Budgeting System in Ethiopia: Program Budget System

“Two Birds with One Stone” Ethiopian Proverb

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Abstract

Program budget system is one of the results of the budget reform which is the part of public sector financial management reform initiatives. Different budgetary reform were undertaken in developed as well as developing counties, but most extensively in OECD countries. In the case of Ethiopia, program budgeting system was introduced recently under the expenditure management and control program (EMCP) which is one of the sub-programs of the public sector reform. This budgeting system was not as such applied and implemented in government institutions and levels. In Ethiopia, successful implementation of program budget system has been faced different challenges. Ethiopian government started the program budget without considering necessary condition for the successful implementation of the program. Important institution and institutional framework are under developed in Ethiopia. Despite some progress in introducing program budget at federal level, Ethiopia faced different challenges in successful implementation of the reform program. Lack of sufficient training to the public personnel, absence of basic infrastructures (IFMIS, accrual accounting system and new institutional set-up) which support the reform program are not yet developed and improved in Ethiopia.
1. Introduction

Background of the paper
Whenever we are talking and writing about program budgeting system, it is mandatory to touch the historical backgrounds of the term in American perspectives. This is because the term is the results of budgetary reform in America in the 20th century and it was originated there. Program budget system is one of the results of the budget reform which is the part of public financial management reform initiatives. Different budgetary reform were undertaken in developed as well as developing counties, but most extensively in OECD countries. These budgetary reforms include line item budget, performance budget, program budget and zero based budgets which are the most commonly known (Huge, 2003; the world bank, 1998). From these the paper concentrates on program budget system in Ethiopian budgetary system.

In reality Program budget has passed different distinctive evolutionary period starting from 1907, but it was first initiated and attempted for the entire agencies by president Lynda Johnson in 1960s, in USA along side with the introduction of program budget by secretary of defense Mcnamara and his comptroller Hitch in defense force (Huge, 2003; Hagen, 1968, the world Bank, 1998; Novick, 1966).

It is very difficult to define the term program budgeting system in precise and single word. There are different meanings and connotation of the term in different parts of the world. Exactly how program budgeting terms are used varies enormously in practice. It is a confusing term that uses different name in different countries especially in developing countries. (The World Bank, 2007) Obviously, if there are multiple ways of defining a program budget, no particular approach has a special claim to legitimacy (KIPF and WB, 2007). But there is consensus among the scholars. This is a key to program budgeting is the program - a public policy objective along with the steps necessary to attain it (The world Bank, 1998). Added to this, World Bank stipulated that 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. The advocates of program budgeting hoped that budget
allocation decisions would be made according to the marginal value that could be attained from varying use of public resources. (ibid)

Program budgeting aimed at direct funding more towards the achievement of actual policy objectives or outputs. Under program budgeting, government activities are divided into the hierarchical structure of program, subprogram, activity and component (if necessary). Appropriations can then be made to particular program according to the priorities of the government of the day. Instead of funding inputs to the administrative process as in the traditional budget (salaries, overtime, postage and so on), identifiable program are funded. Management reporting systems can then be based on the program structure to encourage better feedback on program performance, and allow, in principle, for evaluating the effectiveness of managers and staff. This, or the extension of program budgeting to funding outcomes, depends on the establishment of suitable performance indicators. The proper development of objectives, Program structures and performance indicators are a difficult and time-consuming task for all levels in an organization, but is a logical extension of the change from administration to management in government. (Huge, 2003; World Bank, 1998; World Bank, 2007)

Even if it is a principal budgetary reform which was imported to many developing countries, program budgeting system had never be practically successful in ether developed or developing countries. Many critics have been raised from different angles. For instance, as quoted in Huge, 2003 (Wildavsky, 1979) provided a very prominent criticism of the program budget.

