Spending without Proper planning: Why Ethiopian Agriculture is not Growing Despite High Public Spending in the Sector by Africa Standard, A Macro Perspective

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IAES Working Paper Serious NO. A10/2011

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IAES Working Paper

Abstract

The Ethiopian government spend a lot in the pro-poor sectors in general and the agricultural sector in particular. Yet, the performance of the agricultural sector doesn't seem so exciting. The latter is the finding of an earlier IFPRI's study on the issue. Similarly, in the assessment of the World Bank 'despite a decade of focus on agriculture and significant public support, Ethiopian agriculture remains stubbornly low-input, low-value and subsistence oriented, and subject to frequent climatic shocks'. Based on these finding this study would like to address is "Why has the welfare and growth impact of public spending on agriculture been limited despite a relatively high level of public spending compared to the sub-Saharan average or that of the NEPAD target?". By focusin on the planning and budgetary system.We found a number o challenges in the planning process both at macro, sectoral and micro level. All the challenges, outlined in detail in the study point to the fact that the Ethiopian planning and budgetary system is at the initial slopes of a much needed reform and may not accommodate a sustained growth maximizing public spending. Adopting various forms of performance/output based budgeting and having a high caliber technocrats with continuous training both at nation and sectoral level is essential to guarantee that there is efficiency in public spending. The appropriate design of program and projects is essential in clearly defining objectives, outputs, outcomes and impacts to enable efficient resource allocation across sectors.

Key words: Agriculture, Public spending, Efficiency, Planning, Ethiopia

Acknowledgment: **This paper is based on a background paper prepared for IFPRI Ethiopian office. A shorter version has appeared in IFPRI WP Series. The copy right of the final paper belongs to IFPRI. We acknowledge and grateful for the grant from IFPRI for working on this paper**

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I. INTRODUCTION

The Ethiopian government, in line with its 'agricultural-led industrialization' strategy, claims to have spend a lot in the pro-poor sectors in general and the agricultural sector in particular. The budget data actually supports this assertion (See Table 1(a) and 1(b)) . Yet, the performance of the agricultural sector doesn't seem so exciting. The latter is the finding of an earlier IFPRI's study on the issue. Similarly, in the assessment of the World Bank (2007), 'despite a decade of focus on agriculture and significant public support, Ethiopian agriculture remains stubbornly low-input, low-value and subsistence oriented, and subject to frequent climatic shocks'. Hence, the major question that this study would like to address is "*Why has the welfare and growth impact of public spending on agriculture been limited despite a relatively high level of public spending compared to the sub-Saharan average or that of the NEPAD target?*".

Table 1(a) Spending in the Pro-poor Sector in the Agricultural Sector for 2002 (% of Total Federal Spending, including regional block grants)

Ethiopian Calendar	1996	1997	1998	1999	2000
European Callendar	2003/2004	2004/05	2005/06	2006/07	2007/08
Pro-Poor Spending	49.6	56.5	60	62.8	64.1
Agriculture & Natural Resources	15.4	20.8	21.2	18.5	17.8
***Agriculture & Food Security**	***13.4***	***16.3***	***16.8***	***12.5***	***11.8***
Roads	9.6	11.2	12.4	14.1	17.9
Education	20.4	19.7	21.8	23.6	21.3
Health	4.3	4.8	4.6	6.6	7.3

Source: MoFED, Ethiopia's 2008/09 Budget, Volume 1

**If the data excludes 'natural resources' and used instead 'Food Security' this is the level*

Table 1(b): Official Growth Rate of GDP and the Agriculture Sector

Eth. Fiscal Year	1992	1993	1994	1995	1996	1997	1998	1999	Average Growth
European Calendar Growth Rate (%)	1999/00	2000/01	2001/02	2002/02	2003/04	2004/05	2005/06	2006/07	(1999/00-2006/07)
Real GDP	5.9	7.4	1.6	-2.1	11.7	12.6	11.6	11.4	7.5
Agriculture &Allied Activities	3.0	9.6	-1.4	-10.7	17.0	13.4	10.9	9.5	6.4
Industry	5.0	5.7	8.4	6.3	11.7	9.4	9.9	11.4	8.5
Services	10.2	5.2	3.5	6.1	6.1	12.6	13.3	13.7	8.8

