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Medium Term Expenditure and Budgetary Practices in Ethiopia

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Despite its top ranked position in formulating and launching national development plans in the post derg era, budgetary system in Ethiopia is not digitalized and budget is highly an input oriented rather than a performance oriented system. Although substantial policy changes have been undertaken to improve resource allocation in the public sector, more remains to be done to strengthen the process of expenditure planning and budget allocation. In face of limited resource and increasing demands, there is a need to strengthen expenditure planning and budget allocation processes, so as to promote efficiency and sustainability of public investment program. This synthesis paper indicated that there is no unit cost and standardization of activities to estimate operational and project costs. MTEF can improve the efficiency of public expenditure by locking countries into a process which, over time, channels resources from low value to high value uses and helps ensure that key services are adequately funded. Also equally important is the role of MTEF to improve predictability of resource flows if estimates are based on more realistic assumptions about revenue. Moreover, MTEF can raise resource consciousness and promote more output or outcome focused approaches by requiring line departments to be more explicit about what they propose to do, why they want to do it and what it will cost. The framework improves accountability by encouraging governments to consider the medium/long term financial implications of their policy choices.

Key Words: MTEF, Budget and Budgetary Practices, Ethiopia, Finance

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INTRODUCTION

The middle to late 1990s saw the proliferation of medium term expenditure frameworks (MTEFs) throughout the developing world. By one count (World Bank, 2001: 6) as many as twenty five countries in Africa, Asia (eastern, central, and southern), Latin America, and Eastern Europe are at various stages in the process of adopting MTEFs, and another ten are seriously considering it. This proliferation has occurred over a relatively short time period. Of the twenty-five existing MTEFs, nearly 90% were adopted over the five-year period, 1997-2001. It is not premature to say that MTEFs are a trend in developing country public expenditure management (PEM), and the trend shows no signs of cresting.

If the Africa region has been the laboratory for MTEF development, the World Bank has been the principal researcher. In the vast majority of cases the World Bank was involved in the decision to adopt and implement an MTEF, many of which came about as a result of a public expenditure review. In fact, the MTEF has become a standard item in the Bank's public expenditure management (PEM) toolkit. More and more, MTEFs are considered the *sine qua non* of good PEM. The World Bank, however, is not the only advocate of this approach, which has also been advocated by the Asian Development Bank (1999) and the International Monetary Fund (1999), though with some reservations.

MTEFs are receiving renewed attention in the context of the formulation of Poverty Reduction Strategy Papers (PRSPs), which have in the MTEF an ideal vehicle for actually incorporating them into public expenditure programs within a coherent macroeconomic, fiscal, and sectoral framework.. The IMF's Poverty Reduction and Growth Facilities (PRGFs) also motivate MTEF reforms. At the same time, MTEFs are featured prominently in the country-by-country assessment of the Heavily Indebted Poor Countries (HIPC) debt relief initiative, which, as a requirement of program accession, seeks to track poverty-related expenditures resulting from debt relief (World Bank/IMF, 2001). A recent Board paper recommends that the Bank consider adjustment and technical assistance loans "to assist in building" MTEFs (World Bank/IMF, 2001). Furthermore, the Bank's new lending instrument, the Poverty Reduction Support Credit (PRSC), will be based, in part, on the medium-term programs and costings presented in countries' PRSPs and, hence, their MTEFs.

To date little comparative analysis of actual MTEFs in developing countries has been undertaken. This is due, in part, to the fact that the introduction of MTEFs is rather recent. As citizens increasingly began to engage in budget decisions, the absence of timely and accurate information is the major challenges. So as to overcome this challenges different researchers investigated appropriate solutions for budget participation at organization level and show that budget participation is a very constructive management tool in attaining higher performance (Birhanu, 2011).

One of the principal objectives of the developing countries is to accelerate the pace of social and economic development. But the overall effort to achieve this development objective has remained an elusive and difficult task. This is so partly due to lack of financial resources, problems of resource allocation and inefficient utilization of the resources in the public sector.

In Ethiopia, although, budget reform and expenditure planning projects have been attempted to address the weakness of budgetary system and try to reconcile conflict between annual budget perspectives with medium term horizons, successful modern budgeting system remains a continuous problem of the country (Getachew, 2005). Descriptive and qualitative analyses demonstrate that there were no systems, which allowed facilitating yearly updated policy framework and development priorities to allocate resources in the public sector. Budget is highly an input oriented rather than a performance oriented system. There is no unit cost and standardization of activities to estimate operational and project costs.(Ibid 3)

Ethiopia was the first country in Africa to formulate and launch national development plans in 1950s and 1960s (Dejene, 1996). The government has launched three consecutive Five-Year-Development Plans, (1957-61, 1963-67, and 1968-73) to promote economic growth and improve the living standard of the population. The objectives of these development plans and programs were to mobilize domestic and external resources in order to allocate into priority areas. In pre 1974, the role of Ethiopian government had been mostly limited to the allocation of resources, economic stabilization and economic growth. After 1974, the government followed a central planned economy where the government was involved and expanded in productive and distributive areas (Teshome, 1993). Government massive expansion in the economic and service sectors was achieved through nationalization of large-scale private enterprises and at the same time by the establishment of new state owned enterprises. The allocations of scarce resources were used to strengthen these sectors under the process of central planning. This kind of economic policy required a lot of resources from the state to finance public enterprises, which were the causes for growing budget deficit (Jamal, 1996).

After the fall of the Derg regime in 1991, the Government of Ethiopia initiated a broad spectrum of economic reforms. The reform programs include reorienting the economy from command to market economy, rationalizing the role of the state, creating policy environment to enhance private sector investment, the adoption of Agricultural Development Led Industrialization (ADLI), Structural Adjustment process (SAP), Civil Service Reform, reorientation of government expenditure towards to poverty oriented sectors (MoFED, 2002).Although substantial policy changes have been undertaken to improve resource allocation in the public sector, more remains to be done to strengthen the process of expenditure planning and budget allocation. In view of limited resource and increasing demands, there is a need to strengthen expenditure planning and budget allocation processes, so as to promote efficiency and sustainability of public investment program.

STATEMENT OF THE PROBLEM

In developing countries, it has become increasingly complex to manage public expenditure allocation because the roles of the government have been expanded and financial resources are in scarce supply to meet this ever-increasing social needs and population growth. Due to inadequate financial resources as opposed to an increasing demand for public service, there is a need to improve resource allocation through proper economic policy and expenditure planning.

In many developing countries, including Ethiopia, the integration of annual budgeting with medium term planning is fragmented. Budget reform and public investment projects have been attempted to reduce the gap between expenditure planning and annual budget allocation in Ethiopia. Particularly, the expenditure planning project has attempted to implement efficient resource allocation by placing greater emphasis on the medium term expenditure planning. Its main focus was on the capital planning process to develop public investment program. The main outputs of both reforms were limited to the documentation of the existing budget system, the development of a new chart of account and the preparation of public investment program. But the basic problems of resource allocation in the public sector are evolving to more complex forms related to the issues of policy and planning, aid management, performance budgeting, standardization and unit costing, monitoring and evaluation, reporting and accounting systems.