In the case of Ethiopia, program budgeting system was introduced recent time under the expenditure management and control program (EMCP) which is one of the sub-program of the civil service reform(MoFED, 2011) and even it was not as such applied and implemented in many government institutions and levels. At the first time, some selected government institutions at the federal level are being implementing program budgeting system as a pilot base. The Ministry of Finance and Economic Development (MOFED), has made some progress in the implementation of the Programme-Based Budget (PBB), which is an essential part of
government’s budget reforms. The PBB is slowly started to be embedded in the public finance arena of Ethiopia. Like any new reform, there were some teething issues at the beginning; these issues are being gradually addressed.

Statement of problem
Even if it is a principal budgetary reform which was imported to many developing countries, program budgeting system had never be practically successful in either developed or developing countries. Many critics have been raised from different angles. In Ethiopia the successful implementation of program budget system has been faced different challenges. Ethiopian government started the program budget without considering necessary condition for the successful implementation of the program.

Important institution and institutional framework are under developed in Ethiopia. Information and technological prerequisites are not in place to support the program. These resulted in the confusion of the government official in implementing the reform. This confusion with the absence of basic infrastructures poses difficulties in implementing the program. Moreover, absence of continuous and consistent training program for government officials is also resulted in the difficulties in effectively implementing the budget reform in Ethiopia.

Different issues with a special reference to Ethiopian budgetary system were discussed in the paper. The rationality for implanting program budgeting system, experience in implementing the budget system, current status and progress of the budget, and major opportunity and challenge in implementing the budget.

Methodology of the Paper
Data was gathered mostly from secondary data including journals, books, articles and reports made by MoFD in different times. Some data was also gathered through unstructured interview conducted with some of the personnel in budget work process in MoFED specially budget reform training team. Data were collected from different secondary sources through consulting books, journals, articles and manuals especially from internet and primary data was collect through unstructured interview from some of the budget reform training teams. In analyzing the data qualitative analysis method were used to describe the issues under consideration.


2. Empirical data and facts

Budgetary Basic

In successful introduction and implementation of program budget, budgetary basics have to be understood and well developed in the system. Budget systems include a wide range of basic supporting services, including accounting, budget examination, estimating, forecasting, monitoring, and evaluating. This also includes introducing accrual budgeting and accounting, double-entry accounting, IFMIS, new institution and institutional structures and program budgeting. If these components are not adequate, the budget system is unlikely to perform well. Such circumstances require patient diagnosis, detailed analysis of how moneys are released, spent and accounted for, restructuring of organizations, institution building, and careful consideration of objectives and methods. The fault will more often lie not with the basic budget systems themselves, but with the environment in which they operate (KIPF and WB, 2007).

The Korean experience could be taken as a model for good implementation of such budgetary basic in introducing and implementing program budget in their public finance reform. A new institution and informational system were in place prior to the program budget reform in Korea. The Korean government is seeking to strengthen budgetary basics. This includes introducing accrual budgeting and accounting, double-entry accounting, IFMIS, and program budgeting. These efforts are being directed by the Budget and Accounting Reinvention Office (BARO), which was set up for this purpose in 2004. Accrual and double-entry accounting aims to enhance transparency of government accounts. It will further enable better forecasting of medium and long-term fiscal risks. At this stage, BARO is evaluating government assets and liabilities in preparation of implementing the new accounting system (ibid).

Greece could also be another example in this respect. The will for the introduction of program budgeting in Greece was stated for the first time in the Budget Introductory Report of 2006. The International Monetary Fund’s report “Strategy for the modernization of the budget management in Greece” (2005) was the basis for decision making. In 2006, the Ministry of Economy and Finance took concrete action towards the fiscal reform, with the establishment of two new units in the
General Accounting Office, regarding the budget reform and the modernization of the accounting system of the central government (Hellenic republic ministry of finance and economy, 2009).

In addition to the above budgetary basics, international monetary fund, developed by Diamond (2001), put important elements for the successful implementation of budgetary reform which is even necessary for any other reform. He stipulated the elements as follow:

Generally, not enough attention is paid to the agents of change—identifying them, offering them incentives to undertake reforms, and removing the constraints they face in sustaining these reforms. It can be argued that engineering successful budget system reform involves at least three elements:

- **Identifying agents of change** (Who are the champions of reform? Who is going to recognize the need for reform, design the reform, monitor and implement the reform?),

- **Assessing and assuring the adequacy of the means at their disposal** (How, and by what means, is reform to be carried out?