Source: Based on National Bank of Ethiopia, Quarterly Bulletin, 2008

One important dimension that would provided an adequate answer to this question relates to the weakness of the policy, planning and budgeting process both at national and sectoral, in particular in the Agricultural, level.. This study attempts to shed light on this issue. In relation to this we will be examining the following research questions:

a) How is public spending in general and agricultural spending in particular is determined at the macro level. Do we have to spend in Agriculture to benefit the agricultural sector? Is this budget or macro decision a function of domestic resource constraint or external finance or both; is it based on serious analysis and expert evolvement at various levels?

b) Does the macro framework for spending (i.e. the fiscal framework) constrains public spending in Agriculture (issues of PRSP, MTF, long term planning and budgeting)? Do we have poor inter-sectoral linkages in the planning process?

a) Are sectoral spending in general and agricultural spending in particular done in a non-optimal way using marginal budgeting and short-term planning instead of proper project and program appraisal and long term planning ? (both at the ministries and at MOFED level when the selection of projects and programs are made for financing/budgeting)?.

b) How is planning and budgeting conducted at the MoARD and local government level and what is the implication of that for efficiency of public spending in agriculture?

c) Within the context of sectoral allocation how is the allocation of budget to the different aspects of agricultural sector spending is made, once macro decision is made?

The implementation of effective development strategies not only require the appropriate set of policy packages, but also call for strong linkages between policy and budget planning. Poor budgeting outcomes in developing countries can be traced, in part, back to the loose bond between policies, planning, and budgeting.

Budget planning and public finance management reform guidelines proposed by the International Financial Establishment have, among other things, focused on creating the apposite linkages that focus on the effective implementation of policies through the requisite channels that include: *the establishment of a budgetary framework that is based on the apposite macroeconomic framework, real policy priorities, and predictability in expenditure allocations; transparency in the budget process allowing for the arbitration between sectoral and intra-sectoral priorities to inform strategic choices in line with the stream of resources making up the public purse, and fostering resource management and participatory decision making; insure credibility in budget planning, formulation and execution; and guarantee that there is a cohesive package of instruments of planning that ensure consistency in policy priorities and temporal coherence.*

Even though the study of budget practices and procedures is of paramount importance little has been done in terms of understanding budget practices and procedures across the developing world. However, the OECD International Budget Practices and Procedures Database, and the Collaborative Africa Budget Reform Initiative (CABRI-OECD-AfDB) have laid the foundation for a systematic understanding of budget practices and procedures in the developing world. The latter documents public finance systems across 26 African countries. The study was organized under the premise that "*developing a coherent framework for budget allocation and management is a continuous process, which takes account of both the country circumstances and regional and international trends.*" The study is an extension of the OECD survey on Budget Practices and Procedures and employs questionnaires that solicit information on budget formulation, approval and performance evaluation. Selected results of the survey are presented in Table 1[1].

The approach we adopted to shed some light on planning, budgetary practices and procedures in Ethiopia has three parts. It comprises of: (*a.*) *two self-contained sections that provide comprehensive discussions of budget and investment program planning and preparation procedures, and some discussion on expenditure performance and the capacity for monitoring and evaluation. The respective sections focus on two of the major actors in the planning and budget cycle process that relate to agriculture: the Ministry of Finance and Economic Development (MoFED) and the Ministry of Agriculture and Rural Development (MoARD) (Sections II, III),* and (*b.*) *focus group discussions that highlight, in addition to the general provisions of budget preparation, on specific cases of public investment programs by the two Ministries focusing on agriculture.* The findings of the above are used to shade light on the research questions listed above. This would aid in reconciling the findings of the OECD survey and the information that is obtained from our two-tiered approach. In this process the guiding motivation is the desire to understand the implication of this procedure for efficiency of public spending in Agriculture.