According to MoFED (2003), it is a critical problem that the public expenditure management of Ethiopia has no multi-year planning, which encompasses the whole government activities, sect oral development and poverty reduction programs. There are no criteria for determining inter-sect oral resource allocation. Significant part of budget is not only treated as an annual budgeting exercise, but also it lacks standardized preparation to estimate recurrent and project costs. These conditions indicate that budget is decided on the basis of inadequate information, often without sufficient knowledge of programs and performances. Most of the time, Budget staff of MoFED complains about the deficiency of policy guidelines, programs of organizations, unit cost of goods and services and past year utilization of resources to estimate operational and cost of the project.

Even though the country has been undertaking different reforms to solve the conflict between medium term planning and budget allocation, successful expenditure planning and modern budgeting system remains a continuous problems of the country. The expenditure planning and budget reform projects are unable to deliver the systems that effectively perform policy review processes; output or performance based budgeting, standardization of activities, proper budget approval and reporting process. Moreover, to date, it seems apparent that no research has been conducted which would help pinpoint the process and problems of expenditure planning of the country at large. Consequently, the result would have policy input and pinpoint areas that need ratification and improvement.

OBJECTIVES OF THE STUDY

The overall objective of the study is to assess the country's budget process, integration of medium term expenditure planning and budget allocations as well as pinpoint the key problem areas that seek attention and improvement. The study has the following specific objectives.

Specific Objectives of the Study

1. To review the overall effort made to reform expenditure planning and budgeting;
2. To examine the process and procedures of expenditure planning and budget allocation;
3. To analyze the integration of medium term expenditure planning and budget allocation; and
4. To identify critical problems encountered in the process of budget allocation.

Significance the Study

In developing countries, like Ethiopia, the allocation of scarce resources for the provision of socio-economic development should be based on systematic synchronization of policies, planning and resource envelope and efficient utilization of resources for effective economic development. But, in practice there are several gaps to link up quantifiable development objectives with available resources. The need to work on this missing link is essential in a country like Ethiopia where resources are extremely scarce. From this point, one can easily conclude that it becomes so important to study allocation of financial resources, especially at this time, where development and poverty reduction programs are urgent priority. In general, by analyzing some government policies and procedures in budget allocation, the study is helpful to formulate sound expenditure planning and to improve the deficiencies of resource allocation in the public sector.

RESEARCH METHODOLOGY

This research was designed and based on secondary data; these data were collected from annual/ periodic report, budget document, research papers, World Bank documents and IMF publication. Particularly, MoFED yearly Public Investment Program (PIP) and Account documents were extensively used for the purpose. These secondary sources of information were used extensively as the nature of the topic under study do not permit primary data to involve due to the vastness of the topic in its scope.

REVIEW OF RELATED LITERATURE

The failure to link policy, planning and budgeting is the single most important cause of poor budgeting outcomes in developing countries. That is the view of the World Bank in its Public Expenditure Management Handbook (World Bank, 1998) and it has also been the experience of Oxford Policy Management when dealing with policy and budget issues in South Asia and Sub-Saharan Africa.

The implementation of a Medium Term Expenditure Framework (MTEF) is increasingly being accepted as an appropriate response to the problem. In many respects MTEF has become the new panacea of public expenditure management – proposed as a cure not only for the inadequacies of planning and budgeting systems but also for the broader performance problems of government.

It is not surprising that MTEFs should receive universal support. It is rational to plan and manage finances in an integrated manner, with a medium term perspective. Yet there are dangers in applying MTEF as a prepackaged solution to diverse countries' budget problems. (Ocford Policy Management 2000:4)

First formally and transparently introduced in Australia in mid 1980s, (building on a previous forward budget estimates system not clearly linked with the annual budgetary process) Leading to published three year indicative (but relatively firm) budget allocations for all ministries. Then adopted by many OECD countries in 1980s and 1990s – Denmark, Netherlands, New Zealand, Norway etc) IMF a strong supporter of MTEF in developed countries. Then MTEF developed in many developing countries (starting in Africa) as a key PFM reform component .Often at donor (IMF and World Bank) urging to ensure commitment of resources to Poverty Reduction Strategies (PRSPs).By 2008 more than 100 countries had adopted elements of MTEFs (IMF Workshop Almaty, Kazakhstan26-27 May, 2011)

Statements and Research on MTEF

PEFA 2005, Indicator on Multi-Year perspective in fiscal planning, expenditure policy and budgeting preparation of multi-year fiscal forecasts and allocations of funds by function or program scope and frequency of debt sustainability analysis existence of sector strategies with multi-year costing of recurrent and investment expenditures linkages between investment budgets and forward expenditure estimates.

IMF Manual on Fiscal Transparency 2001 and Code of Good Practices on Fiscal Transparency (updated) refer to aggregate fiscal projections 5-10 years ahead should be included in budget documentation and forecasts two years ahead in the annual budget document need for fiscal sustainability analysis relevance of medium-term budget frameworks broken down by spending ministries.

Lecherous and Taliercio (World Bank 2002) study of MTEFs in 13 African countries questioned feasibility of "fully fledged" MTEFs in many countries and noted lack of attention to institutional aspects But overlooked the issue that MTEFs cannot be expected to work if the annual budget process does not work. Holmes and Evans (ODI 2003) conclude more optimistically that MTEFs are progressing, even if unevenly. New World Bank research 2011based on econometric and case study analysis – see later slides (IMF Workshop Almaty, Kazakhstan26-27 May, 2011)

MTEFs in Theory

The MTEF provides the "linking framework" that allows expenditures to be "driven by policy priorities and disciplined by budget realities" (World Bank, 1998a: 32). If the problem is that policy making, planning, and budgeting are disconnected, then a potential solution is an MTEF. Given that this disconnect between policy making, planning, and budgetary processes is a common condition of developing country governance, the MTEF has increasingly come to be regarded as a central element of PEM reform programs. In this section we will briefly review the concept and the objectives of the MTEF, as well as address the issue of the relationship between the MTEF and other PEM reforms.