What is the capacity to carry forward reform—is this adequate or does it require administrative restructuring, changes in procedures, the skills available?),

and **Restructuring the incentives to undertake and sustain reform** (Why, and for what purpose, will reforms benefit the individual rather than the system as a whole, and compensate for the costs of the effort involved? Once reform incentives are established, how are they to be maintained and protected?). (Diamond, 2001)

Generally, the budgetary basics are an important supports for the successful introduction and implementation of program budget. Most of the developing countries budgetary reforms were criticized for the failure of the system as they introduce the system quickly and in short period of time while little emphasize are given for such supportive basics for budgetary reform. The following part provides the criticism of program budget by taking one case study.

**Criticism of program budget system**

Program budget system was criticized from different angles starting from developed
countries. Its criticism and failure was not limited to the developing countries. As cited in Owen H. Huge, 2003, the most prominent critic of program budgeting was (Wildavsky, 1979). For Wildavsky, program budgeting has failed ‘everywhere and at all times’. But the failure and criticism was more extensive in developing countries. As provided in the public expenditure management handbook, World Bank put the following:

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. (World Bank, 1998)

Program budget was also criticized on the basis of necessary condition and requirement for its successful implementation. This criticism was stemmed from the reality that many countries simply introduced the system with minimum or no consideration for institutional, informational and technological requirement of program budget while program budgeting require more of these condition. Program budgeting requires considerably more information about the activities of the agencies than is required for traditional line-item budgeting, so is not easy to implement (Huge, 2003). Other 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 might include, for example, 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 (World Bank, 1998). The following case shows the introduction, implementation and finally failure of program budget in Sri Lanka:

**PROGRAM BUDGETING IN SRI LANKA**

Sri Lanka engaged in budget reform in earnest beginning in 1969. This ultimately...
led to the widespread adoption of a system that closely paralleled program budgeting. By 1974, virtually the entire government was presenting the budget in a program budget format. By 1975, a modest amount of performance data was also being presented by each of the twenty-three ministries.

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 of budget office 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. Following the recommendation of the IMF, each ministry was required to report monthly expenditures, but not in relation to programs or performance. Sri Lankan budgeting came full circle; cash flow budgeting triumphed over performance monitoring. Program budgeting failed in Sri Lanka for these 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. A more cautious and selective approach would have increased the likelihood that the reform could have been sustained.

The case study was taken without modification from World Bank, 1998 as it was brought from: Government Budgeting
in Developing Countries, Chapter 6, and Peter Dean

3. Discussion and analysis of data
Prior to Program budgeting, Ethiopia budgetary system is dominated by line item budget which emphasize on input required for government function. Starting from 2004, Ethiopia started to launch program budgeting system by creating and providing training to the reform team with the supports of foreign assistant and experts with the supports given from international monitory fund (IMF). With the help of technical assistance from IMF the budget reform committee/team prepare strategic design and agendas for the budget reform. Accordingly, the first pilot study and training has been undertaken on three ministries-ministry of finance and economic development, ministry of education and the then ministry of trade and industry- in the year 2006/07.

Rationality in implementing program budgeting system
The rationality in implementing program budget system in Ethiopia is not as much differs from the reason why it is implementing elsewhere in the world. At the current time the PB system is fully practiced at the federal level but not at regional level. Previously, the government budget was prepared on the basis of line item budget which does not say something about the results of the public expenditure. Then the reason behind the introduction of PB system in Ethiopia is to make connection the government budget and expenditure to the output of the policies and program of the government.