Table 1 OECD Budget practices and procedures survey 2008: information on Ethiopia

Which of the following actors formulate the economic assumptions used in the budget?		
	Central Budget Authority	
	Ministry of Finance	1
	President's office	
	Prime Minister's office	
	Legislature or other legislative body	
	Panel of economic experts appointed by the Government	
	Independent Government body	
	Private sector	
	Other	
	Missing answer	
Which of the following organizations carry out independent reviews of the economic assumptions used in the budget?		
	There are no independent reviews of the economic assumptions	
	Independent panel, or similar	
	Supreme Audit Institution	
	Legislature or other legislative body	1
	Other	
	Missing answer	
Is the methodology used for establishing the economic assumptions of the budget publicly available?		
	No	
	Yes, but only to certain parts of the Legislature	
	Yes, it is publicly available on request	1

[1] For more information on the results of the survey consult the OECD International Budget Practices and Procedures Database. http://www.oecd.org/document/61/0,3343,en_2649_34119_2494461_1_1_1_1,00.html

	Yes, it is published	
	Other	
	Missing answer	
Is fiscal sensitivity analysis of the economic assumptions included in the budget documentation?		
	No	
	Yes, a comprehensive analysis is included	
	Yes, but only for selected activities	
	Missing answer	1
How often are fiscal estimates (spending and revenues) revised in the course of a fiscal year?		
	Weekly	
	Monthly	
	Quarterly	
	Biannually	1
	Annually	
	On another regular interval	
	On ad hoc basis	
	Not revised	
	Missing answer	
To what extent are fiscal risks associated with entitlements evaluated in the budget documentation?		
	Fiscal risks are not evaluated	
	Evaluation is on an ad hoc basis	
	Evaluation follows a materiality test (i.e. only risks to programs with certain levels of spending)	
	Evaluation is comprehensive	
	Other	
	Missing answer	1
In the annual budget documentation presented to the Legislature are expenditures under current commitments in law and policy distinguished from new policy		
	No	
	Yes, but not in all cases	
	Yes, comprehensively	1
	Other	
	Missing answer	
Q.12.a How often do you prepare long-term fiscal projections?		
	Every year	1
	Every 2 years	
	Every 3 years	
	Every 4 years	
	Every 5 years	
	Every 10 years	
	On an ad hoc basis	
	There are no long-term fiscal projections	

	Missing answer	
Q.12.b How many years do the projections normally cover?		
	Not applicable	
	Up to 10	
	11-20	
	21-30	
	31-40	
	41-50	
	51-60	
	61-70	
	71-80	
	81-90	
	91-100	
	Missing answer	1
What kinds of long-term fiscal analysis are used?		
	Detailed projections of revenues/expenditures and surplus (deficit)	1
	Present value calculation of future revenues expenditures and surpluses (for example fiscal gap analysis)	
	Intergenerational accounting	
	Balance sheet analysis	
	Other	
	Missing answer	
In developing the budget, are there any fiscal rules that place limits on fiscal policy?		
	No	
	Yes, expenditure rule	1
	Yes, revenue rule	1
	Yes, budget balance (surplus/deficit) rule	1
	Yes, debt rule	
	Other	
	Missing answer	

Source: OECD: Directorate for Public Governance and Territorial Development, International Budget Practices and Procedures Database

It is imperative to note that the above OECD questionnaires assumed that the government and line Ministries have the capacity (skill required) to do all the above tasks noted in the questionnaire. These are, however, a heroic assumption in the case of the Ethiopian government. Thus, the answer in the above table may be positive but the quality of the output might be extremely limiting.

In Ethiopia, sectoral budget allocation decisions are made based on policy priorities that are set in accordance with the millennium development agenda (e.g. widening access to health services **X**% by year **Y**) and forecasts of growth and indicators on priority sectors discussed in detail in the second generation PRSP, called: the PASDEP (Program of Action for Sustainable Development to end Poverty). The latter is effectively the five year plan of the government. These considerations are then reconciled with the budget envelop. Budget outlays are made based solely on indicative targets that are set independently from each other. Thus, public investment plans are made in accordance with investment programs proposed by the respective ministries, independently from one another, and using a brand of marginal budgeting that depends largely on previous allocation decisions.

However, the above process assumes away inter-sectoral relationships and demand constraints. It assumes that to improve agriculture outcomes one has to invest in agriculture itself and the improvement of services in agriculture, and fails to internalize the effect of, for instance, social sector spending on outcomes in agriculture (schooling, for instance) and therefore could potentially overestimate sectoral budget requirements. Furthermore, the process of marginal budgeting assumes demand to be ubiquitous. Although it is apparent that the provision of extension services does not make demand for services in agriculture automatic, it is routinely ignored in budget design. The above table also assumes that both MoFED and the line Ministries such as MoRAD have the required qualified personnel and research capacity to carry the job efficiently.