Concept

According to the World Bank's *Public Expenditure Management Handbook* (1998a: 46), "The MTEF consists of a top-down resource envelope, a bottom-up estimation of the current and medium-term costs of existing policy and, ultimately, the matching of these costs with available resources…in the context of the annual budget process." The "top-down resource envelope" is fundamentally a macroeconomic model that indicates fiscal targets and estimates revenues and expenditures, including government financial obligations and high cost government-wide programs such as civil service reform. To complement the macroeconomic model, the sectors engage in "bottom-up" reviews that begin by scrutinizing sector policies and activities (similar to the zero-based budgeting approach), with an eye toward optimizing intra-sectoral allocations

The value added of the MTEF approach comes from integrating the top-down resource envelope with the

Table 1. The Six Stages of a Comprehensive MTEF

STAGE	CHARACTERISTICS
I. Development of Macroeconomic/Fiscal Framework	• Macroeconomic model that projects revenues and expenditure in the medium term (multi-year)
I. Development of Sectoral Programs	• Agreement on sector objectives, outputs, and activities • Review and development of programs and sub-programs • Program cost estimation
I. Development of Sectoral Expenditure Frameworks	• Analysis of inter- and intra-sect oral trade-offs • Consensus-building on strategic resource allocation
/. Definition of Sector Resource Allocations	• Setting medium term sector budget ceilings (cabinet approval)
/. Preparation of Sectoral Budgets	• Medium term sect oral programs based on budget ceilings
I. Final Political Approval	• Presentation of budget estimates to cabinet and parliament for approval

Source: *PEM Handbook* (World Bank, 1998a: 47-51)

bottom-up sector programs. It is at Stage III that the policy making, planning, and budgeting processes are joined (see Table 1). Once the strategic expenditure framework is developed, the government defines the sect oral resource allocations, which are then used by the sectors to finalize their programs and budgets. Key to the sect oral review process is the notion that within the broad strategic expenditure framework, which reflects the resource constraint as well as government policy, sectors have autonomy to manage by making decisions that maximize technical outcomes like efficiency and effectiveness. Once the MTEF has been developed it is rolling in the sense that the first outward year's estimates become the basis for the subsequent year's budget, once changes in economic conditions and policies are taken into account. The integration of the top-down envelope with bottom-up sector programs occurs by means of a formal decision making process. As the *Handbook* (1998a: 34) suggests, "Key to increasing predictability and strengthening the links between policy, planning, and budgeting is an effective forum at the center of government and associated institutional mechanisms that facilitate the making and enforcement of strategic resource allocation decisions."

Objectives of MTEFs

The MTEF is intended to facilitate a number of important outcomes: greater macroeconomic balance; improved inter- and intra-sectoral resource allocation; greater budgetary predictability for line ministries; and more efficient use of public monies (World Bank, 1998a: 46). Improved macroeconomic balance, including fiscal discipline, is attained through good estimates of the available resource envelope, which are then used to make budgets that fit squarely within the envelope. MTEFs aim to improve inter- and intra-sectoral resource allocation by effectively prioritizing all expenditures (on the basis of the government's socio-economic program) and dedicating resources only to the most important ones. A further objective of the MTEF is greater budgetary predictability, which is expected as a result of commitment to more credible sectoral budget ceilings. Moreover, to the extent that budgetary decision making is more legitimate, greater political accountability for expenditure outcomes should also ensue. The MTEF also endeavors to make public expenditures more efficient and effective, essentially by allowing line ministries greater flexibility in managing their budgets in the context of hard budget constraints and agreed upon policies and programs.

MTEFs and other PEM

This section also briefly addresses the issue of the relationship between the MTEF and other PEM reforms, as this has been a source of on-going discussion. The MTEF, which focuses on budget formulation issues (in a multi-year macro/fiscal framework), is a subset of basic PEM reforms. The MTEF does not address issues of budget execution or reporting; nor does it cover all relevant budget formulation issues such as budget comprehensiveness.

One way to answer this question is to think about the MTEF approach as reframing the concept of budget projections through the lens of the three levels of PEM as articulated by the World Bank (1998a: 2): aggregate fiscal discipline (Level 1), allocation of resources in accordance with strategic priorities (Level 2), and efficient and effective use of resources in the implementation of strategic priorities (Level 3). Moreover, the MTEF approach contextualizes a medium term (e.g. multi-year) perspective in the broader budget management and decision making environment. In this sense the MTEF represents a package of PEM reforms conceptualized and grounded in a new way. The resonance of the MTEF idea indicates that there is indeed something quite useful about the way in which it has been conceptualized.

MTEFs in practice: the African experience

An analysis of the MTEFs “on the ground” in nine African countries reveals that while there is broad agreement on the fundamentals of an MTEF at the conceptual level, there are variations in the design of the reform at the operational level. This divergence of practice, which manifests itself largely in the design and management of MTEFs, is largely due to two factors. Perhaps most importantly, the divergence is due to the needs of different countries to adapt the MTEF reform to their particular institutional and political circumstances. The divergence of experience is also due, however, to the fact that the prescriptive advice on MTEFs has been more conceptual than practical.

While the three pillars of an MTEF are clear (projections of the aggregate resource envelope, cost estimates of sector programs, and a political-administrative process that integrates the two), the operational guidelines for designing and implementing MTEFs are much less clear.

The purpose of this section is to shed some light on how the MTEF concept is currently operational zed in Africa, that is, to open up the “black box,” and to indicate the operational design elements around which variance is the highest. Table 2

Key characteristics of an MTEF

An MTEF is a multiyear public expenditure planning exercise which is used to:

- Set out the future resource requirements for existing services, and
- Assess the resource implications of future policy changes and any new programs implied by this.
- The MTEF should be realistic. Ideally it should be set within a macroeconomic framework and coordinated by a ministry of finance (or its equivalent). Countries, especially low income countries, do not spend what they need – they spend what they can afford. Public expenditure, therefore, should be set at a level which remains, when all revenue sources (including aid flows) are considered, consistent with macroeconomic stability. Within this overall framework, allocations to the various sectors, including health, are made according to national strategic priorities. Best estimates of future resource levels are usually referred to as a ‘resource envelope’ – a term which can be applied at both sector and aggregate spending levels.
- An MTEF takes a medium term perspective (usually 3 to 5 years). The figure for year 1 of an MTEF should always be the same as the annual budget. Indeed both MTEF and annual budgets should be developed through the same process and ultimately be approved by Cabinet. For future years practices usually vary by country but in all cases the recurrent implications of existing commitments need to be projected throughout the planning period and the financial implications of any policy changes and new programs included. In some countries the practice is that in later years (say years 4 and 5) no new policy commitments are included leaving scope for more spending on existing programs.
- The MTEF is a rolling program and therefore needs to be updated on an annual basis. The annual budget is fixed and subject to a ‘hard budget constraint’. The figures projected for later years are not seen as entitlements but as best estimates for planning purposes. However, any budgetary system needs to have some flexibility to respond to changing priorities throughout the budget year.
- It should be comprehensive, covering all public expenditure and revenues from all sources (including external development partners3).
- There should be broad participation in decisions related to sectoral allocations, intra- sectoral allocations and on sector policy discussions.
- The MTEF should be based on realistic (conservative) cost and revenue estimates. This could involve the provision of contingencies to cover changes in economic circumstances such as changes in the inflation rates and new policy commitments..(Africa Region Working Paper Series No. 28:32)

What can an MTEF achieve in Ethiopia?