Experience of Ethiopia in program budget system
In 2007/8, the pilot study and training has been expanded to other ministry. The second pilot study has been conducted on ten federal ministries by giving the training. The second pilot study give greater input to the next year full scale budgetary reform in which all ministries have launching the reform. Next year in 2009/10, training has given to all federal budgetary institution on shadow program budget preparation and manual for testing to implement at federal level. The shadow program budget is to mean that the program budget was prepared as an experimental instrument and pilot study while the actual budget was prepared by line item budget. The shadow program budget was then prepared and submitted to MoFED alongside with formal line item budget in 2009/10 to balance the correspondence of the program budget to the total budget.
Until 2012, program budget systems were not officially launched and it has never been submitted to parliament for approval rather it was practiced at federal level then tested by MoFED. But since 2012, all ministries start to submit their budget on the basis of program budget and it was officially launched at federal level. All public bodies at federal level started to prepare and submit their budget to the parliament on the basis of program budget and line item budget was totally discarded since then.

Challenges in implementing the reform

Despite good progress, there are variety of challenges and constraints in program budgeting to all public bodies in general and to MoFED’s reform and training team. The following are some of the challenges faced in reforming the budget:

A. Lack of capacity
B. Turnover of the staff
C. Insufficiency in training
D. Absence of strong and continuous monitoring and evolution on the implementation of the budget
E. Lack of some conceptual understanding in PBS. For instance there are a tendency to convert and relates department to the program or confuse organizational structure with program structure in program design.

4. Lack effective infrastructural requirement that supports effective implementation of the program.

Finding and Conclusion

Findings

Based on the above data and some of the data obtained from one of the program budget reform training team through unstructured interview, since its pilot studies program budget has been show some improvement at federal level especially in some ministry. All federal public bodies, currently, are preparing their budget on the basis of program budget while other tiers of the government and their respective bodies are still prepare their budget on the basis of line item budget. This line item budget in the lower level of the government is reported upward to the federal levels to their line ministries to reach the parliament. This creates other question about the applicability of program budget system in Ethiopia in that whether the budget for regional and the lower level government is reported to the parliament in its line item or changed to program budget by the line ministries at the
One of the opportunities for the implementing program budgeting system at the federal level was the willingness and acceptances of all ministries to apply the reform. Not only this, there are also acceptance and supports from parliament, while it approve the budget, in implementing the reform. Given those opportunities in implement program budget, there are different difficulties and constraints which hamper the successful application of program budget at federal levels. Actually, it is not easy to say the effectiveness and ineffectiveness of the reform since the reform is at the very starting stage or infant. But different impediments could be identified.

The final version of the program budget manual prepared by MOFED in 2010, is very confusing to understand for the government officials since it is very technical and does not provides a deep explanation for certain difficult terminologies. This is one of the impediments of the successful implementation of the budget. For example, the manual puts the program budget as the analytical core of performance based budgeting. But, the manual does not provide any relationship and difference between the two. There is also confusion regarding the program structures and organizational structures among the government officials because of the absence of sufficient and continuous training to the officials how to differentiate and relate program budget and organizational structure. Government reform often fails because it is poorly implemented. The design may be sound, but if its purposes are not clearly understood, or if stakeholders view it as a threat or burden, reform will wither. To succeed, reformers must win over those who produce information, provide services, and manage bureaus and agencies. The fate of reform rests in their hands, not in those of the small band of innovators who sit at the center of government, but are organizationally and politically distant from line managers and rank and file employees.

Effective implementation of successful program budget needs many other interdependent institutional and technological change and improvement. Non-budgetary reform which contributes to the effective budget reform is a prerequisite measures that has to be undertaken by the public body. Such measures include information technology, provision of
sufficient and continuous training to personnel of the public institution, accounting reform (introduction accrual and double entry accounting system) and new institution and institutional structure meant for these purposes, which is an integral part of and necessary condition for public financial management reform. These requirements have never been developed in Ethiopia. Accordingly, program budget system in Ethiopia has been implemented without such consideration. Earlier in 2002 E.C European Union had indorsed nine million euro for the implementation of five modules of IFMIS which was transferred to public sector capacity building program (PSCAP) and utilized for other purpose. Program budget need IFMIS, but Ethiopian government start implementation prior to the appropriation of this IT in public bodies and using IBEX which cannot fulfill the PBS requirement and to cover this gap they forced to apply micro excel as a separate system. This in turn is very difficult for the public bodies to provide timely report on their budget performance since it consumes more time to prepare report. This is against the Ethiopian proverb “two birds with one stone” and Ethiopian program budget could not fulfill even one bird with one stone. Beside this, program budget system need modern cost accounting system that is accrual accounting system which is not applied in Ethiopia. Ethiopian program budget reform uses cash accounting system which is not compatible with modern budgetary system like program budget system.

