of expenditure based on categories that are called objects of expenditure and within each category more detailed items is called line item budgeting. This type of budget focuses attention on how much money is spent and for what purpose rather than the activity affected or its outcomes (Elsas, 2003). In a line item system, expenditures for the coming year are listed according to objects of expenditure, or "line items." These line items are often quite detailed, specifying how much money a particular agency or subunit will be permitted to spend on personnel, fringe benefits, travel, equipment, and the like. The main focus of such a budget system is to set spending limit in the allocation process and to make sure that spending agencies do not exceed their ceiling limits (WB, 1998).

Line-item budgeting was used the most utilised approach in many countries because it is simple and effective for control purpose. It is referred to as the "historical" approach because officials often base their expenditure requests on historical expenditure and revenue data. One important aspect of line-item budgeting is that it offers flexibility in the amount of control established over the use of resources, depending on the level of expenditure detail.

The strengths of such a system lie in its relative simplicity, ease of preparation, lack of ambiguity, it is a familiar approach to those involved in the budget development process, and potential for control of expenditures through easy comparison with prior years and through the detailed specification of inputs (WB, 1998; Dosett and Williams, 2004). This method is consistent with the lines of authority and responsibility in organisational units. As a result, this approach enhances organisational control and allows the accumulation of expenditure data at each functional level. Finally, line-item budgeting allows the accumulation of expenditure data by organisational unit for use in trend or historical analysis.

Line item budget may appear advantageous to central administration and board committees because this kind of budgets usually provide three other types of board or administrative control:

- i. Position control for new hires or continuing positions during the annual budget process
- ii. Individual line item approval for each object of expenditure and for mid-year adjustments
- iii. Prior approval for equipment purchases, travel, outside contracting etc. (Elsas, 2003)

Even though, line items approach to budgeting have its advantages as listed above realistically, the line item budgeting approach provides very little information about the missions, objectives and outcomes of programs being provided to the county's citizens on a day-to-day basis. It fails to identify waste, does not identify the incoming workload, does not support continuous improvement, does not identify cost drivers, gave no information about why money was spent, or on the efficiency and effectiveness of programs, difficult to relate the line budget to the goals of the parent organization, propensity for perpetuating a line, the reality that comparing this year to last year is more complex and represents variables unaccounted for within the line-item budget and appears to have a general lack of ownership and buy-in (Elsas, 2003; WB, 1998; Dosett and Williams, 2004).

The line item approach was not compatible with the demands accompanying the expansion of government. Further, these line-item systems were almost all associated with a short time horizon, leading to failure to take longer-term costs into account. In addition, the focus on detailed line-item controlled to micromanagement of agency budget implementation by

central budget offices and finance ministries. (WB, 1998) Individual reductions in department line items may have drastic effects on the delivery of services in specific programs and may affect adversely activities in related programs and departments. Additional problems are created by restrictions placed on the transfer of funds between line items should budget priorities change after adoption of the annual budget (Elsas, 2003).

Traditional budgeting methods are proving ineffective in today's unpredictable and fast-paced business climate. Traditional budgets are based on a calendar or fiscal year, creating artificial time lines that do not match new product schedules. Since this budget presents proposed expenditure amounts only by category, the justifications for such expenditures are not explicit and are often unintuitive. As Lester (2000) said, it may invite micro-management by administrators and governing boards as they attempt to manage operations with little or no performance information (strength and weakness of traditional budgeting, n.d).

What are more key performance indicators are not incorporated into existing budgeting processes and therefore traditional tools are too slow, one-dimensional and backward looking. However, to overcome its limitations, the line-item budget can be augmented with improved program and performance information.

Different budget reforms have been attempted to give response for such deficiencies, first by performance budgeting approach which helps for management through using a budgeting approach, and later by focusing on policy and planning through the more grand program budgeting. More recently, it has been recognized that the problem with budget structure is not so much with line item budgeting as with excessively tight ex ante control of the detail and the lack of a performance orientation in public sector institutions (WB, 1998).

## **II. Performance Budgeting**

Performance budgeting is the classification of expenditures on the basis of specific activities, the number of units performed and their costs. This type of budget concentrates attention on what a work unit does, how frequently it does it, and at what cost rather than a detailed, line-item accounting of expenditures. Recently measures of performance have been expanded to include more subjective evaluations focused on overall quality of programs and their direct benefits to stakeholders of the spending agencies (Elsas, 2003; WB, 1998).

Performance budgeting indicated a shift from budgeting based on expenditure control, to budgeting based increasingly on management concerns. The emphasis was not on making government-wide budgetary trade-offs, but on measuring the workload of an agency. The focus was on the work to be done, not on the usefulness of the objectives themselves. Performance budgeting was rarely adopted as a government-wide budgetary process, but is significant because it emphasized the integration of activity information and budgeting. This emphasis was to be continued in future reform efforts. (WB, 1998)

Performance Based Budgeting focuses on outcomes. Managers have been actively asking themselves during the past couple of years, "What are the desired results for each department's budget?" The purpose of Performance-Based Budgeting is to provide a sound basis upon which to make resource allocation decisions; to communicate the measurable results expected to be achieved from a budget allocation; and to build a connection between budget and program performance results for the same operational unit over same period of measurement. Performance-Based Budgeting has five steps: (1) Identify desired outcome; (2) select an outcome performance measure; (3) set a goal; (4) report results; and, (5) implement consequences (strength and weakness of traditional budgeting, n.d).

Among the advantages of performance budgeting, the outcomes and indicators generated give common accepted consistent goals for major programs. Successful programs can build stakeholder support because the department can document their outcomes with data or other measurable impact indicators, which can then be shared with the public. (Elsas, 2003) The benefits of Performance-Based Budgeting are also include it Increase the efficiency and effectiveness of government operations by focusing resources toward the most critical and important outcomes, Improve operations by linking budget and program performance over time; Make managers more accountable for program decisions that affect budget outcomes and Improve understanding and communication about critical issues and priorities relative to budget requests and the use of resources.

The major criticism of performance budgeting was that efficiency - an important goal in budgeting - is an inadequate criterion for allocation. It is one of performance budgeting's key strengths (WB, 1998). Another major disadvantage of performance-based budgeting is that it takes considerable program staff time to gather outcome indicators and do comparisons with comparable programs in similar sized organizations. (Elsas, 2003) The primary disadvantage

associated with performance budgets is the emphasis on quantity, not quality, of the activity being monitored (Dosett and Williams, 2004).

### **III. Program Budgeting**

Beginning in the 1960s, reforms began to focus on planning for the use of public resources. 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. (WB, 1998) program budgeting is the classification of expenditures on the basis of programs, significant problems or policy issues each attempts to deal with, and alternatives for dealing with them. This type of budget focuses attention on the kinds of problems and policy issues chief executives and governing bodies are expected to resolve and, the resources (revenues) needed to resolve them (Elsas, 2003).

Program budgeting is a budget which makes explicit the goals and objectives of a society and which makes possible direct comparison of the economic consequences of alternative means of obtaining those objectives. Program budget informs the consumer of the nature, quality and amount of goods with which he/she is provided and the complete cost, both in total and by item of these goods. (Wright, 1969) In contrast to performance budgeting, program budgeting was explicitly focused on budgetary choices among competing policies. While performance budgeting was designed to discover the most efficient method of accomplishing a given objective, program budgeting treated the objectives themselves as variable. Program budgeting is not a management system, but a resource allocation system. (WB, 1998) The program budget development is typically an extension of the line-item budget development method. Robinson and Robinson explain that each program in the program budget appears separately and is broken out in categories similar to the line-item budget (Robinson and Robinson as cited by Dosett and Williams, 2004).

Key to program budgeting is the program - a public policy objective along with the steps necessary to attain it. The budget is classified in terms of programs, rather than along organizational lines. Program budgeting requires that program objectives stretch beyond a single fiscal year. In addition, program budgeting requires effectiveness measures, which means the measurement of outputs and outcomes. Advocates of program budgeting says that

budget allocation decisions would be made according to the marginal value that could be attained from varying use of public resources to deliver goods and services. Program budgeting is the principal budget reform (beyond traditional line item budgeting) that has been exported to developing countries (WB, 1998).

The program budget facilitates comparative analyses among the agencies multiple programs. Others maintain that a program budget produces a document that is easily understood and demonstrates a willingness to make best use of limited resources by minimizing conflict and overlap among projects. (Dosett and Williams, 2004) The virtues of the program budget are said to be its usefulness in relating ends to means in a comprehensive fashion, the emphasis it puts upon the policy implications of budgeting, and the ease with which it permits consideration of the budget as a whole as each program competes with every other for funds (Elsas, 2003).

The essence of program budget (PB) is that it allocates resources to outputs, in a program structure. The program structure is the key to integrating not only planning and budgeting but also, capital and recurrent expenditure. PB also has the advantage of introducing the ability to measure performance. This measurement is through the economy, efficiency and effectiveness of infrastructure and service delivery. Therefore, it also supports public accountability. Ultimately PB can encourage program managers to be more accountable for expenditure to achieve results. (MoFED, 2010) The program budget approach also permits decision-makers and the general public to comment on and compare specific programs. It is easier therefore for county boards and the public to approve or disapprove entire programs, rather than to end their effectiveness with a thousand small cuts (Elsas, 2003).

A disadvantage associated with the program budget emerges when the adoption of the program budget method forces special spending agencies staff members to think along program lines in contrast to the comfort-zone associated with previous budgeting methods. It is noted that some people can become defensive when required to "analyze, report and justify how they spend their time" (Dosett and Williams, 2004).

Another disadvantage of this type of budgeting is the time it requires spending agency staff to establish missions, goals and objectives for each program and function. There is also much more bookkeeping involved because many central administration costs, such as copying,

wages, insurance, and utilities must be reallocated to specific programs under the classification of indirect costs (Elsas, 2003).

#### **IV. Zero Based Budgeting (ZBB)**

Zero based budgeting is a budgeting approach whereby the expenditure amount for each line item or program is examined in its entirety each year, regardless of prior funding. Those items that cannot be justified are subject to elimination or significant reduction. (Elsas, 2003)

In a "pure" ZBB system, a 1970s era reform, 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. At the national level, that would require answering such questions as, "What if we didn't have an army and navy?" or "What if Social Security did not exist?" In practice, no government ZBB system went this far (WB, 1998).

ZBB was an attempt to end the traditional practice of providing automatic incremental increases to a department's line items without providing critical scrutiny to each item. Under this style of budget any and every line item are fair game for budget cuts or drastic reductions. Departments must come to the finance committee and the board and argue why each line item amount was recommended and why it should be maintained at that level. Even personnel positions that have existed for years must be individually justified on an annual basis (Elsas, 2003).

Advantages associated with zero-based budgeting include its focus on identifying programs that will further the company's goals for the future. Reliance on "the way we've always done things" violates the basic premise of zero-based budgeting. Most zero-based budgeting advocates maintain that the method promotes innovation, effectiveness and efficiency (Dosett and Williams, 2004).

The downside of zero-based budgeting relates to its time-consuming nature. Starting at "zero" implies that all aspects of the spending agencies operation will undergo examination and justification. Most spending agencies indicate that zero-based budgeting also intrudes on day-to-day operational activities such as journal subscription renewals and standing orders.

## **Summary**

Many expert commentators have argued that different types of budget encourage (and discourage) different types of behaviour, both among the budget setters and the budget implementers. It is easy to see that some types are more open to the inclusion of performance information than others. Each type of budget has strong and weak points (Politt, 2001).

Line item formats make it hard to integrate any significant type of performance data other than simple compliance with input appropriations. It should be noted that the input/line item form of budgeting may be deeply entrenched even specified as a legislative requirement. To change it, therefore, may be no simple matter. ZBB has never made it so far not even out of USA because of its implementation difficulties and strong resistance and hence terminated. Performance Budget type use indicators to measure performance of the spending agencies. Performance budget mainly emphasizes management efficiency in expenditure allocations. But the end results or the impacts are not measured. The most acceptable and many countries trying to made it possible is making their budgeting system a program type in which assessment of impacts is essential.

### **2.4 Program Budgeting Historical Perspective**

Program budgeting has passed through several distinct evolutionary periods. The first was the developmental period, which was born out of the need for a national budget. At this period budgeting procedures basically consisted of revising estimates. The most significant change in budgeting occurred in 1907 when New York City's bureau of municipal research adopted this method. Shortly thereafter other cities also started to follow (Hagen, 1968).

The second period was the period of control. This period began with the accounting act of 1921, creating the bureau of the budget and giving the president the responsibility of preparing a comprehensive budget of revenues and expenditures. In the early 1920s DuPont corporation was using program budgeting. General motors introduced program budget in 1924 as a major innovation. Through the efforts of different individuals program budgeting was advanced in the department of agriculture and was expanded to the war production board in 1930 and 1941 respectively. In the late 1940s the federal government developed program budgeting in the bureau of reclamation, the coast guard and other agencies (*Ibid*).

The third is the contemporary period of program management. According to Wikipedia brief history of program budgeting, this budgeting system was first introduced by the then United States Secretary of Defence Robert S. McNamara in the Pentagon in the 1960s. McNamara allegedly wanted to control the many costly weapons development programmes that were plagued by ever increasing costs and delays. He called this new system: Planning, Programming and Budgeting System (PPBS). The system was taught at the John F. Kennedy School of Government of Harvard University but it evoked little interest except from critics. (*Ibid*)

This new approach introduced an unprecedented transparency into management operations together with a concomitant precise pinpointing of manager's responsibilities, and so was widely resisted throughout the entire public sector. However, in the eighties, the UN Inspectorate General picked up the idea and recommended that the United Nations use it to improve its performance. A few institutions tried half-heartedly but only the International Atomic Energy Agency (IAEA) went about it seriously and introduced a complete programme budgeting system that is still in place today.

However, over the years, strong opposition by managers and lack of interest by top management as well as member States have taken the sting out of the system and reduced its transparency. A few years later, the Government of New Zealand was the first to introduce it with great success: within a few years it had solved an intractable stagflation problem. More recently, the United Kingdom Government discovered it and now, one Government after another is following suit. The need to improve public sector and government performance has worked wonders for Programme Budgeting. [http://en.wikipedia.org/wiki/Programme\\_budgeting](http://en.wikipedia.org/wiki/Programme_budgeting)

Looking back over the history of government and business budgeting, it is remarkable how young is the practice of effective and widespread budgetary control. Program budgeting has only recently come to developing countries. This slow pace tends to conceal the long way that program budgeting has come; it has made considerable headway through many diversified approaches.