Some stakeholders question the value of MTEFs, seeing them as an additional obstacle recipients must overcome before accessing donor funds. However, although an MTEF requires significant effort the benefits can be considerable.

Table 2. MTEFs in Africa

Country	Year of Initiation	World Bank Involvement
BENIN	2001	The Bank has been active in supporting MTEF reform.
BURKINA FASO	2000	The Bank has been a fairly active partner in the MTEF reform.
GABON	1998	MTEF was first proposed in the 1998 CAS.
GHANA	1996	The Bank promoted MTEF reform. The MTEF was introduced as part of Public Financial Management Reform Program.
GUINEA	1997	The MTEF was adopted as part of Bank's Public Management Adjustment Credit.
KENYA	1998	MTEF reform was promoted by the 1997 PER. Key elements of MTEF implementation were included as conditionality in the Economic and Public Sector Reform Credit (6/2000).
MALAWI	1996	The MTEF was introduced by the Fiscal Restructuring and Deregulation Program (FRDP I) in 1996 and further supported by FRDP II in 1998 and FRDP III in 2000.
MOZAMBIQUE	1997	The MTEF was promoted and supported by the Bank and DFID, which provided consultants and training.
NAMIBIA	2000	--
RWANDA	1999	MTEF reform was proposed by the 1998 PER. The MTEF position paper and plan of action were financed by DFID.
SOUTH AFRICA	1997	The first effort at MTEF reform was supported by the Bank, which also provided advice during implementation.
TANZANIA	1998	MTEF reform was promoted by the 1997 PER. The MTEF was developed in the context of the annual, participatory PER process. Key elements of MTEF implementation (e.g. preparation of the MTEF FY00-02 itself) and expenditure reallocation targets were included as conditionality in the Programmatic Structural Adjustment Credit (6/2000).
UGANDA	1992	The Bank participated in the MTEF reform and offered assistance on an ad hoc basis.

Source: Africa region country economists and Public Expenditure Management Thematic Group

- If implemented successfully, an MTEF can improve the efficiency of public expenditure by locking countries into a process which, over time, channels resources from low value to high value uses and helps ensure that key services are adequately funded. In particular, the MTEF allows the future implications of policy decisions to be fully assessed and their affordability considered – something which the annual budget approaches cannot do.
- An MTEF can improve predictability of resource flows if estimates are based on more realistic assumptions about revenue. This can also improve efficiency, given that shortfalls are often borne disproportionately by non-salary items which can seriously reduce operational efficiency.
- An MTEF can raise resource consciousness and promote more output or outcome focused approaches by requiring line departments to be more explicit about what they propose to do, why they want to do it and what it will cost.
- An MTEF improves accountability by encouraging governments to consider the medium/long term financial implications of their policy choices. Whereas ministries of health may be familiar with focusing their attention on developing new programs, the MTEF approach encourages government to consider whether funds are best spent on strengthening existing program. As such the emphasis is shifted away from the identification of new program towards a more balanced one which also considers issues such as expenditure control and resource allocation. (Africa Region Working Paper Series No. 28:31)

What are the problems that challenge the implementation of MTEFs in Ethiopia?

A number of factors make it difficult for Ethiopia to implement MTEFs.

- Macroeconomic instability – rapid inflation can render forward planning impossible.
- Lack of quality (and timely) financial information – data on donor flows is generally poor which a major problem in aid dependent countries is. In countries with multiple funding channels accurate data is difficult to obtain. National Health Accounts (or simpler rapid resource mapping approaches) can help address this.
- Weak financial systems – systems may not be in place to inform budget holders on whether budget ceilings are being adhered to.
- Capacity and institutional weaknesses – there may be weaknesses within line ministries to develop and present priority programs effectively. Ministry of finance staff may also lack the capacity, or objectivity, to approve the most cost effective programs.
- Lacks of budgetary discipline – budgets are not treated seriously with a large number of supplementary allocations made during the year.
- Over ambition – ministries of health, like many other ministries, often attempt to achieve too much with too little, spreading their resources too thinly resulting in poor performance across the board. Realistic costing may mean that it is not possible to provide adequate financing even for existing services. Yet there are major incentives to develop new programs – in part because many donors are willing to fund capital and not recurrent costs.
- Lacks of realism – projections are often made on the basis of overestimates of revenue sources.
  Given this wide range of challenges, in some situations more limited approaches might be more appropriate. The constraints may need to be addressed before a full scale MTEF can be implemented.

MORE ON THE HISTORICAL DEVELOPMENT OF THE ETHIOPIAN BUDGET

Ethiopia is a land of diversified ethnic and cultural compositions with more than eighty ethno-linguistic groups. The country is administratively structured with a federal system of government with a political system made up two tiers of parliament, the House of Peoples' Representatives and the House of Federation. The administrative states are composed of nine regional states and two city administrations. The administrative hierarchy within a state is composed of a regional capital, zones, Woredas (districts) and kebele. Kebele are the lowest administrative units.

Since 1997, the USAID has been supporting public financial reform and fiscal decentralization in Ethiopia through Harvard University's the Decentralization Support Activities (DSA) Project. Support for public finance management reform of Regional States was piloted since 2000. Currently, reform is being implemented in the remaining one Regional State.

The Kennedy School of Government's technical assistance has been instrumental in helping to enhance governmental transparency and accountability in Ethiopia. The DSA supports the Ethiopian government Expenditure Management and Control (EMC) sub-program of the Civil Service Reform, which is managed by Ministry of Finance and Economic Development (MOFED). The Budget Information System (BIS) and the Budget Disbursement and Accounts (BDA) System implemented with MOFED produced the national budget in a timely manner. In 2004, the budget was ready six weeks ahead of deadline. When implemented nationally, the BIS/BDA system will enable speedy consolidation of the national budget and accounts, efficient tracking of sector expenditures, and improve fiscal transparency nationwide.

The United States government thorough its Agency for International Development (USAID), Development Cooperation Ireland (DCI), and the Netherlands Minister for Development Cooperation have joined hands with the Government of the Federal Democratic Republic of Ethiopia to support fiscal decentralization in Ethiopia.

What is a Budget Practice?

A budget practice is a procedure that assists in accomplishing a principle and element of the budget process. It is appropriate for all governments and in all circumstances and situations. Budget practices can be hierarchal----that is, one practice can help accomplish another practice. The Council has avoided a practice hierarchy of more than one level. A budget element typically has multiple practices associated with it. Budget practices must be clearly related to activities identified in the budget process definition. A practice is not a budget practice unless it specifically contributes to the development, description, understanding, implementation and evaluation of a plan for provision of services and capital assets. For example, a policy statement on debt capacity is included in a set of budget practices since debt is a component of the budget and the budget decision making. However, a practice encouraging competitive sales of debt is not a budget practice. More specific methods of accomplishing a budget practice are usually categorized as tools and techniques. There also may be alternative ways to accomplish a practice. Different governments may find one tool or technique works better for them than another. Budget practices do not identify a specific time frame, but tools and techniques may do so. See the section on Budget Tools and Techniques for a more detailed description of these items.