Although the justifications for the present public investment planning and budgeting framework are not readily apparent, there has been little change in the structure of the budget planning process for longer than four decades. It is imperative that the budget process is restructured to include an analytic framework that provides appropriate ways of identifying sectoral priorities and explains what they offer in terms of poverty reduction. One way of doing the above is through multi-sector simulation models that yield macroeconomic growth multipliers from income shocks to respective sectors. Sectors that offer the highest indirect benefit and the most pronounced impact on poverty reduction need to be selected as the most progressive choices to lead economic growth. Thorough planning and research at sectoral level is also of paramount importance. As this document shows in details this seems lacking in Ethiopia.

Another important dimension of planning and policy making should involve bolstering inter-ministerial coordination in planning and budget allocation. A separate public investment planning office that represents a cross-section of the Ministries could facilitate the above by reviewing project proposals, alternatively MoFED need to do that by having a strong qualified personnel and department. In summation, public investment planning that focuses on marginal adjustments to budget limits undermines the quality and priority of development programs. The problem with the current planning and budgeting machinery is often caused by difficulty in producing credible macroeconomic and fiscal frameworks that is linked to perspective planning as a result of capacity or institutional constraints. The implication of this for efficiency of public spending in line Ministries, such as MoRAD, need to be obvious. The spending in MoRAD not only could be constrained by what happened at national and its planning and budgeting procedure, it might not benefit from what happened in the other sectors in an efficient and integrated fashion. Thus, it is imperative to examined the budget planning process, the public investment approach both at macro and sectoral level to realize the goal of poverty reduction through optimal inter-sectoral relation and synergy and proper planning and policy making. Each ministry is also required to have a strong research and planning department with capacity to plan, appraise program and projects and implement, monitor and evaluate them. Without such infrastructure large spending in Agriculture could be a waste of resources which are hard to come by.

With this broader perspective the rest of this study is organized as follows. In section II and III we will being critically examine the policy, planning and budgeting process at MoFED and MoRAD respectively. This will be followed by section IV where we substantiated the argument made in sections II and III using information from focus group discussion with experts at macro (MoFED), sectoral (MoRAD) and micro (Woreda) level.. The section also provides an evaluation of a sample project and discusses briefly the basis for some allocation decisions and subsequently the efficiency of the budgetary system. This is motivated by the desire to understand the implications for efficiency of public spending on Agriculture. Section IV will concluded the paper.

II. Public Finance Management at the Ministry of Finance and Economic Development (MoFED)

Public spending in Ethiopia represented 19 and 30 percents of GDP in the 80s and 90s, respectively. Public spending decelerated, in recent years from 23.3% of GDP in EFY 1997 (2004/05) to 19.1% in EFY 2000 (2007/08). Correspondingly, public revenue as a percentage of GDP has also decelerated in recent years. The appropriate allocation of resources, proper management of the available resource and enhanced transparency and accountability in financial management is an essential element of economic development and reducing poverty.

Sound public finance management requires a well functioning budgetary system that embodies reliable planning and optimum allocation, management and control of public resources. The budgetary system is expected to build relationships between macro and micro components, balance between long and medium term commitments and flexibility to meet unforeseen economic shocks. A series of reform programs have been undertaken by GoE to introduce the fundamentals of a properly functioning budget system. The ongoing expenditure management and control program has introduced: a legislative framework, a new chart of account, a zero treasury balance cash management, and a modern computerized accounting system. Emphasis has, also, been given to the organization of an efficient and effective internal and external audit system.

Agriculture is the main stay of the economy and the main source of economic growth. Consequently, its share in total government expenditure is significantly high compared to other developing agrarian economies. The share of public spending on agriculture in government expenditure (both recurrent and capital) averaged at 14.5% for the last five fiscal years. The Government allocated a fixed amount of annual budget to finance food security programs (which constitute about 90% of the agriculture budget, see Table 5 below) as a major share of spending on agriculture in selected regions with food insecure Woredas.

The coverage of public spending in Ethiopia encompasses extra budgetary activities including pension, road maintenance and industrial development of Public Enterprises (PE) though the focus and purpose of this section is to describe the nature of the country's budget process at the Ministry of Finance and Economic Development (MoFED), to examine how the budgetary process is linked with the planning; how the budget of each budgetary institution in general and the agriculture sector in particular is determined, and eventually to provide recommendations on how to improve the budgetary process regarding the spending through government budgets..