## **2.5 The Concept of Program Budgeting**

This paper gives synthesis recorded knowledge on program budgeting and includes comprehensive information on the current budgeting practice. According to Hagen 1968 the

major problem in considering such a system appears to be that there is little agreement as to what a program is and what constitutes its limits and functions. "Which program do we mean in program budgeting?" Kim (n.d) also reminds us this was the question framed in 1954 by David Novick, the most influential proponent of program budgeting during the post-World War II period. Half a century later, the question can still be asked, for there is no clear-cut definition or consensus on what program budgeting is or what it does.

Kim continues citing Novick that he was vexed by the many different applications of the program concept: "The word program," he cautioned, "can be used by different people to mean an administrative organization, the performance of a specific function, a combination of activities, a combination of functions, or any endless number of combinations of activities, organizations and functions." In other words, a program is whatever is labelled a program, and a program budget is any budget that is so designated. Obviously, if there are multiple ways of defining a program budget, no particular approach has a special claim to legitimacy.

The name "program budget" is derived from the simple fact that the planning process is organised by program rather than by department of fiscal input or output. At present, no standard definition of program budgeting exists. Program budgeting is generally described as a planning oriented procedure, its chief goal is to rationalise policy making by providing first data on the costs and benefits of alternative ways of attaining proposed public objectives and then output measurements to facilitate the effective attainment of chosen objective (Hagen, 1968).

Program budgeting is a simple idea, but it has had a complicated history. The basic idea is that budget information and decisions should be structured according to the objectives of the government. Despite the overwhelming appeal of this concept, the recent history of budgeting is littered with numerous failed efforts to put it into practice, as well as with a series of aborted reforms, such as planning-programming budget systems (PPBS) and performance budgeting. Why is it so difficult to operationalize the sensible idea of allocating resources on the basis of the public purposes they serve? What is so difficult about rearranging budget classifications so that they correspond to the basic aims of government? Part of the answer lies in the multiplicity of governmental purposes (Kim, n.d). This means the multiple objectives of the government are the challenges for the successful implementation of program budgeting.

A group of the multiple objective of the government might be promoted by one activity, but each leads to a different structure of budget accounts. Inasmuch as a government can have only one program structure, some aims will inevitably be crowded out by a single program structure. The fuzzy definition of programs and the multiplicity of objectives have impelled some governments to spend an inordinate amount of time, several years in some countries, searching for the ideal program structure. In countries that have successfully implemented program budgeting, the government maintains several budget structures and crosswalks or translates the data contained in the program structure into other categories, such as organizational units or inputs. Where this occurs, the government decides the budget and allocates resources on one basis and implements the budget on another basis (*Ibid*).

Kim continues to explain that this problem was recognized in the United States, the birthplace of program budgeting, when the concept was still in its infancy. The Task Force that advised the Commission on Organization of the Executive Branch of Government (generally known as the Second Hoover Commission) concluded in 1955 that "there are cases where the requirements of organization for good administration and those for good program budget presentation do not coincide. A program classification and an organizational unit classification both serve important but essentially different purposes. However, the Commission itself brushed aside these difficulties and urged government agencies "to synchronize their organizational structures, budget classifications, and accounting systems."

In practice, this issue has been resolved by the exigencies of politics and administration, not by analytic doctrine. When the Department of Defence introduced its PPBS in the early 1960s, it devised a program structure that was keyed to military missions (such as strategic forces, tactical forces and intelligence), but appropriations continued to be made by organizational units (Army, Navy, Air Force, and their administrative subdivisions). This dual structure was regarded as a temporary expedient; more than 40 years later it still persists. One structure is used for policy analysis, the other for financial control.

In every dual (or multiple) budget structure, one classification is dominant. It is the basis for policy decisions and resource allocations. Ideally, the program structure should have this status, but the conflicts inherent in budgeting's diverse functions often are smoothed over by melding the various classifications into a single, homogenous system. When this occurs, the organizational structure usually is dominant, and program classifications recede in

importance. Because of this tendency, few governments have genuine program budgets, although many display program information in their budgets.

**The Advantages of Program Budgeting** The benefits of using this systematic approach to budgeting include:

- i. **Producing a transparent budget.** A program budget presents budget investments in a format that enhances community understanding of the purpose and nature of the services you will provide.
- ii. **Focusing attention on community goals, needs, and capabilities.** With a program budget you can bring budget investments in line with community objectives, anticipated or desired growth, priorities, and financial capabilities.
- iii. **Achieving maximum use of the citizens' taxes.** The planning and management focus of a program budget establishes an informed basis upon which you can make decisions, thus helping you avoid costly mistakes. A program budget guides you in making sound annual budget decisions.
- iv. **Serving wider community interest.** A program budget, once approved, keeps the citizens and business community informed about community programs and activities that affect their lives and enterprises. It also provides information on the results of budget investments.
- v. **Encouraging a more coordinated and efficient government administration.** Using a program budget to coordinate budget investments of municipal departments will result in more efficient use of limited resources and will limit conflicts or overlap among projects.
- vi. **Maintaining a sound and stable financial program.** By programming investments over many years, a program budget can limit the burden that these investments place on the municipal budget. Where there is ample time for programming, you can select the most economical means of designing and financing each project in advance (Program budgeting, n.d).

## **2.6 Implementation of program budgeting**

### **2.6.1 Theories and Plans for Implementation**

Many different plans are useful for the implementation of program budgeting and the budget analysis.

## **Policy and Implementation Guides for Creation of a Program Budget**

Before a program budget and budget analysis can be instituted, the legislative body must be convinced of their desirability. Next, those responsible the program budgeting and the budget analysis must set up guidelines for a successful implementation program. If these guidelines are ignored, disillusionment may arise during the transition period, leading to the abandonment of the budget system before it has been given a fair opportunity (Babunakis, 1976).

Babunakis notes that Standard policy guides for those instituting a program budget and its analysis are as follows.

1. **A strong highly level commitment must exist.** Top level government have to support the implementation especially the chief executive (prime minister). Next top administrative support is also essential. Opposition to change can be minimised in high level support for program budgeting.
2. **The legislative body must involve in implementation.** The legislative body is responsible for enacting in to law by any modifications in government and for appropriating funds to implement new programs. The legislator should be well informed of the advantages of program budgeting and the progress made toward its successful implementation.
3. **Political realities cannot be ignored.** A program budget and its analysis system operate in a political environment. Political constraints influence decision making at all times. Departmental administrators must not fear that program budget will lessen their power control.
4. **The implementation effort must be strong and determined.** The success of a program budget depends on how strongly it is supported. Those in charge of its implementation must be determined to make the system work.
5. **There must be a complete overall plan for implementation.** Every stages from design through implementation, evaluation and revision must be planned before the actual change over begins so that all participants can have an orderly sequence of events.
6. **The initial efforts should be centralized as much as possible.** The more that changes can be limited to central management, the greater the probability for success.

7. **Expectations what the system can do must be realistic.** Those in charge of implementation must set realistic goals for the system program budgeting must also be given a reasonable chance for success.
8. **The person in charge of the implementation must have well defined authority and must be an expert in the field.** The individual who is put in charge of implementation should have both theoretical and practical experiences with the system. He/she should be given sufficient authority to accomplish its implementation and adequate resources to act up on departmental budgets.
9. **The support of department or agency personnel is necessary.** It is also necessary to have the backing of departmental and agency administrators. They should be well informed and involved in the implementation program.
10. **Implementation should be carried out from within the government avoiding the use of outside consultants whenever possible.** The implementation of program budgeting will be more successful if the system is developed by the in-house governmental bureaucracy rather than by outside consultants.
11. **Those involved must feel they will benefit.** Officials and administrative must believe that a program budget will improve governmental operations government officials should also feel that they will benefit personally.
12. **Good communication at all levels is imperative.** Since implementation requires a significant amount of change, open channels of communication must be maintained at all levels of government.
13. **Enthusiasm for and confidence in the system is necessary.** The implementation staff must strive to generate enthusiasm for and confidence in program budgeting at all levels of government.

### **2.6.2 Program Budgeting Implementation**

According to Babunakis (1976) several strategies must be considered before implementation can begin; otherwise, less than satisfactory progress can be expected. Major considerations are:

1. Sufficient time for implementation
2. A step-by-step approach
3. Adequate personnel and fiscal resources committed to the implementation program
4. Minimizing differences between the program budget and the line-item budget

5. Program structure related to public needs.

1. **Time period for implementation:** Government should expect to implement program budgeting, at the minimum, over a three-year period. Program budgeting requires an increased amount of data collection in addition to many format and procedural changes which cannot be resolved immediately. Therefore, program budgeting should be given sufficient time to be phased in
2. **Step-by-step approach:** A government should not try to implement a complete program budget immediately, but should plan to adopt and improve the system gradually over five years. Implementation should begin in a few key departments and proceed step by step until all departments are included. It is doubtful that a full program budgeting system could be successfully implemented in even one department in one year.
3. **Adequate personnel and fiscal resources:** The individual in charge of program budgeting implementation must be given adequate staff to plan the program and fiscal resources to keep it going.
4. **Minimizing the distinction between the program budget and the line item budget:** Some program budgeting advocates have suggested that both a program budget and a traditional line-item budget should be prepared during the initial implementation stages.
5. **Relating program structure to public needs:** Werner Hirsch and others maintain that, to be effective, the program structure of a program budget must relate to public needs. Program structure is of little value unless it deals with areas of public concern. It must not be viewed as an end unto itself. Legislative review and the Budget Analysis of the program budget document will greatly assist policy-making decisions as it provides the necessary input for objective analysis (Babunakis, 1976).

### 2.6.3 Implementation Challenges

Implementation is not an easy task. Many state and local governments have taken steps to include performance measures in their budgets. However, studies have found that performance measures have been used more frequently to improve management than to allocate resources. In most cases, resource decisions continue to be driven by traditional budgeting practices.

What are the challenges lie ahead? First, one should not be surprised by resistance. There will be resistance to change whenever something new comes. A budgeting system that has been in place for a long time will generally be favoured by policymakers as well as department heads, both understood and predictable. Some of the following concerns may surface:

1. Elected officials may resist relinquishing control over line-item expenditures. Performance data is particularly likely to be ignored where it is used as an overlay rather than replacement for line-item data.
2. Managers may feel overburdened already and dread the additional chore of data collection. This is particularly likely where past data collection efforts have been paper generators rather than useful management tools. In these cases, there may be scepticism about whether elected officials and other key decision makers will actually use the data.
3. Other managers may fear that the data will be used (or misused) to reduce budgets, to eliminate staff, or in other negative ways.
4. Elected officials may fear that data will be misinterpreted by the public and used against them at the polls. (Performance Budgeting, 1998)

## **2.7 Implementation of Program Budgeting In Developing Countries**

In all countries, managing public expenditure is an essential but difficult task. Governments in both developed and developing countries are pressured to spend more than the economic or tax base can sustain, to continue financing old programs even when new priorities are judged to be more urgent, and to pay the rising expenses of inefficiently-operated departments. In addition, many developing countries face special problems in managing public finance because their resources are extremely constrained, the stockpile of needed skills and information is inadequate, pressure to spend more than they can afford on unmet needs is very intense, and they have meagre reserves to ride out shocks or unexpected difficulties (Shick, 1998).

Differences between developed and developing countries both promote and impede reform. On the one hand, developing countries can adopt practices that have evolved over the years and have become widely accepted in the developed world; on the other hand, the special problems facing poor countries may make them inhospitable venues for certain practices.

Moreover, what are exported to developing countries are not just the tried practices but novel or experimental ones as well. Politicians and officials in developing countries sometimes are as eager to buy avant-garde practices as reformers are to sell them. When this occurs, the ambitious reforms typically fail to deliver the promised results. (*Ibid*)

Shick (1998) in Table 2.1 identifies various problems associated with being a poor country. Not every poor country has all of the listed problems, but many do. Generalizing about poor countries sharpens the distinction between them and rich countries and enables one to comprehend why solutions that make sense in one situation do not work in another.

**Table 2.1 Special problems of developing countries**

Condition	Impact on public expenditure
Poverty	Lack of resources to respond to rising demands/expectations for public services
Economic instability	Inadequate slack to "ride out" cyclical shocks and other disturbances
Low revenue base	Vulnerability to adverse shifts in commodity prices, terms of trade, and low access to capital markets
Informal market sector	Much economic activity is extralegal, in disregard of formal rules and regulations; weak enforcement of property rights and contracts resulting in relatively high levels of corruption
Informal public sector	Formal rules concerning civil service, public expenditure and procurement tend to be ignored or violated
Low political mobilization	Inadequate development of interest groups to express public opinion and monitor government performance

Source: adopted from Allen Shick (1998)

Shick argues that even though the cause and effect relationship of the above problems and on being poor country arguable and in his view both can be justified because being a poor country may lead to those problems and the presence of those problems may keep countries still poor. But their effect on public expenditure management is clear. So the question is what should be done to have a good public expenditure management with these existing facts and in our case how program budgeting should be implemented to gain the best of it.

In developing countries Improvements in PEM require:

- i. A greater focus on performance - the results achieved with expenditure. This has the potential to engage all stakeholders in pursuit of budgetary and financial management reform.

- ii. Adequate links between policy making, planning and budgeting. This is essential to sustainable improvements in all dimensions of budgetary outcomes.
- iii. Well-functioning accounting and financial management systems. These are among the basics that underpin governmental capacity to allocate and use resources efficiently and effectively.
- iv. Attention to the links between budgeting and financial management systems and other service-wide systems and processes of government - for decision making, for organizing government, for personnel
- v. A well-performing public sector requires that all component parts work well and, where appropriate, together.

For developing countries in order to recognize and deal with weaknesses in budgeting and financial management It confronts concerns traditionally raised about donor supported reform efforts. These include political commitment, the balance between simplicity and comprehensiveness, and country implementation capacity (WB, 1998).

**Political commitment** This clearly is important, but commitment does not occur in a vacuum. In many respects, political will is a function of the quality of the advice provided to politicians and the base of support for reform. Advocates of reform have to confront the reality that political interests are often served by non-transparent, non-accountable systems for resource allocation and use. Involving all relevant stakeholders by focusing on performance at all three levels of budgetary outcomes (aggregate fiscal discipline, prioritization and technical efficiency) is essential to changing the incentives of politicians. This also means that "big bang" reforms are less likely to succeed: the time frame for budgetary reform is not the short term, but the medium to long term. Whether donors contribute to undermining political will in particular situations also deserves attention.