ETHIOPIA'S BUDGET PRACTICES

The budget process is guided by a directive (known as Financial Calendar) issued by the Ministry of Finance and Economic Development (MOFED) to all entities listed as public bodies. This directive has a schedule to ensure that planning and budgeting are prepared, approved, appropriated and executed accordingly. Budget preparation is guided by a document known as Macro-Economic and Fiscal Framework (MEFF) prepared by MOFED. The MEFF provides, among others, forecast of government revenue and expenditure, expenditure financing, the split of aggregate expenditures between federal and regional, and the split of federal expenditures between recurrent and capital for the next three years. Based on this 3 year MEFF, MOFED prepares annual fiscal plan by January 24, which includes identification of the amount of resources (foreign and domestic) known as the resource envelop, the amount of money needed known as the expenditure requirement, setting the block grant amount for regional governments and administrative councils from all sources (domestic and foreign), and spilt the federal share between capital and recurrent budget. Following this MOFED prepares the totals of the annual subsidy budgets and notifies the regional governments and administrative councils by February 8 at the latest. This is the starting point of the budget preparation. Ethiopia's budget process has the same four stages (budget preparation, budget approval, budget implementation, and budget control) at all level of jurisdiction (Federal, Regional, and Woreda government). The first stage - budget preparation - has four phases. Firstly, all public bodies are required to perform all budget preparation activities including mid-year program review for the current fiscal year, preparation of unit costs and work plan for the upcoming fiscal year. This phase facilitates the second phase, submission of budget request in time. The second phase of budget preparation includes a budget call letter issued by MOFED/BOFED to all public bodies. The budget call letter includes recurrent and capital budget ceilings, priority or focal areas to be considered in preparing the budget, submission date of the budget request by public bodies to the respective finance and economic development institutions at all jurisdictions. Public bodies are required to respond to the budget call by preparing their budget according to the guidelines with their action plan. If a public body fails to submit its budget request with the time specified in the budget call letter, MOFED/BOFED shall recommend a public body's budget based on the information it has. The third phase is conducting a budget hearing (public bodies with MOFED/BOFED. Based on this discussion and government policies and priorities, total expenditure ceiling, allocated ceilings for each public body; the requested budget will be reviewed, adjusted and consolidated. The last phase is summarization of the recommended budget by MOFED/BOFED/woreda to be presented to the executive body, Council of Ministers, Regional Council, and Woreda Council. The executive body shall review and recommend the budget. The second stage of the budget process /cycle is budget approval and appropriation. After the recommended budget is reviewed and adjusted by the respective executive body at all levels, it is then presented to legislative bodies the federal house of people's representatives, regional house of people's representatives, and woreda house of people's representatives for approval of the budget and annual appropriation of the approved budget at all levels. These, legislative bodies review, amend, and approve the budget. The third stage is budget execution. Once the budget is approved and appropriated by the legislative bodies, MOFED/BOFED prepares the budget allocation guideline and the notification to public bodies and their budget institutions of the source of finance and line item of expenditures for the disbursement of the approved budget. The institutions then use the budget to carry out their activities for the year. The last stage, budget control, deals with performance review. This includes activities such as ensuring whether the revenue utilization is according to laws and regulations, ensuring whether disbursement is made according to budget, ensuring whether public property is kept safe, and the recording and accounting procedures are up to the standard. The office of the general auditor is in charge of auditing public bodies and presents its findings before the House of Peoples Representative (www .MoFED .gov.et)

There are no international guidelines on the precise duration of budget formulation process. However according to Wildavsky (1975) highlighted the degree of uncertainty in the budget planning. In countries with volatile macroeconomic environment it is very difficult to plan ahead over an extended time period. Ethiopia has short time duration in the budget formulation process in comparison with Kenya and Uganda. The government sometimes cannot spend money as planned in the budget, for instance, if domestic revenue collection is lower than projected or if donor fund come late or are lower than expected there is a provision for significant budget revision to be made. To do so enough time should be given prior to the beginning of the relevant fiscal year.

International standards on budget transparency require that legislatures have sufficient time to review the draft budget. Notably, the OECD Best Practices for Budget Transparency recommend the tabling of the budget at least three months prior to the start of the fiscal year and approval before the fiscal year commences (OECD 2002).

The Public Financial Management Performance Measurement Framework developed by the PEFA Secretariat is less demanding. It gives countries a high score if the budget is tabled at least two months prior to the beginning of the fiscal year (PEFA Secretariat 2005). The IMF Code of Good Practices on Fiscal Transparency also demands 'adequate time' for the legislative review of the draft budget (IMF 2007). In sum, while all of these standards recognize the importance of legislative review of the draft budget, there is no agreement on an exact minimum requirement. The timing of the tabling of the budget in the legislature is the same (one month) for Ethiopia, Kenya and Uganda prior to the start of the fiscal year. Hence, three of the countries do not meet both the PEFA requirement and OECD demanding standard. The timing of legislative approval is four months after in Kenya, two months in Uganda and zero months in Ethiopia. Therefore Ethiopia does not meet both OECD demanding standard and PEFA requirement.

Following the end of the financial year, the audit of accounts is a fundamental requirement for government accountability (INTOSAI, 1998). According to the OECD Best Practices, audited government accounts should be available within six months of the end of the fiscal year (OECD 2002). This is a tight deadline that even a number of the industrialized democracies do not meet in practice.

The PEFA Framework gives countries the highest score when they produce annual financial statements within six months of the end of the fiscal year and when these are audited within another four months (PEFA Secretariat 2005: PI-25 and PI-26). The OECD, IMF and PEFA standards all require the publication of audited accounts (OECD 2002; PEFA Secretariat 2005; IMF 2007). Publication of audited accounts takes places within nine months after the end of the fiscal year in Ethiopia and Uganda. Whereas, twelve months after the end of the fiscal year in Kenya. Three of the countries do not meet the OECD's standard but they meet the IMF more generous deadline.

Issues in the budget formulation

The budget formulation stage is dedicated to the drafting of budget documents by the executive, in order to translate policy initiatives into resource allocation decisions across the numerous activities and units of government. This process is guided by the Central Budget Authority (CBA) usually based on the Ministry of Finance which sets the guidelines, formulates the macro-economic framework, and negotiates with spending ministries and agencies their respective allocation for the following budget year. Central budget authority (CBA) in Ethiopia imposes only suggested or indicative limits or ceilings on the initial spending request by line ministries during the drafting stage of the budget process. Central budget authority (CBA) in Uganda imposes limits or ceilings only for some types of expenditure such as salaries on a chapter level. Then again Central budget authority (CBA) in Kenya imposes limits for all types of expenditure at a chapter level. Central budget authority in Kenya has complete authority to impose limits on the initial spending request but, central budget authority in Ethiopia and Uganda imposes limits for some types of spending. In the budget processes there will be issues that cannot be resolved by civil servants, and on which a decision is required. In Kenya and Uganda the finance minister has a power to resolve high level of disputes. But, in Ethiopia the issue is resolved by the cabinet.