In relation to the institutional setup, the budget reform in Ethiopia was dominated by MoFED. It is the only agents of change that has been launch all things under the program budget reform. New institution which meant for such reform has to be established and their capacity has to be build and maintained in Ethiopia. This is because it is not an easy task to the central ministry (MoFED) to deal with everything regarding the reform. There should also the participation of different stake holder in designing and implementing the reform. In Korea for example, budget and accounting reinvention office was established in 2004 to support the introduction and implementation of program budget. There is also Korean development institute and Korean Institute of public finance to support the reform with their respective mandates. (KIPF and WB, 2007)

**Conclusion**

Ethiopia, starting from 2004, has been trying to introducing and implementing program budgeting system in its financial
management. Training was given to the established program budget reform team by foreign experts from IMF. Accordingly, different improvement in the budget reform is there at the federal level. Given the improvement, there are different difficulties and drawbacks in implementing effective and efficient program budget in the government bodies. The drawback was partly emanates from the program itself and partly from the lack of emphasis from the government in considering the necessary condition for the successful application of the program budget. Generally, the following factors and explanation could be identified and recognized for the difficulties of the successful implementation.

✓ Lack of precise explanation and clarification of certain technical and difficult terminologies and concepts related to program budget in manual of the program budget. This resulted in confusion of the government official in implementing the reform in their respective sector.

✓ Absence of continuous and sufficient training to the concerned government official and to the training team was also one of the impediments to the effective implementation of the program budget system. This was also intensified with the turnover of highly qualified personnel from the government office in search of job with attractive salary. This in turn need additional cost and time to train another new staff for the implementation of the program

✓ The shortcoming of infrastructure and absence of the important consideration for no- budgetary reform which support the effective budgetary reform is one of the obstacles for the program in Ethiopia. In different literature, it was found that necessary infrastructures are imperative for the successful reform. These infrastructures are considered as the basics for the budgetary reform. The Korean government is also seeking to strengthen budgetary basics. This includes introducing accrual budgeting and accounting, double-entry accounting, IFMIS, and program budgeting. These efforts are being directed by the Budget and Accounting Reinvention Office (BARO), which was set up for this purpose in 2004. Accrual and double-entry accounting aims to enhance transparency of government accounts. It will further enable better forecasting of medium and long-term fiscal risks. At this stage,
BARO is evaluating government assets and liabilities in preparation of implementing the new accounting system (KIPF and WB, 2007). This is to mean that Ethiopia had better to consider the improvement of the information and other basics to support the successful implementation of the reform.

☑ More over the Ethiopian program budget reform was dominated by single ministry that is ministry of finance and economic development. New institution and institutional structure were not established to support the designing and implementation of the reform in Ethiopia. In Korea, for instance, BARO was established in 2004 and led by Ministry of Planning and Budget (MPB). Its mandates include introducing program budgeting and improving the current system of financial management information (ibid). As such, Ethiopia need to establish distinct institution that support the development of different budgetary basics in implementing program budgeting in efficient and effective manner.

Generally, it was found that the existence of continuous and sufficient training for government officials, establishment and improvement of infrastructures and technology which is basics of budget reform, clear and detailed expression of terminologies and the establishment of new and diversified institution (especially for the capacity constraints of single agents of change in that program budget reform need multifaceted change agents to be effective which need participation of multiple agents of reform and stakeholders) and institutional setup and participation of concerned stakeholders was a prerequisites for successful introduction and implementation of the program budget system in Ethiopia.

At the current time, the great challenges and idea is that the government will continue to deepening the program budget system at the lower level. As such, the government had better to improve these necessary condition to facilitate the effective implementation at the lower tiers of the government. Necessary infrastructural and technological requirement has to be in place and maintained to support the system.

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