**Simplicity/comprehensiveness** This relates to keeping it simple. This is almost certainly true of reform efforts, but they must be based on comprehensive analysis. It is also true that reforming budgetary and financial management systems without paying attention to the other service-wide systems, processes and structures of government is likely to produce little change. An important aspect of comprehensive analysis is an assessment of the informal rules that might stand in the way of effective reform of the formal rules.

One of the public management reforms is budget reform specially program budgeting is the main part of the budget reforms. The concern of this paper lies on how programme budgeting reform should be handled or managed by developing countries like in our case Ethiopia. For such an issue scholars like Marc Robinson and Duncan Last have also supported the above argument.

Program budgeting is, an element of performance-based budgeting that is highly recommended for those countries that have the resources and capacity to introduce it. However, for those countries not yet ready to move to a program budget, the two elements of program budget better performance information and budget processes to use that information can still deliver significant benefits (Robinson and Last, 2009).

The biggest challenge in the development of a basic model of performance-based budgeting is keeping this performance information simple, affordable, and usable. All too often, newcomers to performance-based budgeting, including list industrialised countries (LICs), have set out to develop sophisticated performance information systems over short time periods (as little as a year or two). They fail to fully realize that such information is expensive and requires skilled human resources which may not be readily available or affordable. It is worth remembering here that similar systems in organisation for economic cooperation and development (OECD) countries took decades to develop (*Ibid*).

Developing countries should, given their limited resources and capacity constraints, keep their performance budgeting systems simple. It is a remarkable fact, however, that they frequently seek to implement systems considerably more complicated than most of the performance budgeting models one sees in developed countries. One of many areas where this is true is the design of program structures. Country after country in Africa, and elsewhere in the developing world, has tried to implement complex program structures consisting of four or even more levels. Whereas OECD countries commonly opt for two-level structures comprising only programs and sub-programs, these complex structures add (the terminology used differs between countries) sub-sub-programs and even sub-sub-sub-programs (Robinson, 2010).

The complexity of the program budgeting systems some countries seek to introduce does not end there. In a number of cases, they have also introduced requirements that objectives,

indicators and targets are specified for each and every level of these elements in the program structure. By contrast, even a country like France ó with one of the best-designed program budgeting systems in the world ó only requires that objectives and indicators be specified at the level of programs, and not at the level even of sub-programs. The specification of objectives and the selection of indicators is a challenging technical task, and to multiply the task sixteen-fold is an act of extraordinary ambition. The greater the unnecessary complexity of developing country systems the lower the likelihood of successful implementation, so why do they opt for systems of such complexity? International consultants are part of the problem (*Ibid*).

**Country implementation capacity** An often heard refrain is to match reforms with implementation capacity. This is another form of the plea to keep it simple. A noteworthy dimension of this admonition is the need for donor coordination. The implementation capacity problem is importantly a function of donor demands. As a minimum, attempting to build capacity from the supply side without addressing the incentives embodied in the institutional framework will do little to improve performance. Building systems and processes that both encourage and demand performance will, in turn, unleash human and organizational capacity.

## **2.8 Program budgeting experience from different countries**

### **2.8.1 Program budgeting in Sri Lanka**

Sri Lanka engaged in budget reform in earnest beginning in 1969. The program budgeting reform was spearheaded by a program budget unit, which was established in the Ministry of Finance in 1971. This unit issued guidelines on budget preparation, designed the required documentation, advised departments on the development of performance measures and objectives, and reviewed department performance against budgeted targets. By the mid-1970s, the Sri Lankan budget reform seemed set to succeed.

In 1977, the socialist government was replaced by a free-market focused government. The program budget unit was disbanded by the new government, depriving program budgeting of focus and impetus. Department budget offices continued to submit the required reports for a time, but the sanctions that had existed for failure to do so were eliminated and ministries

became much more lax in their adherence. Further, by the 1980s, the government no longer had any method of forecasting cash flows.

Program budgeting failed in Sri Lanka for the following reasons: (a) the reform had found no powerful friends in the executive or the legislature; (b) there was a lack of skilled manpower to carry out the reform; (c) program budgeting occurred without important parallel financial and administrative reforms - particularly related to accounting and auditing - that might have sustained it; (d) the replacement of organizational structure with programs as the focus of decision making did not occur and, perhaps most important; (e) a rapid, comprehensive and centralized introduction of program budgeting was ill considered in the Sri Lankan administrative environment (Dean cite by WB, 1998).

### **2.8.2 Program budgeting in Jamaica**

The financial management reforms in Jamaica included US \$600,000 to help the government convert from a line-item budget system to an output-oriented performance budget system.

This portion of the project was not considered a success. This is partially the result of poor project which did not recognize that the same problems that existed in the previous line-item system (poor organization, poor planning, and lack of expenditure and revenue forecasting ability) would impair a new system as well. The fact that accounts were kept only manually and in a line-item format was a significant impediment to the development of the new system. The starting point should have been a revamped accounting system, but no provision was made for this.

There were significant problems in implementation. The reports that were necessary for the operation of the system often either were not filed in a timely fashion, or not at all. The speed of implementation was satisfactory, but no corrective actions were taken in response to problems identified in the early phase. These included the fact that quantitative performance measures were often a very misleading proxy for the type and quality of goods and services provided. Budget presentation never translated into budget implementation or into accountability for performance. Line ministries did not have commitment to the system, and the desire of the Ministry of Finance to hold ministries accountable for the use of line items

undermined the reform to performance accountability (Project Completion Report Jamaica, cited by WB, 1998).

### **2.8.3 Program budgeting in Georgia**

The legislative transition in 2006 was important because legal accountability for budgeting shifted from object class to program, and legislative attention shifted from a focus on inputs to a focus on agency purposes. Previously agencies had been responsible for ensuring that they did not transfer more than 2 percent into any one object class appropriation (associated with personal services, travel, regular operating expenses, etc.) without legislative approval. With the switch to program budgeting, the legislature imposed transfer controls of 2 percent or \$250,000 whichever was less on programs in the budget.

### **Difficulties in Implementation**

By all accounts, the state has struggled with implementation of its program structure. The problems include: lack of clarity about program definitions and the process through which the state would transition to program budgeting. Fundamentally, almost no agency derived its program as part of a strategic planning process; some of the programs, as defined, may lack integrity or it is not entirely clear how different activities (and associated expenditures and revenues) are assigned to programs. Although, this report did not audit agency programs and thus does not purport to verify this problem, there are a number of indications from interviews with staff at all levels of government that this is likely to be a serious issue, reduced flexibility for agencies because of a combination of stringent transfer controls in the appropriations bill, highly differentiated programs, and continued restrictions on object class transfers. From an agency perspective, program budgeting just added another level of control on top of the previous level of control, Conflict between the legislative and executive branches over strategic control of agency priorities as well as control over federal and other funds (Fiscal research centre, 2007).

### **2.8.4 Program budgeting in Mali**

The pressure to initiate the development of program budgeting in Mali came from the National Assembly which, in 1995, urged the government to adopt a budgeting system and a

budget presentation which would allow them not only to check and evaluate the consistency and coherence of budgetary proposals with existing national programs or plans but also to monitor progress of the government in general, and the line ministries in particular, toward the achievement of the objectives set in those programs and plans.ö The ministry of finance started a phased approach to introducing program budgeting starting with a few ministries in 1997 and completing all ministries a few years later. The resulting program budgets are sent to parliament but in a separate annex to the main budget. Programs are identified within each ministry and are aligned to the various missions that the ministry is given within the government. Support for this budget improvement process in Mali, other than in parliament, has come from having a champion in the person of the budget director and subsequent minister of finance, who took care to build the technical capacity within the ministry to guide the new approach. While the development of program budgeting in Mali has followed a classic route, it has yet to become the basis of the approved budget, which has so far limited its usefulness as a budgetary management tool (Robinson and Last, 2009).

However, the disappointments with program budgeting are not limited to developing countries. Many of the problems identified in developing countries contributed to disappointing results in developed countries as well.

## CHAPTER THREE

### 3. DATA PRESENTATION, ANALYSIS AND FINDINGS

#### 3.1 Characteristics of Respondents

This chapter focuses on the finding of an opinion survey made from different government institutions related with introduction of program budget. The survey employed structured questionnaires with both open ended and close-ended types of questions, and carried out interviews with some senior experts in MoFED especially with the program budget reform team. General discussions from training sessions are utilised to support discussions. The analysis is also supported by secondary data collected from different institutions.

The selection of public bodies is based on convenience method, the questionnaires was undertaken after the researcher attended the program budget training of trainers which delivered to different budget experts of federal government spending agencies. Fortunately, the composition of the respondents consists of all types of classifications. According to functional classification, the Ethiopian budgetary system is divided into administrative and general service, economic and social services. The respondents represent all categories of spending agencies.

The next step was the determination of the number of respondents from the trainers who are budget experts of their respective public bodies. Accordingly, a total sample size of 30 respondents was considered for the study. All respondents filled the questionnaire satisfactorily. The experience and status of education of the respondents are shown in the following Table 3.1 and Table 3.2.

**Table 3.1 Respondents' experience in years**

<b>Service years</b>	<b>Respondents</b>	<b>Percentage</b>
below 5 years	7	23
between 6-20	10	33
above 20	13	44
Total	30	100

**Table 3.2 Respondents' level of education**

<b>Level of education</b>	<b>Respondents</b>	<b>percentage</b>
BA/BSC	16	54
MA/MSc	14	46
Total	30	100

Education and experience does have profound influence on respondents' response in identifying prospects and possible challenges of program budget. As to educational background of the respondents, 14 or 46 percent of them had MA/M.Sc. and 16 or 54 percent of them had a BA/B.Sc. when we see the experience of respondents 13 or 44 percent of them have above 20 years experience, while 10 or 33 percent of them have more than 6 years of experience only 7 of them which means 23 percent of them have below five years experience. Hence, majority of the respondents have good number of years of experience and are well educated; their responses can be relied upon.

### **3.2 Government Budget Reform Initiatives**

Development planning is all about mobilisation of human, natural and financial resources for achievement of national objectives of the country. It involves determination of development priorities and objectives of the government in terms of sectoral policies and resource constraints. The main function is to influence resource allocation that helps to achieve economic growth and development. In Ethiopia such a process systematically was started in 1950s and has undergone significant changes in government policies and development priorities. (Getachew, 2005)

Even though development planning was as a means of guidance for resource allocation in areas of government priorities and objectives since 1950s but when the military government took power and the economy was led by centrally planned economic direction where the government involved in all productive and distributive spheres. During this period the economic and defence was strengthened at the cost of social development. After the collapse of the military regime the role of central plans in guiding public expenditure planning rejected and replaced by macro economic and fiscal framework (MEFF). To facilitate the

function of this framework expenditure management and control program was started in 1997. (*Ibid*)

According to MoFED (2009) EMCP is part of the five sub programs of the Civil Service Reform Program (CSRP). The vision of create an efficient, effective, accountable and transparent financial management system that will contribute to the economic development effort of the Government. There are eight projects under the EMCP in Ethiopia this include as it was listed in the first chapter; The Legal Framework, Government Procurement Reform Project, Budget Reform, Cash Management Reform, Accounts Reform Project, Internal Audit Reform, Government Property Management Reform and Integrated Financial Information Management system.

Budget like in other countries in the world is generally recognized as the main instrument for resource allocation to recurrent and development activities of the country. In Ethiopia but the civil service reforms have gone without budget reforms in their component. In recent years budget is increasingly considered as the key tool for economic and development management and this led to the launching of the expenditure planning and budget reform projects as part of public expenditure management reform.

There have been many achievements because of these reforms to mention the major ones preparation of investment planning for capital budget, production of design manuals and development of a new computerised budget information system, a new budget structure that has uniformity with the regions has been developed. The budget reform has been implemented in federal, regional and sub-regional levels and Budget information system is up-grade to IBEX and installed in federal institution. Despite these achievements successful modern budgeting system remains the main problem of the country.

### **3.3 Program Budget Reform Initiatives**

#### **3.3.1 Previous Reforms**

The results of the interview and some documents reveal that pressure to move towards a result-based oriented budgetary management approach came from major initiatives under the civil service components of the CSRP aimed at improving staff performance. By 2004, the CSRP had begun piloting various tools aimed at enhancing the performance of the civil service. This was the latest initiative of a broader political agenda to transform and modernise

Ethiopia's traditional civil service. These civil service reforms are being driven by the Ministry of Capacity Building (MCB), whose mandate was reached across all levels of government. The Strategic Planning and Management (SPM) and the Service Delivery Improvement (SDI) performance initiatives focused on improving links between an organisation's mission and activities with the policy agenda established by the government in its five years plan.

The MCB has since introduced the next generation of civil service reforms, namely the Business Process Reengineering (BPR) and the Balanced Score Card (BSC), initiatives aimed at further reducing bureaucratic inefficiencies. Under the BPR initiatives, which has been ongoing for the last three years, virtually all public bodies in Ethiopia (both federal and regional level) have been reviewed in depth and have begun to restructured along more efficient transparent and delivery focused lines. The BSC initiative introduces the means by which the civil service performance could be measured at both individual and institutional level.

The implementation of these major performance oriented civil service reforms underscored the importance of transforming the budgetary management system from line item approach to a result focused on.

Different studies reveal that even if the previous reforms have brought significant changes and made progressive achievements, there are still outstanding problems in budget allocation and budget process. The Budget process has little credibility and that systematic public sector program review and performance evaluation are not addressed by the budget reforms. As a result, the budget allocation is still input oriented and sees the short time horizon to budget decisions makings which did not take medium and longer term planning as well as cost estimation to achieve national development objectives and performance of economic activities will not be critically evaluated by the government.

There is still shortcomings in the current budgeting: the budget provides little information about what the budget is spent on and Recurrent budget is on the whole an incremental line item budget approach developed within a one year horizon Hence for a new budgeting process the government has opted to introduce program budgeting moving from line item

budgeting through which activities and their associated expenditures are categorized according to the intended outputs.