A medium-term budgeting frameworks are tools to promote aggregate fiscal discipline by explicitly accounting for outer year costs of both current and capital spending, strengthen planning and implementation of multi-year structural changes in fiscal policies, and encourage greater technical efficiency by increasing the predictability of funding for spending units. Moreover such frameworks help to increase budget transparency (IMF 2007).The medium term focuses on two main aspects, distinguishing between the forward-looking estimates that are included in budget documents in order to describe the medium-term fiscal outlook, and the multi-year targets/ceilings that might be imposed on aggregate or sector-specific spending. In Australia, forward estimates of budget baselines cover both the budget year and an additional three years. Cabinet and Department of Finance (DOF) consideration of annual budget proposals by the spending units (ministries) focuses on changes in the aggregate forward estimate of indicative allocations for that spending unit. The DOF carefully scrutinizes any policy proposals from spending units that imply an increased allocation, and spending units may be constrained to financing any new spending initiatives out of cost savings in existing programs. Kenya and Uganda include detailed estimates at a lion item and aggregate level respectively. Ethiopia does not include multi-year estimate in the budget documents that are sent to parliament for approval.

Furthermore multi-year expenditure targets or ceilings that are not submitted to the legislature for approval are much more common. Ethiopia applies targets at the ministry level .The multiyear expenditure ceilings or targets are set for three years period in Ethiopia There are some good reasons to distinguish the different nature of these two kinds of budgets namely, capital and operating. For example that capital budgeting often requires some distinct processes. However, the existence of two separate budget documents corresponds to two separate budget formulation processes and the lack of adequate integration mechanisms, this can constitute an obstacle for credible and comprehensive medium-term budgeting.

The central government budget in Ethiopia integrated capital and operating budgets. Currently, it is advisable to consider jointly both capital and recurrent budgets. After all both recurrent and capital budgets seek to meet jointly objectives within a given sector.

The role of legislatures in the budget process

The role of parliament in the budget process is one of the distinguishing features of any public financial management system (Lienert 2005). Amongst others, Schick (2002) and Coombes (1976) have explored the evolution of legislative control of the budget in a small number of OECD countries, mainly highlighting a decline in parliamentary influence. However, little is known about the 'power of the purse' elsewhere (Oppenheimer 1983), with the exception of some case studies (e.g. Stapenhurst et al. 2008).

Recent cross-national surveys have shown that the role of legislatures in the budget varies greatly between countries (Lienert 2005, Wehner 2006). The survey provides a unique opportunity to assess, for the first time, the budgetary role of African legislatures. Legislative budget capacity can be conceptualized in different ways (Meyers 2001). Wehner (2006) adopts an institutional capacity perspective and surveys six variables that affect legislative control of the budget process, which are coded between zero (the least favorable from a legislative perspective) and one (most favorable). Legislatures obtain a high score when: (a) they have unfettered amendment powers, (b) spending is disallowed without legislative approval, (c) the executive cannot unilaterally adjust the budget during implementation, (d) the budget is tabled well in advance of the start of the fiscal year, (e) a budget committee as well as sect oral committees are involved in the scrutiny of the budget, and (f) parliament has access to budget research capacity.

The amendment powers of the legislature in budgetary matters. In Ethiopia the legislature has unrestricted power to amend the budget. And if the budget is not approved by the legislature before the start of the fiscal year last year's budget takes effect on interim basis that is for a limited period. The analysis, thus, focuses on legislative access to the specialized budget research unit. A number of legislatures are currently considering the establishment, or are in the process of establishing, legislative budget offices (Johnson & Stapenhurst, 2008).

Budget execution

One of the principal ways in which the budget can be changed during the course of the fiscal year involves the cancellation or rescission of spending approved by the legislature. In-year cuts can help the government to ensure that aggregate spending remains within planned and prudent levels, but they can also distort budget priorities.

In Ethiopia, the government has the authority to cut or cancel spending with restriction once the budget has been approved by the legislature. In Ethiopia overspending prior to the approval of a supplementary appropriation by the legislature is not allowed, and also ministers are allowed to reallocates funds between line item with restriction especially in Ethiopia with the approval of ministry of finance. Ministers in Ethiopia are not allowed to reallocate from operation and maintenance to salary expenditures or from the capital budget to the recurrent budget.

In exceptional circumstances it may also be necessary to allow spending on items that are not included in the approval budget, for example to respond quickly and effectively to natural disasters such as flood or drought.

Frequency of supplementary budgets or adjustment budgets may be an indicator of poor budget planning, although this also depends on how detailed the budget is and at what level of detail it is approved. Moreover, it is possible that a country has very permissive rules for in-year adjustments that allow the executive to make a large number of changes without having to ask for parliamentary approval.

Internal audit plays an important role in ensuring the effectiveness of internal control which underpins sound budget execution (diamond 2002). Ethiopian line minister has internal audit unit. This indicates that the revenue utilization is according to laws and regulations, disbursements are made according to the budget and public property is kept safe.

Fiscal transparency

Transparency in government finances implies 'openness about policy intentions, formulation and implementation' (OECD 2002; and Kopits & Craig 1998). Several studies have found that fiscal transparency is associated with improved fiscal discipline, better credit ratings and reduced corruption (e.g. Alesina & Perotti 1996; Hameed 2005; Alt & Lassen 2006). Others argue that citizens and taxpayers are entitled to full disclosure with regard to the management of public money (Fölscher 2002) to ensure participate on and accountability in policy processes.

As a result of this increased focus on the provision and quality of budgetary information, several organizations have developed international guidelines and measurement frameworks.

Ethiopia includes information on budget priorities and clearly defined appropriations to be voted by the legislatures in the presentation of budget documents to legislature. But it does not include information on comprehensive annual financial plan encompassing all revenues and expenditures including off budget expenditures and extra budgeting funds and long term perspective on total revenue and expenditure in the presentation of budget documents to legislature.

Ethiopia does not include information like Fiscal policy objectives for the medium-term and medium term perspective in the presentation of budget documents to legislature while include elements like macroeconomic assumptions, comprehensive annual financial plan encompassing all revenues and expenditures for all levels of Government and Non-financial performance targets for programs and agencies in the presentation of budget documents to legislature.

Budget participation

Participation is defined as a process through which stakeholders' influence and share control over development initiatives, including the decisions and resources which affect them (Mwenda A. K and Gachocho M.N., 2003).

The national budget is an important key public policy instrument that reflects a nation's needs and priorities and since the budget is financed largely from taxes, participation in the budget process is viewed as mandatory. Besides participation in the budget process is empirically proven as a significant function of promoting budget transparency. Modern management practices advocate for inclusive and open budgeting processes. It is thus argued that budget secrecy may encourage market speculation, while greater transparency may actually smooth market adjustment to known policy choices. Further, useful, accessible and timely budget information facilitates foreign and domestic private sector planning and investment.

Participatory budgeting has therefore been advanced by budget practitioners as an important tool for inclusive and accountable governance and has been implemented in various forms in many developing countries. Through participatory budgeting, citizens have the opportunity to gain firsthand knowledge of government operations, influence government policies, and hold government to account.

Participatory budgeting is a decision-making process through which citizens deliberate and negotiate over the distribution of public resources. Participatory budgeting programs are implemented at the behest of governments, citizens, Non-Governmental Organizations (NGOs), and Civil Society Organizations (CSOs) to allow citizens to play a direct role in deciding how and where resources should be spent (Shah, 2007). These programs create opportunities for engaging, educating, and empowering citizens, which can foster a more vibrant civil society. Participatory budgeting also helps promote transparency, which has the potential to reduce government inefficiencies and corruption.

In general, public participation in the budget process is very limited in Ethiopia; this is because of lack of reliable and adequate information. If public participation in the budget process is limited, the general public in Ethiopia, cannot get opportunity to rise what is important for them and the government cannot also know the most and un meet demand of the society.

Does the Ethiopian Budget encourage participation? Legal framework for transparency

• Ethiopia has a well-established legal framework governing its budget system that derives from the 1995 Constitution of The Federal Democratic Republic of Ethiopia. The Constitution clearly defines structure, division of powers and responsibilities among the State organs. These are the structures of the organs of the Federal Government and of the State members.

• Article 12 (1) of the Constitution, states that 'the conduct of affairs of government shall be transparent'. Sub Article 2 states that any public official or an elected representative is accountable for any failure in official duties.

• Furthermore, Article 29 of the Constitution stipulates the 'right of freedom to seek, receive and impart information and ideas of all kinds, regardless of frontiers, either orally, in writing, or in print, in the form of art or through any media of his choice'. This also includes freedom of press and access to information of public interest. Therefore, this article provides legal basis for any individual, civil society organizations and other stakeholders to access information on budgets and budget processes.

• The Constitution provides the framework for people's participation through electoral representation. The House of Peoples' Representatives is composed of 550 members. The Legislature has clear authority over the approval of budget estimated and expenditure.

• In general, the meetings of the House of the Representatives are public. The law specifies the condition and the process for having closed sessions. The House shall have a closed session upon the request of the Executive or members and when supported by a decision of more than one-half of the members.

• The legal frame work has made a provision for the Legislature to maintain an oversight over the Executive in the budget process. However, the practice in Ethiopia remains to be studied.

• The Office of the Federal Auditor General is established by Proclamation No. 68/1997. The Auditor General upon the recommendation of the Prime Minister is appointed by the House of Peoples' Representatives. The office is responsible for the inspection of the accounts of all government bodies. Its task is to ensure that expenditures are made in accordance to the approved allocation for the fiscal year and submit report to the House.

• The Federal Ethics and Anti-Corruption Commission is established by Proclamation number 235/2001 as an in dependent Federal Government body. The functions are a revised Proclamation, No 433/2005 issued on 2 February 2005. Combating corruption, investigating and prosecuting. The Commission is accountable to the Prime Minister and headed by a Commissioner supported by a Deputy Commissioner. Both are appointed by the House of Representatives upon nomination by the Prime Minister.

Clarity of roles and responsibilities

• The roles and responsibilities of different players (the Executive, the Council of Ministers, the Legislature) relating to the budget process are clearly defined and entrenched by law in the Constitution.

• The financial management function of the Federal Government of Ethiopia is regulated by the Federal Government of Ethiopia Financial Administration Proclamation No. 57/1996. The proclamation clearly outlines the budgetary process and prescribes clear authority and relationship. Accordingly, the Ministry of Finance and Economic Development (MOFED) issued directives and regulation required for proper implementation. The financial calendar outlines responsibility, procedures and time frames for each phase of the budget cycle.

• The preparation of the Fiscal Calendar was introduced in 2001. It clearly defines the financial planning and budgeting cycle; establishes time frames for development, approval and implementation. It also defines institutional responsibilities at each level of government.

• MOFED makes macro-economic and fiscal plans (forecasts) available for allocation to line ministries. It issues a budget guideline and indicative-spending ceilings. Each spending agency submits its proposal to MOFED. The overall budget envelope, finalized after budget hearing process will be submitted to the Council of Ministers for approval. The budget then is presented to parliament and published.

• MOFED coordinates donor funding and matches resources with relevant projects. All donor funds are subject to the approval of the Legislature and to normal budget reporting. (World Bank 2003. p.26)

• The role and responsibility of the Auditor General are protected by a strong legal mandate and clear powers to investigate and report on all public accounts. In like manner, the role between the Internal Audit Departments of Line Ministries and MOFED Inspection Department has been clarified thus avoiding overlap of responsibility.

Public Availability of Information

• The Constitution grants access to public information, presumably, including budget. However, the implementation of this right is mixed. Information held by public authorities is not easily accessible to the public and comprehensive guidance on how to obtain such information is limited.

• Very little budget information is made available during the budget drafting phase. No pre-budget statement is released to the legislature or to the public for scrutiny and debate.

• The Federal Budget for each fiscal year is published in the Federal Negarit Gazeta. It shows allocations for recurrent expenditure, capital expenditure and subsidy appropriation for the 11 Federal States. It indicates the source of fund (domestic revenue, external assistance and loans and domestic borrowing) and allocations by expenditure code, budget holder, function, head and sub-head. Progress has been made in the presentation of a comprehensive and consolidated budget. A number of off-budget funds that operates outside of the main budget structure are now incorporated. (World Bank 2003. p.26)

• Budget reporting is strictly regulated and the computerized system introduced by the DSA project has been very helpful in collation of data, promoting efficiency and transparency to the budget system.

• Due to the Decentralization Support Activities (DSA) project funded by USAID backlog in closing accounts has been reduced. However, account reporting since 1999/2000 fiscal year is not yet available, thereby failing to meet the international standard of transparency and accountability. (Ibid. P. 33)

Independent checks and balances of budget execution

• The accounts of public enterprises are audited by independent accounting firms of the Auditor General. The Auditor General submits its report to the House of Peoples' Representatives. However, there is no evidence of systematic follow up of issues raised by the Auditor. Lack of resources and limited understanding about accountability among some members of the Budget and Finance Affairs Committee is considered as a barrier to maintain clear oversight of budget implementation. Some reports indicate that the more stringent mechanisms are needed to ensure that public offices comply with requests and queries from the Auditor General and /or with recommendation made by the House of Representatives regarding audit reports.(Ibid. P. 38)

• The Federal Ethics and Anti-Corruption Commission is tasked with the responsibility of combating corruption, investigating and prosecuting. A Special Procedure and Rules of Evidence Proclamation, No. 434/2005 has been put in place currently. The purpose was to amend and regulate the definition of corruption, the procedural and evidential provision related with the investigation and prosecution of corruption offences in accordance with the penal code. The activities of the Commission are made available for the general public and regularly published.
• Article 55 (17) of the Constitution gives the House of People's Representatives the power to call and to question the Prime Minister and other Federal officials and to investigate the Executive's conduct and discharge of its responsibilities. (World Bank 2003). The Prime Minister and the Council of Ministers are responsible to the House of Representatives. The Prime Minister submits periodic report on work accomplished as well as on plans and proposals. The report of the Prime Minister is made public through the media.
• Lack of adequate capacity on the part of the legislature to research and analyze budget information, particularly audit reports seems apparent. Likewise civil society organizations generally do not have the skills or the knowledge to engage purposefully with the budget debate5 limiting the capacity of the civil society to hold governments accountable.