### **3.3.2 Top Level Officials**

As it was noted in the first chapter of this paper the pressure initially to introduce a program structure to the budget in Ethiopia came from the Prime Minister. The Prime Minister wanted a mechanism to evaluate performance of ministries. This reform was initiated especially with the aim to evaluate the civil service reforms such as strategic planning and management and service delivery improvement reforms. The main supporter of this reform in the Ministry of Finance and Economic Development is the respected minister. From this it is clear to understand that the first and initial initiative is from the top. This can be said that this reform is a top to down approach at which the Prime Minister and the Finance Minister are the main champions of the reform.

### **3.3.3 Failures of the Existing Budgeting Process**

Besides the initiation coming from the top the existing conditions also reveal that it is vital. In Ethiopia it is difficult to analyse the policies and practices in public expenditure management. The documents available are mainly empirical, disorganised and unreliable. IMF also noted that budget in Ethiopia is not comprehensive and does not include off budget or extra funds. In Ethiopian budget structure there are large amount of coding structure which is tiresome and tedious to prepare. But the most important issue is not how expenditure code is arranged, but how the government funds are allocated to each sector or program. This statement raises the question of efficiency of public expenditure and priority of government. The efficiency criteria consider that resources should be allocated so as to maximize sector programs while government priority considers that budget should be allocated in accordance with its objectives. But it is possible to reconcile both programs by using budget reforms. Budget reforms such as planning, programming and budgeting are expected to handle both political priorities and allocative efficiency.

As it is stated in the methodology part, the study was carried out through questionnaire, interview, discussions in the training sessions and secondary data. The first theme of the questions are focused on the need for program budget reform its initiations by way of asking the practical problems of the traditional line item budget approach and how the program

budget can be a replacement of the line item budget system by curing the ills of the former one.

The research findings and results have showed several problems related to the existing budget allocation of the country. Among others: structural problems which create delay in decisions, problem of appropriate costing method, shortage of financial resource, lack of reliable data for costing and other decisions, lack of qualified professional and information communication technology (ICT), loose or no relationship between planning and budgeting, lack of transparency and accountability, lack of planning skill, low attention by higher level managers, centralised nature of budget, long process in budget approval with short period of time, lack of coordination between experts, top level managers and staffs, insufficient number of workers and the existing traditional line item budgeting system are raised as the challenges of the budget system in the country.

This fact is also supported by Getachew (2005). An assessment of the strength of expenditure planning and budgetary process in Ethiopia shows unsatisfactory results. According to the survey, more than 50 percent of the respondents confirm the following shortcomings of the Ethiopian budgetary systems: It has no proper medium term perspective; capital and recurrent budget are not properly integrated; the head of public bodies do not give much attention for preparation of budget ; Budget doesn't provide incentives for efficiency; there is no performance measure that is applied during budget utilization; The linkage between budget and macro-economic policy framework is inadequate; Budget preparation is based on unreliable data and estimation; the budget system is impotent to ensure financial accountability; and Political commitment and stakeholder involvement in the budget process are limited.

#### **3.3.4 Failures of the Existing Budgeting Approach**

The above facts show that the existing problems of entire problems of the Ethiopian budget process. Now let us come to our major concern which is the budgeting approach. According to the survey the advantages of line item budgeting are, as identified by the respondents, includes simplicity for preparation, easy for controlling over inputs used, looks appropriate or suitable especially for activities which are difficult to measure, strong financial control, easy to close annual account.

The disadvantages or the practical challenges in utilising line item budget are also identified by the respondents which are among others: budget determination based on past experience, takes longer time and is cost ineffective, does not show where the budget is spent, it does not show costs of activities, difficult to measure the outcome/output gained respective of the budget it used, difficult to link responsibility and accountability with in it, difficult to measure the efficiency, economy and effectiveness of the budget, disintegration and deviation between planning and budgeting, it does not show the costs and the opportunity costs of a program or a project, no flexibility to spending agencies, does not take in to account the development plans and priorities of the government, it cannot measure physical performance, is exposed to corruption and capital and recurrent budgets are disintegrated.

From the above findings we can clearly understand that the disadvantages of line item budgeting outweigh its advantage. Having this in mind the next step is that government's deciding that this line item budgeting system should be replaced by program based budgeting. This decision is also shared by the respondents. The responses of the close ended questions of the respondents related their attitudes to the program budget reform are followed.

**Table 3.3 Program budget initiatives**

No	Issue	No of times cited	Respondents %
1	Familiar with government policies and expenditure planning is there at least partial	27	90.00
2	Traditional line item should be changed	28	93.33
3	Program budget is recommended	27	90.00
4	Familiarity with program budget concept	27	90.00
5	Budget request correspond to their program is partial	21	70.00

From the table we can infer that 90 percent of the respondents agreed that after all its backwardness and traditional or historical in nature line item should be replaced by another budget approach which is modern and is important to utilise the public money effectively, efficiently and economically. It is also evident that 93.33 percent of the respondents suggest that program budget should be the antidote to cure the failures of the traditional line item budgeting.

According to the finding through the questionnaire in the existing budget structure 70 percent of the respondents respond that the budget request of the public bodies does not strictly correspond to their programs and there is difference between their budget and the planning process. According to the open ended responses the main reasons why budget requests of public bodies do not strictly correspond to their program are lack of training, low attention and commitment by head of public bodies or top level managers, lack of skilled man power, shortage of financial resource, the existing budget system and low performance of practitioners. These are the many reasons for those making budget requests of public bodies and their programs or the planning process not to match. One of the main purposes of the transition from line item to program budget approach is to bring the planning and the budgeting process together.

The results of the interviews and discussions also reveal that the traditional line item budgeting is only focusing on items of expenditure and input oriented, neglects the result of the budget, fails to give recognition to transparency and accountability, it does not relate planning and budget and there is no flexibility. Because of the failures of the traditional line item budgeting, it is necessary to look for another modern budget approach which can more or less solve the above mentioned problems. Beside this modernisation in public financial management also would force to change the system because the country is also part of the world.

Wildavisky, (1978) says that to strengthen the backwardness of the traditional line item budget that from the beginning of the budgetary reforms line item budgeting has been criticised. The last century, the traditional annual cash budget has been condemned as mindless, because its lines do not match programs, irrational, because they deal with inputs instead of outputs, short sighted, because they cover one year instead of many, fragmented, because as a rule only changes are reviewed, conservative, because these changes tend to be small, and worse. Wildavisky further explains that overall the traditional line item budgeting is a product of history not logic; hence we should not expect to find them either consistent or complementary.

All in all it is a responsive and demanded decision from a government that needs to be trusted by its constituents in managing their money. The existing traditional budget approach is no longer important and the replaced modern one should be accepted and developed. Especially

in this time at which economic development had given more concern better management of financial resources is mandatory. In the current context of the world reforms like PB have strong ground and are the best option even though they are also a means to an end rather than an end by themselves.

## MAIN FINDING

In Ethiopia although there have been efforts to modernise the budgeting system of the country but there have been the problem of modern budgeting approach irrespective of the success of reforms. The previous reforms which are result based in their orientation need program budget type reforms to succeed. The first initiative of the program budget reform comes from the prime minister. Even if it came from the prime minister the existing situations were also demanding such reforms, especially the draw backs of the traditional line item budget system are really affecting the resource allocation and utilisation of the public money. Different scholars and researchers also have been criticising the existing budget system and have shown the way forward one of the mechanisms to deal with this is the adoption of program budget in the system.

### **3.4 Main Achievements and the Way Forward**

Economic development endeavour requires assessment of both national and international development issues, and making changes to fit in. The world has become a village, in that any change in any given nation affects the other, directly or indirectly. Hence, it is fundamentally necessary for a country to adjust its development efforts so that it can match with the global world.

Ethiopia, since 1991, has been working hard to extricate poverty and achieve sustainable efforts so that it can match with the global world. However, international development opportunities are fluids that demand vigilance and constant improvement in the approaches of development efforts. And thus, the Ministry of Finance and Economic Development that contributes to the development efforts of the nation is responsible making changes that can push the economic development efforts of the nation forward.

The MoFED, besides allocating budget, introduces new and efficient ways of utilizing resources to both federal and regional governments. However, adopting new work procedures

is not enough by itself; it has become important to improve increasingly the existing financial, procurement and stock management of the country so as to cope up with the changing world. Here we are going to see the efforts of MoFED to implement program budget since its introduction.

### **3.4.1 Main Achievements to Implement PB**

As part of its broader civil service program (CSRP), public financial management reform (PFM) reforms in Ethiopia have been under way since 1990s. There are implementation of budget preparation, budget execution and accounting supported by locally developed financial management software known as integrated budget and expenditure (IBEX). With the support from the donor community particularly USAID and later on the Irish aid and others, this basic reform has now been rolled out to the regional governments and city administrations of the country except the Somali region which is not completed. Since 2002, PFM reforms have been further rolled out to the most of the lower level woreda and zone governments. Overall fiscal management is assured through the implementation of the macroeconomic fiscal frame work (MEFF), through which federal resources are on a three year rolling bases.

Since the mid-1990s, Ethiopia's a new Civil Service Reform Program (CSRP) initiative, which Arising from its various studies, one recommendation was to introduce program budgeting. Government introduced program budgeting on a pilot basis, for the Federal Government budget in 2005. First the pilot program budget was conducted in three line ministries of the federal government of Ethiopia. Later on it was decided to extend the pilot phase to 20 ministries to have more inputs and experience to implement a fully fledged program budget.

The review of the reform, undertaken by IMF and AFRITAC EAST in August 2007, noted that implementation of the initiative was progressing slowly and further technical assistance was urgently needed to provide the required institutional capacity and procedural arrangements. Recognising the non sustainability of continuing with a gradual pilot phase, the MoFED took the decision in 2009 to recruit a resident advisor to strengthen the implementation effort and move quickly to implementation. With the help of the advisor as

well as continued support from AFE, the MoFED has been able, in 2009, to extend its capacity building effort to over 103 public bodies represented in the federal budget.

In 2009, a shadow PB exercise was undertaken, as a prelude to full implementation a year later. While significant progress was made, government decided to develop the technical aspects further, before its new target date, could be achieved. The recommended technical scope of PB manual was prepared.

There was also an increasing awareness at higher level of government that the budget must also move towards a performance approach, to bridge the gap between planning and budgeting. The plan was to make the change to a program format for the 2010/11 budget at the federal government level. The political conditions for such a move were definitely in place. The BPR process is essentially completed in most ministries and federal public bodies, as a result of which staffs at all levels are now on improving internal performance.

As part of its ongoing public financial reform program, the Ethiopian authorities have requested east AFRITAC (AFE) assistance in conducting a review of program budgeting reforms. The AFE mission undertaken in July 2009 provided a review and recommendation on the existing budget preparation process, including the identification of capacity building measures aimed at mainstreaming program/ performance budgeting.

The mission has made a follow up to AFE's program based budgeting (PBB) evaluation and analysis mission undertaken in July (2009) and FAD (IMF)'s November 2009 mission reviewed the output budget reforms and provided a road map to rolling-out output budgeting to the regions. A way forward towards improving the capacity of IBEX (Ethiopia's Financial Management Information System (FMIS) and the Chart of Accounts (CoA) structure in order to facilitate appropriate classification requirements for budget execution and reporting have been reviewed and presented. As part of this effort, AFE's mission was suggested possible improvements in the existing CoA structure.

The changeover to present the budget for adoption on a program basis is has been planned for FY 2010/11 but Following training in September/October 2009, program budget proposals, based on the 2009/2010 FY, have been produced by all 103 public bodies. Since the quality of the submissions varied significantly, the sustained effort to guide and coach the public bodies seem to be generally paying off. In December 2009 final decision on whether to stick

with the change over plan for FY 2010/11 or to delay a further year was decided and the decision was that it should be delayed for a year.

MoFED has continued with this indicative (shadow) program budget pilot program for the 2009/10 period. Indicative program budget has completed by December 2009. At this juncture and after carefully reviewing the progress of the various line ministries with respect to their program budget formulation, MoFED have decide all federal agencies for EFY 2003(2010) have to continue with line item budgeting and indicative program budget for a second year. Substantial attention has been paid to prepare a budget formulation manual and proposed training programs. However, less attention has been paid to how the CoA and IBEX (FMIS) should be modified to accommodate new program budget formats.

This work, supported from the beginning by the IMF through AFRITAC East (AFE), and further assisted with the recruitment by the authorities of a resident budget expert, has reached the point where both MoFED and line ministries have become fatigued with the shadow pilot program effort and want to move to replacing line item budgets with the new program approach. Like ministries and other public bodies look to MoFED ó in particular the budget department were expected to make this happen.

First training has been given to understand the features & characteristics of program budget, to compare program budgeting with traditional line item budgets, to understand the advantage and disadvantage of program & line item budgeting. After a long journey of the MoFED and the assistances the third versions of the PB training manual and module have been prepared. The module coincides with the third version of the PB manual. Both have been updated in the light of the shadow PB exercise (from September to December 2009) and the new submission formats for PB in relation to IBEX (from March to June 2010).

The finalized program budget procedural manual and preparing of the training module have been completed, and training of staffs of 121 federal public bodies started from the mid of December, 2010 to January 2011 for three weeks and will continue to implement the reform full implementation of program budgeting at federal level in 2011/12 FY and possible future rollout to federal regions.

### 3.4.2 The Way Forward to Implement PB

According to the findings the way forward how public bodies are going to implement program budget is discussed here. The public bodies are expected to prepare a federal organisation's suggested document called "Annual Report, Infrastructure and Service Improvement Plan (ARISIP)" which is the key to program analysis and proposals.

The initial subsidy estimates are going to be issued by MoFED by the end of September, in the context of MEFF. They are finalized for federal public bodies by the end of November. After all these are done by MoFED then there will be budget call announcement in which public bodies are expected to prepare in program budget format.

After a budget call comes from the MoFED there are three parts to the structure of program budgeting (PB) that will be prepared by the public bodies this include the organization, its program and their inputs. The organisational part of PB is made up of the MEFF cluster followed by the specific public body, sub-organisation (if exists). The program part of PB consists of a program, a sub-program (if it exists), an output and its classification (capital or recurrent). Each output then generates its projects (capital) or main activities (recurrent). There can be a maximum of nine programs, nine sub-programs within any program and nine outputs within any program and sub-program. In contrast, there can be up to 99 projects or main activities within any output. The input part of the program comes from the chart of accounts (CoA).

The organisational analysis, its resulting programs and their inputs are captured in every public body's Annual Report, Infrastructure and Service Improvement Plan (ARISIP). An ARISIP is the proposed document to develop and consolidate an organisation's PB. It is designed to ensure the integration of planning with budgeting. It is intended to be a document to report on actual performance in relation to declared planning and budgeting intentions. Finally, it is intended to be available for public scrutiny. The central point is that PB is plan-driven. The planning and budgeting core of ARISIP is the: strategic performance frame work or the three year perspectives at which will issue as MEFF, Performance last year, Progress this year, Proposals for next year, Resource requirements for next year - the consolidated budget bid.

PB requires three levels of analysis: The first level is a strategic performance framework; the three-year infrastructure and service delivery perspective, at which specific, measurable, achievable, realistic and timely bound (SMART) objective setting will be followed; the second level is Program construction; in which each SMART objectives will be converted in to programs, which involves setting out puts and their indicative three year costs (each program's MTEF); and the third one Annual budgeting; converting the MTEF total into an annual figure and verifying through project / main activity and input analysis; i.e. the annual estimates.

#### **i. First Level PB Analysis**

In the context of each organisation's Annual Report, Infrastructure and Service Improvement Plan (ARISIP), it is necessary to establish the structure of the strategic performance framework. This structure has been developed in consultation with the Ministry of Capacity Building (MCB) and Balanced Score Card (BSC) experts. This is because both PB and BSC seek to improve the performance of government. Their common reference point is a public body's strategy. ARISIP carries the public body's strategy, program definitions, justification of outputs and explanations of capital projects and major activities. The agreed ARISIP strategic content in which the public bodies are expected to develop is as follows:

The first level involves national policy and strategy

1. Mission and vision statements (by the public body);
2. Growth and Transformation Plan (GTP)/development and transformation plan (DTP) (formerly PASDEP), sectoral policies (applicable to the public body) and MEFF implications (interpreted by the public body);
3. Indicative expenditure projections for three years (for the public body);

Core program budget

1. Strategic objectives - i.e. program definition (by the public body);
2. Prioritisation of strategic objectives (by the public body);

By the end of level one PB analysis, three things will be achieved: The federal public body will have analysed its portion of the Development and Transformation Plan (formerly GTP), identifying all the objectives applicable to it; completed its strategy, within its share of GTP

and its expenditure ceiling declared through MEFF; Defined SMART objectives within its mandate, which define the programs; and the objectives (the programs) will have been prioritized by using the cross cutting policy criteria provided.

## **ii. Second Level PB Analysis**

Each public body's objective defines a program. The potential outputs to meet 100% of the objective must be determined. The unit numbers (the targets for each output) must be agreed. Finally the current unit and total cost of each must be calculated. The result for this (and each) objective should therefore be a strategic targets table (i.e. the structure of the program). This adds up to the program's medium term (3-year) expenditure requirements.

The second prioritization (after the objectives' prioritization of programs) is within each program. As such, the policy based cross cutting policy criteria are replaced by that of feasibility, the potential to deliver each output, economically, efficiently and effectively. Feasibility itself concerns three questions: ensuring sustainability; practicality; and basic value for money. Thus, a criterion for testing the priority of outputs is seen most practically.

The annual targets are simply those that are to be achieved in the particular year of the 3-year cycle. It is the target to be budgeted for the year of implementation. The simplest presentation of annual targets can be as a refined version of the 3-year target table for each program.

Projects and main activity, and input analysis are designed to verify the programme expenditure estimates, based on planning intentions (the top-down first estimate of the public body's strategy) which is their MTEF which is prepared on the ceiling given the MEFF of MoFED. If they do not match, either the program has to be modified or the projects and main activities have to be reduced. Planning, programming and budgeting should therefore be an iterative process: top-down plan-driven estimates are tempered by bottom-up detailed input analysis.

By the end of level two PB analyses, four things will be achieved: Each SMART objective will be constructed into a program; Each program's outputs, unit numbers (targets), unit costs, total costs and fund sources will have been calculated; the MTEF for each program; Each program's outputs will have to be prioritized; and The total 3-year PB for the public body will be known.

### iii. Third Level PB Analysis

The third is to make the budget for the first year detail from the three years that is prepared. By the end of level three PB analyses, four things will be achieved: Each output's (capital) projects and (recurrent) main activities will be defined; Each output's projects and main activities will be budgeted at the CoA header code level; Each output's funding sources will be presented at CoA header level; and The 'top-down' initial annual budget calculation will be finalized by the 'bottom-up' input budgeting.

#### Summarising the program budget structure

Arising from above level one, two and three the complete program budgets that are expected to be developed, from any public body's perspective, are as follows:

**Table 3.4 Summary of program budget structure**

Level one	Level two	Level three
<b>Strategic framework</b>	<b>Program construction</b>	<b>Annual budgeting</b>
Mission, vision and policy	Program construction	Annual budgeting
Objectives	Prioritising	project/main activity analysis
prioritising	–	project/main activity budgeting
–	–	PB consolidated through ARISIP

It is expected that every federal public body organisation will develop the above ARISIP document with its details to the MoFED for 2011/12 (2004 EFY) budget year. MoFED then reviews the document and made some adjustments based on the countries priorities and available resource if there is deviation. After revised and adjustments made the MoFED will present the ARISIP document to the council of ministers and then it will be presented for the parliament as the usual budget process for approval.

## MAIN FINDING

Since the introduction of PB MoFED has made many things to facilitate effective design and implementation of the reform. Besides, the way forward is also designed at least generally with the possible detail direction to be issued in the future. The main achievements include first pilot test in 3 ministries, then the extension of the pilot to 20 ministries, call for assistance from IMF and AFRITAC East and recruiting a resident advisor to finalise PB formats, implementing shadow PB for more than 100 federal public bodies, finalising of the PB manual and module and give training for all ministries and federal public bodies.

The way forward is that MoFED will prepare the MEFF and announce their share to the ministries then based on the ceiling provided in the MEFF the public bodies will prepare the PB document which is named as Annual Report, Infrastructure and Service Improvement Plan (ARISIP). This document will consist the three year MTEF of the public bodies at which their mission, vision and objectives will be developed and objectives will be prioritised and The program structure that will be needed to achieve those objective and their respective programs which are best to achieve the objectives, the output/result of the programs and their projects and main activities to produce the output and their general costs. The detail costs of every project and main activities for the first year will be prepared.

### **3.5 Availability of prerequisites for program budget**

#### **3.5.1 The Prerequisites for Implementing Program Budget**

There are different scholars who tried to identify the pre requisites to implement a program based budget reforms. Some put that the critical implementation factors include four elements. These are communication, resources, disposition and the bureaucratic structure. To create a typical accountability there must be communication of the performance standards which are set, the comparisons of performances with standards and the sanctions when standards are not met. There should be mobilisation of adequate resources fairly to facilitate implementation in all sectors of the country. Disposition refers to the degree to which the organisation likely to favour implementation and make conscious efforts to ensure the success of the reform. The bureaucratic structure refers to organisational fragmentation and standard operating procedures. The bureaucratic structure should not be fragmented so that the standard operating procedures will be simple and good for implementation.

As it is noted in the introduction part of this paper technical improvements like program budget type reforms to be effectively implemented and bring desired results there should be political and bureaucratic leadership that is free from corruption and rent seeking behaviour, adequate human and financial resources, sound macro fiscal policy management and respect of budgetary rules and procedures.

As noted in the literature part some scholars have also identified the policy and implementation guide lines that should be in place before implementing or to effectively implement program budget reform. The policy guidelines include among others existence of high level commitment, involvement of legislation in implementation, consider the political realities, development of complete strategic plan, support of the staff, initiation must be from inside, good communication, and believe in the system. The implementation factors include sufficient time should be given, it should be step by step approach, resources must be committed, no large difference with the existing budget system and develop program structures which are related to public needs.

In this section of the thesis, the availability of all the above listed preconditions to implement program budget in Ethiopia is discussed. As it was noted above here the findings are the results of the interview, questionnaire, training materials and discussions and to some extent secondary data are utilised.

### **3.5.2 Availability of Sound Macroeconomic Fiscal Policy Management and ICT**

Analysis of the macroeconomic conditions revealed that although the macroeconomic performance in the last decade is very good, when judged in the context of the structural problems of the country, its sustainability is uncertain. This is because Ethiopia's macro performance is highly dependent on vagaries of nature and the external sector. In the face of dependence on rain-fed agriculture, and hence macroeconomic performance, addressing this issue is an important challenge for policymakers. But even if the macroeconomic condition is questionable at its sustainability the management of the macro fiscal policy is well structured and is found in a good position to make sure that determination of the available resources to public bodies will be presented on time. Following the IMF Executive Board's review of Ethiopia, Takatoshi Kato, Deputy Managing Director and Acting Chair, stated that "The Ethiopian authorities have built a sound track record of policy implementation and despite

the impact of the existence of drought some times, macroeconomic stability has been maintained.

The Ethiopian Government has made the development of information and communications technology (ICT) one of its strategic priorities. This ICT policy is a demonstration of its commitment to the development of ICT both as an industry and as an enabler of socio-economic transformation. Aside from being an enabler of socio-economic development, ICT also supports Ethiopia's on-going process of democratization and sound governance.

**ICT situation in MoFED:** It is the Ministry of Finance and Economic Development (MoFED) that regulates the procurement and financial operations of all government organizations. To meet the government policy of implementing the accounts and budget reforms nationwide and use the new information communications technology (ICT) infrastructure, the government specified that the Budget Information System (BIS) / Budget, Disbursement and Accounts (BDA) systems will be upgraded in to the Integrated Budget Expenditure (IBEX) System. Hence, assessing the status and trend of automation in MoFED helps us to consider a strategy that brings significant impact on the design and implementation of program budget in all public organizations. According to Interviewing the Coordinator of Public Finance Sector Works of MoFED, Tesfaye (n.d) and other secondary source draws the followings summaries of the status of financial information systems in MoFED.

**Budget and Disbursement Information System (BIS):** This system has been used to prepare budgets and record disbursements. Zonal offices receive financial data in hardcopy from *Woreda* offices, key in the data into the computer, and finally send soft copies to the regional bureaus, which compile the financial data and send again in soft copies to MoFED.

**Integrated Budget Expenditure System (IBEX)** is EU sponsored this system. Since, 1998 EC (2006 GC) IBEX(Integrated Budget and Expenditure System) has began its operation by the budget module then after the other five modules added to the system i.e., Accounts, Accounts Consolidation, Budget Control, Budget Adjustment, and Disbursement. This system is loaded at federal level; the system has also fully implemented and is helping to coordinate the financial activities of all sector offices at *Woreda* /Zone level.

**Integrated Financial Management Information System (IFMIS):** Currently, MoFED has invited consultants to design this advanced information system with approximate cost of \$40 million. The system will have integrated components of Procurement, Payroll, Fixed Asset, Human Resource, Debt Management, and Revenue (Taxation) Management systems. IFMIS, if implemented, allows MoFED to control the financial activities of all federal ministries and to transfer electronic money to the account of each government agency in the National Bank of Ethiopia (NBE). Besides, the different government agencies can use the system to electronically request budget release and electronically submit different periodic financial reports.

The main objectives of the IFMIS are to improve and strengthen public expenditure management with a view to bring about fiscal discipline, To integrate all accounting modules including the budget module, To provide the Government of Ethiopia with an upgraded and state of the art computerized accounting system, To ensure that other sub systems are properly interfaced with IFMIS, To assist in the production of timely and reliable financial data. Unfortunately, the IFMIS project in Ethiopia is not completed because of different reasons but first it was delayed because of MoFED reengineers itself through BPR. The ultimate problem is that the existing technological financial system i.e. IBEX cannot support the newly design program budget in implementation because there will be a lot of changes. Commitments have been made to upgrade the system but it fails.

### **3.5.3 Availability of Other Prerequisites to Implement Program Budget**

Beside the sound macroeconomic and fiscal policy management and availability of adequate information communication system to handle financial information there are also a lot of preconditions that have to be available as discussed above. The following Table 3.5 represents the responses of the questionnaire by respondents regarding the situations.

**Table 3.5 Availability of prerequisites for PB implementation in Ethiopia**

No	Issue	No of times cited	Percentage %
1	Believe that PB can/may better utilise resources	29	96.66
2	Training has provided about PB	27	90.00
3	Staffs support PB type reform fully and partially	29	96.66.
4	There is strong commitment of staffs to PB	24	80.00
5	Effective communication exists and moderate	25	83.33
6	ICT usage is moderate and above	20	66.66
7	Staffs ready to accept extra workloads for PB	15	50.00
8	Personnel is capable to implement PB is partially and above	26	86.66
9	Existence of environment which supports performance partially and above	23	76.66
10	Believe that PB will strength power of officials	17	56.66

**Believe in PB:** One of the important things in program budget implementation is that all the stake holders must believe in the system that it will bring efficiency, economy and effectiveness in spending public money. There must be strong belief that program budget will better utilise the financial resource of the country and an organisations missions can be fulfil. When we see the responses of the respondents it reveals that more than 95 percent of them believe that applying program budget will have a positive impact for effective utilisation of scarce resources of the country. PB fails at the first hurdle if the shift from input to output-based budgeting is not accepted and practiced. Government is believed and committed to this transformation in that this is now the fifth year of its effort to implement PB (starting in 2005 with initial piloting for 3 years, then a full shadow PB exercise in 2009).

**Adequate training and development:** There have been trainings offered by MoFED since the pilot study of about program budget and its related issues. According to the respondents 90 percent of them confirm that they have attended trainings which are related to program budget. This response does not include the training at which this paper also bases itself at which all federal government spending agencies have participated. This shows as that trainings are provided again and again which is very important to build the capacity of individuals who participate in implementing program budget actively.

**Support from staffs:** The other important precondition is that the staffs of the organisations should support such reforms. The staffs of all public bodies should be well informed and involved in the implementation program. According to the findings of the questionnaire more than 90 percent of the respondents think that the staffs of their respective organisation support partially and fully. Here the response partially will show as that trainings and information should provided so as to get the support of the staff in implementing the reform.

**Readiness and commitment:** For successful implementation of the program budget strong high level commitment and the implementation effort must be strong and determined. The success of a program budget depends on how strongly it is supported. Those in charge of its implementation must be determined to make the system work. The finding reveals that 80 percent of the respondents believe that there is strong commitment of the staffs of their respective institutions to implement program budget. But in the contrary the finding shows that only 50 percent of the respondents believe that the staffs of their organisations are willing or ready to accept extra work loads to implement program budget. If there is strong commitment it will definitely means that there will be readiness to accept extra workloads but the response is contradictory. When we see program budget it uses more information and have a great deal of paper work than the traditional budgeting system because it integrates the planning and the budgeting elements together. This contradiction shows that the respondents are not quite sure and there is a gap to be filled to make the workers committed and dedicated.