Budget decision-making processes

• According to Article 55 (10) of the Constitution, the House of People's Representatives can approve general policies and strategies of economic, social and development, and fiscal and monetary policy of the country. It has the authority to levy taxes and duties on revenue sources and shall ratify the Federal budget. Furthermore, it approves the appointment of the Auditor General and other officials whose appointment required approval by law. (Article 55 (13).
• The role of the Parliament in general and the Budget and Finance Affairs Committee in particular is limited to 'approving' the budget prepared by MOFED and the Council of Ministers. The House of the People's representatives makes the budget open through a public call on the media.
• Recently, efforts have been made to open Parliamentary debates to the public. Civil societies are invited to take part in parliamentary discussion programs when new legislation is being drafted. Apart from these measures, concerted effort on the part of the Government agencies to engage the media and civil society seems limited.
• The Civil society in Ethiopia is not strong and only a few International NGOs are engaged in budget work. Their participation during budget hearing is limited to giving feedback or raising questions which may not necessarily be incorporated. The degree and nature of participation by the civil society as well as impact of their participation needs to be studied.
• On the 'budget day', government makes information available on its economic policy, fiscal framework and policy priorities for the upcoming year, estimated revenues and expenditures, as well as surplus/deficit.
• In general budget planning is a closed process with no participation. The public and the media have limited access to information about upcoming calls on budget discussion in due time. The civil society or any external stakeholder would have no information and access until it has been adopted and published in the Federal Negarit Gazeta. (5 Ibid)

CONCLUSION

• In general, the legislature is sound and the legal frameworks such as the Constitution and other financial proclamations clearly state the nature of the budget system and the level of transparency.
• The introduction of the Fiscal Calendar has brought clarity on process of financial planning and budgeting. It clarified responsibilities among the various public intuitions at each levels of government.
• The drafting of the budget is neither transparent nor open to the public. However, the publication of the outcome (Federal Budget) is a step towards openness and transparency
• The legal provision for access to budget information is an opportunity for civil society organizations to realize the right to engage in budget related work and understand the dynamics involved.

RECOMMENDATIONS

Recommended budget practices

1. Identify Stakeholder Concerns, Needs, and Priorities

Principle: Establish Broad Goals to Guide Government Decision Making
Element: Assess Community Needs, Priorities, Challenges, and Opportunities
Practice: A government should develop mechanisms to identify stakeholder concerns, needs, and priorities**.**
Rationale: The limited resources of a government should be directed in a manner consistent with the concerns, needs, and priorities of stakeholders; hence, a government must be aware of those concerns, needs, and priorities.
Outputs: This practice provides for a series of

mechanisms to promote stakeholder participation in discussing and communicating values and issues that are of concern to them. Among the mechanisms that might be considered are public hearings, surveys, meetings of leading citizens and citizen interest groups, government strategic planning processes, meetings with government employees, and workshops involving government administrative staff and/or the legislative body. (Recommended Budget Practices: Government Finance Officers Association, June 1998:81)

2. Evaluate Community Condition, External Factors, Opportunities, and Challenges

Principle: Establish Broad Goals to Guide Government Decision Making
Element: Access to the community Needs, Priorities, Challenges, and Opportunities
Practice: A government should regularly collect and evaluate information about trends in community condition, the external factors affecting it, opportunities that may be available, and problems and issues that need to be addressed.
Rationale: A government must have an understanding of the issues and trends affecting a community in order to establish the most appropriate goals.
Outputs: A variety of mechanisms should be considered to gather information about the community and to report on the results. Some mechanisms will involve data gathering from preexisting sources or through opinion surveys. Other mechanisms will be subjective, such as observing physical characteristics of geographic areas within the community or talking to residents, experts, business and community leaders, and legislative bodies. (Ibid 87)

3. Assess Services and Programs, and Identify Issues, Opportunities, and Challenges

Principle: Establish Broad Goals to Guide Government Decision Making
Element: Identify Opportunities and Challenges for Government Services, Capital Assets, and Management
Practice: A government should identify and assess the programs and services that it provides, their intended purpose, and factors that could affect their provision in the future.
Rationale: Changes in community conditions or other factors may result in a program or service no longer addressing the needs it was intended to serve. Also, changes in the operating environment may affect the cost or effectiveness of service delivery in the future. These changes must be understood before an assessment can be made of whether existing programs should be continued or whether adjustments should be made.
Outputs: A government should have a process for inventorying and evaluating programs and services to determine the relationship of these programs to the needs and priorities of the community. The review should include an assessment of the programs' purposes, beneficiaries and needs served, their success in achieving goals, and issues, challenges, and opportunities affecting their provision in the future. . (Ibid 92)

4. Develop Policy on Stabilization Funds

Principle: Develop Approaches to Achieve Goals
Element: Adopt Financial Policies
Practice: A government should develop policies to guide the creation, maintenance, and use of resources for financial stabilization purposes.
Rationale: Governments should maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.
Outputs: The policies should establish how and when a government builds up stabilization funds and should identify the purposes for which they may be used. Development of a policy on minimum and maximum reserve levels may be advisable. Policies on stabilization funds should be publicly available and summarized in materials used in budget preparation.

5. Develop Procedures to Facilitate Budget Review, Discussion, Modification, and Adoption

Principle: Develop a Budget Consistent with Approaches to Achieve Goals
Element: Make Choices Necessary to Adopt a Budget
Practice: A government should develop and implement a set of procedures that facilitate the review, discussion, modification, and adoption of a proposed budget.
Rationale: Appropriate procedures are needed to resolve conflicts, to promote acceptance of the proposed budget by stakeholders, and to assist in timely adoption of the budget.
Outputs: A series of processes should be developed that permit stakeholders to satisfy themselves as to the appropriateness of the budget proposal and to allow the legislative body to achieve consensus and adopt a budget. These processes should be summarized in budget materials. Some examples include: small group meetings, hearings, workshops, independent analysis, specific decision-making techniques and procedures, conflict resolution processes, and methods for presenting portions of the budget. (Recommended Budget Practices: Government Finance Officers Association June 1998)

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