**Effective communication channel and environment:** Since program budget implementation requires a significant amount of change, open channels of communication must be maintained at all levels of government. Besides information technology is the main facilitator of communication and flow of information from one to another. Program budget documents consists of a lot of information which may be used by different stakeholders and

helps for different purposes starting from planning up to monitoring evaluation and taking corrective action. As it is easily depicted from the table in the above 25 respondents reveal that there exists good level of communication in between the staffs of their respective organisations. When we look the level of information technology as judged by the respondents more than 65 percent of them believe that there exists moderate and appropriate level of ICT. This fact reveals that there is gap at which need to be considered to improve the level of ICT usage by all public bodies.

**Environment which supports performance:** Program budget involves setting standards at which the performance of the organisations undertakings will be measured. Unlike other budget types even program budget goes up to impact assessment level for performance measurement and taking corrective action. To achieve this element of the program budget, existence of environment which supports performance is essential. The finding reveals that more than 75 percent of the respondents say that there exists an environment which supports performance in their respective organisations at least partially. There must be strong environment that supports performance this also shows that a gap to be addressed. Availability of capable personnel is also a determinant for successful implementation of program budget reforms. More than 85% of the respondents believe that the available Personnel are capable to implement PB. Here a caution must be taken because since program budget is a new concept in our country this fact only reveals that the capacity of the staffs in their works before and their potential capacity to accept trainings regarding program budget and to implement it.

There must be performance agreements with any agency's senior (program) manager this can be implemented in the first year of full PB implementation PB requires all priorities to be in ranked sequence so that difficult choices are impossible to avoid. There will never be enough money to satisfy all development demands. A format for prioritization is offered at the objectives level, and at the outputs level.

PB measures the economy, efficiency and effectiveness of the infrastructure and services delivered by or on behalf of the organization. A format for such measurement is proposed in Ethiopia. The relationship with government's commitment to performance auditing is also explained, with additional technical explanation is given.

**Individual benefits:** In order to have a good input to implement program budget those involved must feel they will benefit. Officials and administrative must believe that a program budget will improve governmental operations government officials should also feel that they will benefit personally. It has noted that above the respondents believe that program budget will improve the operations of the government. But when it comes to their personal gain only 56% of the respondents think that program budget will give flexibility for official in decision making by which their power increases let alone other benefit. This shows that there is still gap in understanding program budget concepts and its implications. This may also reveal that the trainings and different discussion sessions are not successful in transmitting the basic concepts of program budget. Besides, the benefits of the individuals are not clearly articulated in the implementation program.

**Top level support:** Top level government have to support the implementation especially the chief executive (prime minister or the president). Next top administrative support is also essential. Opposition to change can be minimised in high level support for program budgeting. The finding of the interview and discussion shows that the program budget reform has strong support from the prime minster and the minster of MoFED. As it was noted before the prime minister not only have strong support but also was the first initiator of the reform. This is a very important and useful input to effectively implement program budget reform.

**Implementation from inside:** As it was noted in the literature Implementation should be carried out from within the government avoiding the use of outside consultants whenever possible. The implementation of program budgeting will be more successful if the system is developed by the in-house governmental bureaucracy rather than by outside consultants. The findings of the interview and discussion reveal that the initiation was from the government of Ethiopia by itself. In the course of preparing the document and the formats assistance was asked to IMF and AFRITC East (AFE) for reviewing the progress and support in some technicalities because it was essential. Finally a resident advisor has recruited and work here for a year but now the process is totally undertaken by MoFED experts.

**Involvement of the legislature:** The involvement of the legislature is also essential to effectively implement the reform. The pilot and shadow PB formats have to be submitted to the parliament and they have to see the progress in its implementation and will initiate further developments and corrections in the contents and formats but in Ethiopia the fact is the

reverse up to now neither the council of ministries nor the parliament have any official reports on the implementation of PB.

**Centralised control:** Whenever such reforms are undertaken the initial efforts should be centralized as much as possible because it involves a great deal of risk. The more that changes can be limited to central management, the greater the probability for success. The MoFED is the responsible body for making sure all public bodies are capable of preparing program budget and controlling its progress specially the budget reform team. This shows us that in Ethiopia controlling the progress of PB in a centralised manner in which the situation also requires.

**Strategic plan:** There must be a complete overall plan for implementation i.e. a strategic plan to implement program budget. Every stages from design through implementation, evaluation and revision must be planned before the actual change over begins so that all participants can have an orderly sequence of events. MoFED is controlling the program budget implementation by way of its own implementation plan and will make sure the details will be issued in the appropriate time. The manual and training sessions also shows that there is a full plan up to evaluation and revision. PB is conceptually redundant without a strategic context to condition the resource allocating process. A new format is being proposed in this manual ó its Annual Report, Infrastructure and Service Improvement Plan (ARISIP) which is the strategic document.

The strategic context for PB is being satisfied increasingly through public annual reporting in terms of outcomes (wider societal impact) and outputs (organizationally specific, directly attributable achievements). A new format is being proposed in this manual. PB assumes that the real test is of resource allocation against future intentions (plan), tempered by recent performance (review). The essence of this is already included in government's budget calendar; reviewing last year's performance; this year's progress and planning next year's proposals.

**Sufficient time for implementation:** When program budget reform is undertaking it should have given enough time for implementation. Government should expect to implement program budgeting, at the minimum, over a three-year period. Program budgeting requires an increased amount of data collection in addition to many format and procedural changes which cannot be resolved immediately. In Ethiopia case pilot study have been conducted for three

ministries in 2005, then it was decided to include 20 ministries in the pilot study by preparing shadow based program budgeting in lined with the line item. In 2009/10 and 2010/11 the pilot study (shadow) program expanded to cover more than 100 federal public bodies. Since Ethiopia has been engaged in this reform for over five years it can be said that there have been sufficient time given. A government should not try to implement a complete program budget immediately, but should plan to adopt and improve the system gradually over years. Implementation should begin in a few key departments and proceed step by step until all departments are included. Some program budgeting advocates have suggested that both a program budget and a traditional line-item budget should be prepared during the initial implementation stages. From the above we can also conclude that step by step approach and minimising the difference with the line item at initial stage are considered by way of pilot (shadow) program budget.

**Programs related to public needs:** To be effective program budget the program structure must relate to public needs. Program structure is not an end by itself but it is a means to an end. From the training manual and training sessions there is a structural framework at which public bodies will follow in designing the program structure. The strategic framework ensures that the program structures are in lined with public needs because it sets criteria at which the organisations objective going to be prioritised which are millennium development goals, gender issues, environment issues, and economic growth. If objectives are prioritised in lined with this criteria it is likely that the program structure to achieve the objective does to.

**Keep it simple:** The findings show that the experts believe that PB is not complex, even though it incorporates almost all of the components. Systematic training and orientations have been there since the initiation of the reform. The experts interviewed also believe that there is sufficient amount of financial resource to implement but they express their doubt if in the future external assistance is needed which is very costly. The IMF and the AFRITEC East of Tanzania are also giving a technical support for the sound implementation of program budget in Ethiopia.

**Programs and organisational structures match:** PB's key unit of planning and budgeting analysis is the program. However, PB has to reconcile the program structure with the

organizational structure it represents. Ultimately, they are seeking to achieve a program-based organizational structure, harnessing the benefits of BPR and BSC towards that end.

In government reform, the agenda for change must incorporate an understanding of the current and desired functions of government and the translation of the desired functions into the: Policy, legal and regulatory context; Organisational structures, the deployment of personnel and their training needs; and the Planning, budgeting, implementation and review processes, including its supporting information system. The shorthand for this is the institutional development (ID) agenda. ID agenda of context, structures and processes, to perform the functions, should be mutually inclusive; they should not contradict each other.

Thus, for the function of PB, the policy, legal and regulatory context should be in place. The internal organizational structure, including the deployment of trained personnel, should be established. Finally, the planning, budgeting, implementation and review process, including its supporting information system, should be installed. All this optimises the potential for the economical, efficient and effective delivery of infrastructure and services. If one part of the ID agenda is not met, it distorts the potential for full performance from the particular institution being reformed.

In Ethiopia development of PB, the policy and legal context is in place, captured in the current proclamation and regulations. Areas of practical change are still required. They are outlined and will be submitted to the council of ministries and finally the parliament. These will be captured in a supporting PB directive, issued by MoFED. Finally, specific guidelines will be issued as part of the next Ethiopian fiscal year's Budget Call. The others are slow in progress due to capacity problem and some difficulties.

## MAIN FINDINGS

In Ethiopia the adoption of PB has acceptance by all stake holders. There is sound management of macroeconomic fiscal policy, the necessary manuals and formats are prepared, trainings have been given, the necessary legal frame works are made and some are in progress. In the contrary the necessary financial management system software is not in place, there seems that the commitment of the top level officials in line ministries pay sufficient attention and commitment to its implementation, organisational benefits are there but individual benefits are not, trainings cover only limited person and also short duration which are difficult to understand the full concept, the legislature does not involve in the

implementation, agreements and understandings in terms are not reached and even though, It has said that it has sufficient time but there is only a pilot and full of shadow implementation but not sample/pilot implementation made to fully implement PB and to learn from that.

### **3.6 The possible challenges of program budget**

A full-fledged Programme Budget (PB) is going to be introduced in 2011/12. This framework which forms the basis for appropriation by the responsible bodies represents a significant step in the evolution of the government's budgeting reforms. PB is going to replace the traditional line-item budget and is intended to improve the efficiency and effectiveness of public spending and build a performance culture within the public sector.

In a public sector environment the development of a relevant and informative performance budgeting is inherently a difficult task. This difficulty is compounded by the fact that the public sector is faced with changes at the helm of government in a democratic set-up and new community priorities and expectations that compel Ministries and Departments to periodically review and refine, as necessary, programmes, outcomes, outputs and performance targets.

Program based budgeting has emerged as a concept which has been implemented in many countries and is actively promoted by international economic institutions such as the OECD and the IMF. Many countries, both developed and developing, already have more than 10 years of experience in PB, yet they are still encountering problems in the implementation. Since Ethiopia doesn't have any miracle that this reform will be implemented without any challenges, especially relatively to other experienced countries which have been implementing PB for many years and have strong economic and highly trained and developed civil servant conditions it is obvious that Ethiopia will face many challenges on the way. The pilot and shadow programs also revealed this fact although they have prepared PB format but its quality significantly varies from ministry to ministry. It is with such experience that Ethiopia going to fully implement PB. Here under the findings of secondary data, questionnaire, interview and discussion of the possible challenges are discussed.

The possible problems that will be faced are very large in number but for discussion purpose it will be convenient to categorise them in capacity problems, methodology and approach problems, and commitment problems.

## **1. Problems of capacity**

Capacity building is creating visions of what individuals and organizations can be, before they will be. It is securing the future by addressing current development needs and opportunities. Capacity simply is the ability to perform appropriate tasks. When we talk about problems of capacity it means both institutional and individual capacity. There is a great deal of capacity problem means there is no adequate ability to perform the appropriate tasks. Even though there have been capacity building activities by MoFED since the introduction of program budget but findings still reveal that there is no enough capacity to implement the reform. Only small numbers of the federal public bodies have get trainings irrespective of the quality of the training. Most of the respondents reveal that the training sessions have been very short and hence the quality of the training is at stake. The problem also continues because those who claimed the training sessions are too short and did not get enough of the concepts are responsible to train others in their respective organisations. If this is going to be continued there will be a great deal of misunderstanding about the concepts, procedures and formats of PB which leads to confusion and will produce an adverse effect. This is because in translating messages to others there is always distortion and this will increase as the transmitter also does not capture the whole concept in the right manner. These confusions also might lead to resistance to change also produce a negative output.

The problem of capacity is not only in the federal public bodies but also in the MoFED. The available human resources in the MoFED are well trained and qualified but there is shortage of man power to oversee and control the progress of PB implementation in the federal public bodies. In all sessions of the training participants have raised this question that MoFED assigns a consultant to the public bodies to oversee and control the progress and take corrective action if there is a deviation and on the way MoFED will make sure that PB is understood and undertaken in the same manner as designed. In contrary to this fact the immediate response is that MoFED did not have the capacity to perform its mandate effectively.

As it was noted before PB is information intensive, it involves a lot of information that it needs an information system to manage the flows of information and make correct decisions basing on its results. Even though, efforts have been there to use the new information communications technology (ICT) infrastructure and introduced the IBEX system all over the country even up to lowest local governments except Somali region. There have been also

efforts to accommodate PB in the IBEX system but unfortunately it was not successful. The only option is to complete the IFMIS project of MoFED but it has been taking longer time and cannot reach for the coming fiscal year and is not sure it will also be completed for the next year. This is one major capacity problem that PB will face in implementation stage.

## **2. Problems with the current methodology and approach**

There are a number of controversies and confusions in the methodology and approaches of the PB formats. One of them is the introduction of results/outputs within the budgetary structure and the requirement to cost each output/results. In the first draft of the agreed program structure consisted of program, sub program (where needed) and main activities/projects. The final new methodology has defined outputs/results as being the third level, instead of main activities/projects. While the notion of output/result is essential to program budgeting, adding them as a formal element in the program structure is likely to lead to confusion among budget users, complication in execution, and difficulties in reporting spending against outputs/results.

The first one is there are difficulties in understanding how objectives can be prioritised and after the process of prioritising the objectives is done what is the fate of the objectives which have less score in contribution to the criteria. Especially when the objectives are interrelated (in most of the public bodies they do) the objective that have less score in related to the criteria may be is a necessary condition not an option to the attainment of higher scored objectives. Detail training in setting of objectives and an agreement between the public bodies and the MoFED is not there. These complexities may create confusions and difficulties in implementation and also evaluation. The other related to objectives is that some may understand it as a broad goal that is linked to PASDEP, DTP(GTP), while others put specific targets within the three year period for which programs are going to be proposed. Such misunderstandings in determining which one can be objective, which one can be output or a result and so on, will still create confusions and difficulties in implementation.

The costing methodologies also have difficulties, the recommendations that public bodies identify the number of each output/results to be produced, and to multiply this by standard cost is somewhat simplistic approach to development of budgets but this is inappropriate for same outputs but may have higher costs depending on the conditions and the complexities at which the outputs will be produced. In addition, the federal government ministries where

policy and regulatory work form the bulk of recurrent activities, there will be only limited use for a standard costs approach for inputs. The costs of operating functions like office supplies and utilities, and transport and travel costs are not in a position to be apportioned to their respective outputs.

The definitions of all terminology and concepts are not clarified and clearly understood by all Ministries and Departments. An agreement is also not obtained on terminology and concepts to avoid misinterpretation and confusion. Even the name of the document has been a source of debate because when it translates in to the countries national language it cannot even be correctly pronounced. It is noted that objectives, outcomes, outputs/results and performance indicators not defined simply and applied consistently across all Ministries and Departments. There is also misunderstanding how objectives can be quantified and how outcome will be measured especially for service provision in social sectors. There is no clear understanding and consensus about this issue and there is no detail discussion and training arranged to solve this problem at least by consensus.

The other challenge related to this is there is a considerable variation in proposed program formats. In determining the programs of the federal ministries what is proposed is to use the existing BSC and BPR structures to determine the number of objectives and programs. In implementing the BPR core process and the BSC main perspectives will be taken as an objective at which programs will be designed. While the integration seems possible and attractive but there are difficulties, especially the number of core process in some organisations are more than ten while the current program structure only allows a maximum of nine programs. Besides some organisations mandate is very vast at which it will be difficult to be incorporated in nine programs. Since there will be a huge mission that need big attention might be hidden and will not be achieved while they have strong demands.

### **3. Problems related with commitment**

There is keen interest in the line ministries to adopt program budget and also have prepared their indicative (shadow) program budget every year industriously. The capacity building efforts of the MoFED assisted by others to have created staffs that are capable of preparing program based budgets. The involvement of top management is important to PB implementation. However there is lack of formalisation and those senior managements in line

ministries were not often engaged in the process undermining the commitment in the process. The involvement of top management in finalising program structures, clearly absent in some federal public bodies is there while their participation is essential for program ownership and their effective linkage to national policy.

The lack of dedicated interest and attention at the top level management means those essential activities such as, monitoring and follow up and evaluation will not be achieved. Program managers will be reluctant to accept this reform because soon they are going to sign performance agreement and they will be direct accountability for not achieving the performance agreed.

Even though middle level cadres with in ministries capable of preparing policy based output focused budgets are created by the capacity building efforts of the MoFED and its assistances, it does not assure that they will work with dedication and strong interest because there is no special provision that initiates them to do so in the contents of the reform. The benefits of the organisation and the individuals personally is not clearly articulated and communicated. This and related problems weakens the interest and dedication of the workers to implement PB effectively.

#### MAIN FINDING

There are different challenges that PB faces and will face in its implementation. These include among others capacity problems of MoFED to follow up and the line ministries to genuinely implement the reform, methodological problems related to the formats and terms and terminologies and commitment problems of all stake holders even though they believe PB is good way of PFM but they also understand it needs more extra work loads since there is no motivation and incentive to act in a desired manner.

## CHAPTER FOUR

### 4. CONCLUSIONS AND RECOMMENDATIONS

#### 4.1 Conclusion

The role of the government is changing from time to time; hence it is now readily apparent that good governance is a key to achieving sustainable socioeconomic development. States are being challenged as never before by the demands of the global economy, new information and technology, and calls for greater transparency and accountability.

Governments and organizations all over the world are grappling with internal and external demands and pressures for improvements and reforms in public financial management. These demands come from a variety of sources. Government performance has now become a global phenomenon. Program budget is a powerful public management tool that can be used to help policymakers and Decision makers track progress and demonstrate the impact of a given project, program, or policy and to identify where the public money goes. Program budget differs from traditional input oriented line item budget in that it moves beyond an emphasis on inputs and outputs to a greater focus on outcomes and impacts.

**4.1.1 The budget reform is necessary.** Budget reform is about doing the right things right, in order to achieve the desired change. What the right things are is not independent from specific country circumstances. Since the people of Ethiopia also deserve a better budgeting approach at which their resources will be utilised efficiently and effectively the government of Ethiopia is responding to this situation have been adopted a pilot and shadow program budget since 2005. It is clear that previous result based reforms demand the introduction of advanced type of budgeting approach because line item budget approach is criticised for many failures. In addition to that top level political leaders understanding the importance of the reform has initiated it. This government decision is also shared by the budget experts of almost all public bodies which give a good input in to hoping that PB will produce better results.

**4.1.2 Efforts are there but there is only shadow program experience.** There have been strong efforts by MoFED to effectively install PB to the federal government of Ethiopia though the progress is slow. Starting from the first pilot program budget there have been a lot of modifications and changes based on experience, external technical assistances review and

from practical evidences. The finalised formats and procedures are not perfect guidelines but based on additional experiences and reviews of the progress there might be amendments in the future. Even though pilot and shadow programs have been undertaken for over five years, Ethiopia is implementing PB without any formal and fully implemented program budget at pilot stage. The next phase is to implement program budget in all federal public bodies without formal pilot formal trials in few sample ministries.

**4.1.3 Some pre requisites are available but some are not.** There are a number of prerequisites that reforms like PB require to be installed and function effectively. A sound macro fiscal policy management and adequate information technology are the major ones. In Ethiopia MoFED is undertaking a sound macro fiscal policy management so that public authorities may know their budgetary resources in advance so that they can plan ahead. Adequate financial management software is still in question. For the 2011/12 FY it is planned that the formats of the budget submissions are amended (see appendix III) to incorporate some line item components for payment and transaction purposes but this is only for the coming budget year. But a permanent financial management system is on progress but not completed.

PB reform has strong support by budget workers and they have been enrolled in different training sessions to increase the capacity of the workers. The previous reforms pave the way to PB as the Baptist john pave the way to Jesus. Most of the previous reforms have created the performance conditions and the public service restructuring which will create conducive environment for PB to become successful. There is strong support and political commitment to implement PB which is essential for the success of program implementation.

**4.1.4 There are possible challenges will be faced.** Besides all the achievements and the plans to go forward there are a lot of possible challenges which hinder the effective implementation of PB in Ethiopia. The problems emanate from different conditions like the economic level of the country, the existing trained manpower, and the existing socio-political conditions. Even if there have been efforts to train and build the capacity of the federal public bodies the time and content coverage was not sufficient to understand and internalise the concept of PB. Besides only few in number of workers are trained and expected to train others which is not appropriate. The capacity problem also exists in MoFED at which the major follow up, controlling and evaluation of the program is the mandate of the institution. There are only few qualified numbers of experts who are capable to perform these important

activities in contrary with more than 120 federal public bodies which need the guidance and follow up from MoFED.

There are methodological and approach problems which are debatable and create misunderstandings will hinder effective implementation of PB these include among others, the introduction of result/output as a third level component which increases the complexity of the budget format, misunderstandings and confusion how objectives to be prioritised and the decision to be followed, variation in understanding the concept of differentiating objectives from targets, goals and results, problems related with costing and cost apportionment between programs, lack of consensus and uniformity on terms and definitions and difficulties in making the structures of the organisations fit in lined with few number of programs especially when the organisations mandate is very vast.

There are middle level trained workers almost at all the federal public bodies even though their quality is different and their number is not also sufficient. There exists lack of commitment and attention from top managers which possible make PB reform not to succeed. There is no clearly articulated personal benefit that the personnelø involve in the implementation of PB in addition to organisational efficiency and effectively utilisation of public money.

## **4.2 Recommendations**

**4.2.1 MoFEDs capacity has to be improved.** The success of a program budgeting initiative will very much depend on the MoFED budget departmentø abilities to analyse, monitor and review the program budgets of the various public bodies. Their ability to challenge line ministries over program objectives and outputs/results that do not comply with agreed priorities set out in PASDEP, DTP/GTP and other official policy documents and their effectiveness in working with ministries to improve the quality of budget submission, will need to be carefully monitored.

**4.2.2 Public body's capacity has to be also improved.** Introducing PB requires intensive training of officials, so that they have a good understanding of the concepts and system by the time of implementation. Training should include both theoretical concepts and practical applications. Only few Officials were trained. Most of the training was given to officers in

the Finance Cadre, when it would be more relevant to people who are involved in developing policy and implementing service delivery. Even then the training programmes provided by MoFED were felt to be too compact and not of much help.

Ministries and Departments should be provided with appropriate training, tools and support for developing their programme structure. More capacity building is required to deepen the understanding of officials ranging from operational to top management. Specific areas for capacity-building include strategic planning, costing, performance measurement, monitoring and evaluation. As stated above it should include practical work sessions.

**4.2.3 Attention has to be given for ICT.** The importance of computerised financial management system is clearly identified while the completion of the IFMIS project is not yet likely in this year. There must be commitment of resources and dedicated efforts to complete the project so that PB can be well managed and to see its effectiveness. Unless and otherwise it will be difficult to judge the introduction of PB without the basic elements of it.

**4.2.4 Step by step approach should be there.** A gradual approach may be most appropriate given the magnitude of change program budgeting will involve. The advantage of a gradual approach is to make sure the new budget system is accepted and well understood and, at the same time, allow time for other ministries to learn more about the new system and its effects. Since there was no public body fully taste the adoption of PB additional time should must be given to fully implement in selected federal public bodies which show good progress in the shadow program so that a lot of practical challenges will be identified and possible remedies and pre cautions can be taken. The piloted shadow program is not enough because it can only tell us how program budget is designed in different ministries so that correction and pre cautions have been made. The pilot and shadow PB implementation does not have practical input so it should be noted that PB needs additional time and to be implemented after a year.

**4.2.5 PB has to keep simple and agreement should be reached on terms.** There must be a review and consider the inclusion of output/targets as a formal element in the program budget structure as the third level before projects and main activities. Hence, the inclusion of results/output contributes to complexity of program budget MoFED should consider it again and try to avoid it as a formal element to keep it simple.

The costing approach should also be reviewed and there should be flexibility in the using of unit cost approach. If there is possible it is better to use a unit cost approach but whenever there is impossible to do so the traditional input cost should be allowed at least for the transitional period. Since it is difficult to clearly calculate the exact costs of every program for the transition purpose it will be better to centralise such costs as office supplies and transport and travel costs and so on. For the future the details of every activity should be studied and method has to develop to apportion central costs to their respective programs so that the exact cost of a program will be known.

Agreement should also be obtained on terminology and concepts to avoid misinterpretation and confusion. It is critical that all elements of the PB be defined simply and applied consistently across all Ministries and Departments. The definitions of all terminology and concepts should be clarified and clearly understood by all Ministries and Departments. MoFED and line Ministries and Departments should be provided with more guidance on identifying relevant and appropriate objectives, programs, results/outputs and also projects and main activities.

**4.2.6 Flexibility is essential.** Some ministries mandate is very vast so it will be difficult to incorporate all their objectives only in nine programs. The program budget format should allow some flexibility so that such convincing ministries will have more than nine programs which will help them to achieve their objectives. The detail manners whether they are convincing or not should be handled by the responsible experts at MoFED.

**4.2.7 Commitment has to be created.** Government reform often fails because it is poorly implemented. To succeed, reformers must win over those who produce information, provide services, and manage bureaus and agencies. A reform program must have committed allies; if it doesn't, it will most certainly have powerful adversaries instead. It is essential, therefore, to actively enlist other Ministries and Departments in the reform process consulting them before key decisions are made, being sensitive to their concerns, and using their expertise and experience to improve the reform strategy and build support for it.

Having Ministries and Department design their own program structure aims to foster a sense of ownership. Development of the program structure should be done in close cooperation with the MoFED through consultations. MoFED can offer policy advice and direction for line ministries, who in turn will have the opportunity to express their views and visions for the

new budget structure. By way of participation and clearly articulating the benefit that will be gain personally attention and dedicated commitment must be built at both top levels up to the operational units of the ministries.

The concepts and practical implications of PB must be effectively communicated to the stakeholders in implementation and review process. The efforts have to be strengthened to do more advocacy jobs and to attract the attention and interest of top level officials and managers.

**4.2.8 Further research is recommended.** The experience of Ethiopia in implementing PB is very limited to pilot and shadow program implementation. This research paper tried to show the prospects and possible challenges based on expert views, secondary data~~s~~ about the experience of others and training about program budget. Hopefully this output might help others to initiate themselves for more research from more practical view after its implementation in the future. It is essential to check its implementation through ongoing analyses of the contextual factors in Ethiopia by MoFED and also other responsible bodies like higher level education institutions, research organisations and consultants.

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## APPENDIX I

### ASSESSING PROGRAM-BASED BUDGETING IMPLEMENTATION IN ETHIOPIA AN ASSESSMENT INTERVIEW GUIDELINE TO IDENTIFY PROSPECTS AND POSSIBLE CHALLENGES

#### **Introduction:**

Countries across the globe are facing pressures to reform the policies and practices of their public sectors. Indeed, it is vital that an effective and efficient public sector contribute to sustainable development, economic growth, and the well being of its citizens. Focusing on the financial management of the government thus becomes an important factor in being able to achieve the desired goals of growth and economic/social development.

As governments begin to address these challenges, they will want to improve their public financial management in the government to achieve the most from the available financial resource. A program budgeting system is believed to be an important tool that will allow governments to achieve these objectives.

#### **Dear Informant,**

My name is Michaele Gobezie. Currently, I am a graduate student at Addis Ababa University, School of Business and Public Administration. I am conducting a study titled *an analysis of the prospects and possible challenges of the transition from line item to program budgeting system in Federal Democratic Republic of Ethiopia (FDRE)* as part of the requirement for the successful completion of the Masters Degree in Public Management and Policy specialized in development management studies..

To attain this purpose your honest and genuine participation is very important and highly appreciable. Please be assured that all the information you provide will be kept strictly confidential and will be used only for academic purposes. However, your honest answer to these questions will help me better understand the present situation of the budget system. I would greatly appreciate your help in responding to this study. Would you be willing to participate? All responses are to be given in Ethiopian context.

Signature (if needed) \_\_\_\_\_

Thank you for sparing your time to provide me relevant information in the second phase of my study!

## Back ground information

Name of Respondent: \_\_\_\_\_

Position: \_\_\_\_\_

Organization: \_\_\_\_\_

Years in Current Position: \_\_\_\_\_

Years in Current Organization: \_\_\_\_\_

Date of Interview: \_\_\_\_\_

Interview Conducted By: \_\_\_\_\_

### **Part I: The Incentives for Designing and Building a Program Based Budgeting System**

1. How would you describe the process of the traditional line item budgeting decisions in the central ministries and sector/line ministries?
2. Do you think that the traditional line item should be replaced by new and modern ones? If so why?
3. How do you describe the pitfalls of the traditional line item budgeting?
4. Is there any practical problem faced while using the traditional line item budgeting system? If so what are they?
5. Are/were there senior officials who advocate the use of program budget in resource allocation? If so can you mention some?
6. Are there senior officials that would resist the implementation of program budget in the country? Reasons why there is resistance?
7. Do any sector or line ministries undertake or commission implementation of program budget? If so which ones and how far they have made it?
8. Does the parliament have a "Public Accounts Committee" and/or a "Public Expenditure/Budget Committee"? If so, what are the functions of these committees? Do they initiate program budget type reforms?
9. Has civil society (media, NGOs, private sector, etc.) made requests to the government for improvement in public financial management? If so, please describe.

10. Are NGOø or others in civil society which initiate/require program type budgeting? If so, please describe.
11. Do the donors also ask for implementation of program budget from the government? If so, please describe.
12. Are there any sector ministries that you would suggest represent a good model on how they use program budget for resource allocation?
13. Are there any public sectors reforms (with or without donor support) that are taking place in the national government that include efforts to strengthen the implementation of program budget?

## **Part II: Organisation and capacity for the budget reform (program budget)**

14. Is a program budgeting and other related reform having the support of the Ministry of Finance and Economic Development and other ministerial offices?
15. Is there a department or unit in the ministry of finance tasked with the specific responsibility of modernizing the budget system?
16. Does the unit have adequate professionals staff and are they dedicated full time to the reform task?
17. Does the strategic plan include a schedule for completing the various stages of work? Is progress on the schedule?
18. Does the reform unit consult and collaborate closely with professional staffs working in the forecasting, budget, accounting and treasury departments of the ministry of finance and economic development.
19. Have the branch/financing/sectoral departments of the ministry of finance and economic development been organized together with the budget department under a single head?
20. Have the staffs of these departments been re-trained for their roles as budget examiners rather than advocates for their sectors?
21. Do you believe that there is sufficient amount of financial resource for successful implementation?
22. Is there a systematic training and orientation program for staff in the ministry of finance and economic development and for budget and financial management staff of the line ministries and spending units?
23. Are the training programs designed and scheduled to complement the reform program?

24. Does the reform unit have access to technical assistance from UN, other international organizations, and/or bilateral programs?
25. Is the reform strategy publicized to business and academic groups to ensure their support?
26. Is there an appropriate budgetary format and instruction prepared for the use by various departments?
27. Is there an evaluation and correction mechanism that is developed to monitor, evaluate, and correct while the program is on progress? If so how?
28. Do you believe that there is a good planning capacity which can fit with program budgeting in most of the spending agencies?

### **Part III: Expectations and Results**

29. Is there sufficient time given for implementation? Is it step by step approach working or complete implementation at a time?
30. How different is the current program budget design from the line item?
31. Do you expect program budget to be succeeded in Ethiopia in few years or not?
32. What do you expect from the implementation of the program budget?
33. Do you believe that program budgeting will succeed in achieving its objectives? If not why?
34. Do you believe that the expectations put on the implementation of program budget are realistic?
35. Is the program budget that is planned simple or complex? If simple what components are integrated and what is left?
36. How it is the time frame planned to be applied i.e. the time that it is going to be implemented?
37. Do you think that program budgeting will be realised in every line ministries? If not why?
38. Despite of all the strengths and weakness do you think that implementing program budget can be a solution for effective budget utilisation in Ethiopia?
39. What do you suggest for successful implementation of program budgeting in Ethiopia?
40. If there have any remarks you would like to make, \_\_\_\_\_.

Thank you again for sparing your time!!

## APPENDIX II

### ASSESSING PROGRAM-BASED BUDGETING IMPLEMENTATION IN ETHIOPIA

#### AN ASSESSMENT QUESTIONNAIRE TO IDENTIFY PROSPECTS AND POSSIBLE CHALLENGES

##### **Introduction:**

Countries across the globe are facing pressures to reform the policies and practices of their public sectors. Indeed, it is vital that an effective and efficient public sector contribute to sustainable development, economic growth, and the well being of its citizens. Focusing on the financial management of the government thus becomes an important factor in being able to achieve the desired goals of growth and economic/social development.

As governments begin to address these challenges, they will want to improve their public financial management in the government to achieve the most from the available financial resource. A program budgeting system is believed to be an important tool that will allow governments to achieve these objectives.

##### **Dear respondents,**

My name is Michaele Gobezie. Currently, I am a graduate student at Addis Ababa University, School of Business and Public Administration. I am conducting a study titled *“an analysis of the prospects and possible challenges of the transition from line item to program budgeting system in Federal Democratic Republic of Ethiopia (FDRE)”* as part of the requirement for the successful completion of the Masters Degree in Public Management and Policy specialized in development management studies.

To attain this purpose your honest and genuine participation is very important and highly appreciable. Please be assured that all the information you provide will be kept strictly confidential and will be used only for academic purposes. However, your honest answer to these questions will help me better understand the present situation of the budget system. I would greatly appreciate your help in responding to this study. Would you be willing to participate? All responses are to be given in Ethiopian context.

Signature (if needed) \_\_\_\_\_

Thank you for sparing your time to provide me relevant information in the second phase of my study!

**Background Information**

Name of Ministry / Organization: \_\_\_\_\_

Location of Organization: \_\_\_\_\_

Position of Respondent: \_\_\_\_\_

Service (In years): \_\_\_\_\_

Level of Education: \_\_\_\_\_

1. Are you familiar with the government policies and financial planning reforms?
  - A. Yes
  - B. No
  - C. Partially
  - D. If any please specify \_\_\_\_\_
  
2. What are the bottlenecks to carry out efficient budget allocation in Ethiopia? Please list at most 5 (in order of importance)
  - A. \_\_\_\_\_
  - B. \_\_\_\_\_
  - C. \_\_\_\_\_
  - D. \_\_\_\_\_
  - E. \_\_\_\_\_
  
3. Do you think that the number of professionals (budget officers) in government institutions is sufficient?
  - A. Yes
  - B. Moderate
  - C. No
  
4. Do you think that budget request of public bodies strictly correspond to their programs?
  - A. Yes
  - B. Partially
  - C. No
  
5. If your answer for question number 4 is no, what is the extent of the gap?
  - A. Very great
  - B. Great
  - C. Moderate
  - D. Less

6. If budget request of public bodies doesn't strictly correspond to their programs, what are the major reasons? (Tick appropriately)
- A. Lack of skilled manpower
  - B. Low attention by head of public body
  - C. Lack of training
  - D. If any others please specify\_\_\_\_\_
7. Have you ever use budget systems other than line item budgeting system?
- A) Yes
  - B) No
8. Do you think the traditional line item budget should be changed?
- A. Yes
  - B. Neutral
  - C. No
9. Which types of budget model you recommend for better budget allocation in Ethiopia?
- A) Line item budgeting
  - B) Zero base budgeting
  - C) Performance budgeting
  - D) Program budgeting
  - E) If any other please specify\_\_\_\_\_
10. What do you think are the advantages of line item budgeting? List at least three
- A. \_\_\_\_\_
  - B. \_\_\_\_\_
  - C. \_\_\_\_\_
11. Can you mention the disadvantages/ practical challenges of line item budgeting? List at least three
- A. \_\_\_\_\_
  - B. \_\_\_\_\_
  - C. \_\_\_\_\_
12. Are you familiar with program budgeting system?
- A. Yes
  - B. Partially
  - C. No

13. Do you think that applying program budgeting will create effectiveness in utilising public money in Ethiopia?
- A. Yes
  - B. May be
  - C. No
  - D. If any please specify\_\_\_\_\_ -
14. Have you ever had training related to program budget?
- A. Yes
  - B. No
15. Do you think that the staffs of your organisation support program budget type reform?
- A. Yes
  - B. No
  - C. Partial
16. Do you think that you and your subordinates have the necessary commitment to implement program budget?
- A. Yes
  - B. Neutral
  - C. Yes
  - D. If any other please specify\_\_\_\_\_
17. Do you think that there is effective and successful communication between you and your staffs?
- A. Yes
  - B. No
  - C. Moderate
18. Is there good level of information technology usage for generating informations in your organisation?
- A. Yes
  - B. No
  - C. Moderate
  - D. If any other please specify\_\_\_\_\_
19. What do you think is that your benefit from the implementation of program budgeting?
- A. \_\_\_\_\_
  - B. \_\_\_\_\_
  - C. \_\_\_\_\_
  - D. \_\_\_\_\_
20. Are you and your staffs ready to accept extra work loads to implement program budgeting?
- A. Yes
  - B. Neutral
  - C. No
  - D. If any other please specify\_\_\_\_\_

21. Do you think that the personnel that you have are capable of implementing the reform?
- A. Yes
  - B. Partially
  - C. No
  - D. If any other please specify\_\_\_\_\_
22. Do you think that there is an environment which supports performance in the institution?
- A. Yes
  - B. Partially
  - C. No
  - D. If any other please specify\_\_\_\_\_
23. Do you have any fear that such reform will create confusion?
- A. Yes
  - B. Partial
  - C. No
  - D. If any other please specify\_\_\_\_\_
24. If your answer for question number 23 is yes what do you think that will create confusion?
- A. \_\_\_\_\_
  - B. \_\_\_\_\_
  - C. \_\_\_\_\_
  - D. \_\_\_\_\_
25. Do you think that program budget will have an impact on your decision power?
- A. Yes
  - B. Partial
  - C. No
  - D. If any other please specifyí í í í í .
26. If your answer for question 24 is yes does it
- A. Lessen your power
  - B. Strengths your power
  - C. If any other please specifyí í í
27. What do you think are the possible problems in implementing program budgeting?
- A. \_\_\_\_\_
  - B. \_\_\_\_\_
  - C. \_\_\_\_\_
  - D. \_\_\_\_\_

*Appendix III*  
*Program Budget Preparation Forms*

# Form III A - THREE-YEAR 'PB' TOP-DOWN OUTPUT SUMMARY (i.e. Medium-term Expenditure Framework)

Organisational code		Program budget code			Program description:	Top-down' calculations						Source of funds (per output)						Balance (9 - 19)	
Public body	Sub-organisation	Prog	Sub-prog	Output code		Unit no. per output	Unit cost per output	Total cost of 3 year strategy (Col' 7 x 8)	Year 1	Year 2	Year 3	Treasury	Retained revenue	Assistance	Donor code	Loan	Creditor code	Total funds (col's 13, 14, 15 & 17)	T=0
XXX	XX	X	X	XX															
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
152	00	1	0		PROGRAM NAME:	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
					PROGRAM MANAGER:	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
					OBJECTIVE:	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
					OUTPUTS: -	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
				11															
				21															
				32															
				41															
				52															
				62															
				71															
				82															
		2	0		PROGRAM NAME:	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
					PROGRAM MANAGER:	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
					OBJECTIVE:	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
					OUTPUTS: -	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
				12	<i>Etc</i>														

# Form III B ANNUAL 'PB' BOTTOM-UP INPUT SUMMARY - for PROCLAMATION

Organisational code		Program budget code			Program description:	Total annual cost per output		Balance (7 - 8)	Source of funds (per input)							Balance (8 - 16)
Public body	Sub-organisation	Prog	Sub-prog	Output		'Top-down' (taken from col' 10, form 1a)	'Bottom-up' (taken from col' 7, form 1d)	T=0	Treasury	Retained revenue	Assistance	Donor code (* separate page if more than one)	Loan	Credit or code (* separate page if more than one)	Total funds (col's 10, 11, 12 & 14)	T=0
XXX	XX	X	X	XX												
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
152	00	1	0		PROGRAM NAME:		N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
					PROGRAM MANAGER:		N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
					OBJECTIVE:		N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
					OUTPUTS:-		N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
				11												
				21												
				32												
				41												
				52												
				62												
				71												
				82												

# Form III C ANNUAL PROGRAM BUDGET OUTPUT DETAILS - for REQUEST, RECOMMENDATION and NOTIFICATION

Organisational code		Program budget code			Program description :	'Bottom-up'	Outputs details				Source of funds (per input)						Balance (11 - 18)	
Public body	Sub-organisation	Prog	Sub-prog	Output		Total per output (taken from col' 7, form 1d)	Capital project or recurrent major activity name	Capital project or recurrent major activity code	Summary input codes	Total annual Total annual cost per input detail	Treasury	Retained revenue	Assistance	Donor code (* separate page if more than one)	Loan	Creditor code (* separate page if more than one)	Total fund source per input summary	T=0
XXX	XX	X	X	XX				XX										
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
152	00	1	0		PROGRAM NAME:		N/a	N/a	N/a		N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
					PROGRAM MANAGER:		N/a	N/a	N/a		N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
					OBJECTIVE :		N/a	N/a	N/a		N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
					OUTPUTS:-		N/a	N/a	N/a		N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
				11					6100									
				11					6200									
				11					6300									
				11					6400									
				32					6100									
				32					6200									
				32					6300									
				32					6400									

# Form III D ANNUAL PROGRAM BUDGET REQUEST – DETAILED INPUT CODES (only for the next year)

Organisational code		Program budget code			Program description:	'Bottom-up'	Output's details				Source of funds (per input)						Balance (11 - 18)	
Public body	Sub-organisation	Prog	Sub-prog	Output		Total annual cost per output (taken from col' 11)	Capital project or major recurrent activity name	Capital project or major recurrent activity code	Detailed input codes	Total annual cost per input detail	Treasury	Retained revenue	Assistance	Donor code (* separate page if more than one)	Loan	Creditor code (* separate page if more than one)	Total fund source per input detail	T=0
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
XXX	XX	X	X	XX				XX										
152	00	1	0		PROGRAM NAME:		N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
					PROGRAM MANAGER:		N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
					OBJECTIVE:		N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
					OUTPUTS:-		N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
				11					6113									
				11					6114									
				11					6223									
				11					6323									
				32					6111									
				32					6113									
				32					6212									
				32					6313									

## **Declaration**

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

Michaele Gobezie

Signature \_\_\_\_\_

Date \_\_\_\_\_

### **Confirmed by Advisor**

I confirm that this thesis has been submitted with my approval as the supervisor of the same.

Professor Dr. C. D. Dash

Signature \_\_\_\_\_

Date \_\_\_\_\_