2.1 Overview of Government Budget Formulation Process

Currently, MoFED is responsible for the coordination of and preparation of the country's development plan and the formulation of the annual budget. Previously the planning and budget preparation processes were administered by separate institutions (Ministry of Finance, MOF & Ministry of Economic Development and Cooperation, MEDaC). Moreover, the recurrent and capital budget of each spending institution was prepared and monitored by separate institutions. The current arrangement, however, allows MoFED to synchronize the planning and budgeting process both on medium term and annual basis.

In earlier years the budget formulation depended on an incremental budgeting system, where priorities were given to recurrent expenditure, allocating capital budget for ongoing capital projects and dividing the remaining resources among new investment projects. In recent years, the GoE has taken steps to introduce improved budget formulation processes to supplant the incremental budgeting system that has been the source of inefficient use of public resources. One important piece of the reform process was the adoption of a 'zero-based budget system' that, unlike incremental budgeting, is based on a long term perspective of development objectives.

Currently, the annual budget formulation process has two dimensions: the identification of priorities and goals, and allocation of and management of funds. The budget formulation process has four stages: the planning stage, the budget preparation stage, the budget legislation and budget implementation and control stages. Several stakeholders are involved at each step of the budget cycle, with some contributing exceedingly more than others. The executive body has considerable power in the budgetary process with Ministries playing important roles in planning, budget formulation and implementation. Since external resources make up a significant portion of the budget, donor influence in project selection could not be overemphasized.

The annual budget cycle is initiated by the planning stage that focuses on the assumption of macroeconomic developments and estimating the resource envelope and ends with the approval of the audit reports of the Office of the Federal General Auditor (OFAG) by parliament. To maintain the consistency and timeliness of the budget process cycle, the government has introduced a standard budget calendar that is to be applied on year to year basis.

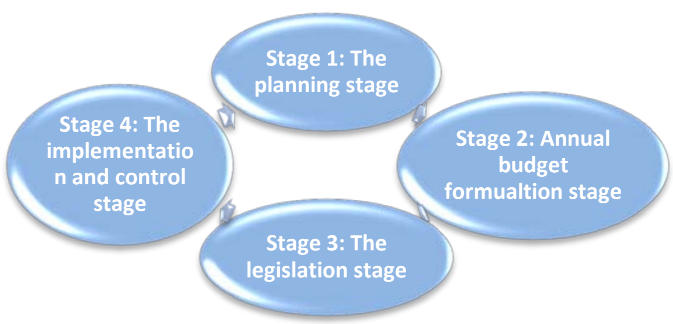


Figure 1: Annual Budget Cycle of the Federal Government

The Planning Stages

The budget process at this stage involves the preparation of the Macroeconomic and Fiscal Framework (MEFF) which mainly focuses:

- Preparation of Macroeconomic Projections;
- Projection of aggregate resource envelope;
- Conduct internal consultation;
- Approval by the Council of Ministers; and
- Designing the Public Investment Program by (PIP) Line Ministries

The planning stage, in principle, mainly encompasses economic and budget review of previous years, the setting of future policy directions, determination of available resources, setting program priorities and distribution/allocation of the corresponding resources. Hence, this stage is the most challenging step of the budgetary process. In other words, linking the annual budgetary process to medium and long term development objectives of the county and developing feasible and credible budget is important.

The Government through the ongoing Expenditure Management and Control Sub-Program (EMCP) has introduced a budget system which aims at expanding the preparation of government budget from annual to medium term perspective by linking the budget to the long term national development objectives and policies and therefore introduced the Macro-economic and Fiscal Framework (MEFF).

The process of preparing MEFF, in principle, requires the establishment of a Technical Working Group (TWG) largely comprising of professionals from MoFED and the National Bank of Ethiopia (NBE). The draft MEFF is then reviewed by MoFED management (composed of Ministers, State Ministers, and heads of departments)[2]. However, there are claims that there is little coordination in the preparation of MEFF and that the Macroeconomic Policy and Management Department has been left to do a bulk of the technical aspect of the draft MEFF. The National Bank's involvement has largely limited to the projection of monetary and balance of payments aggregates.

MEFF is a three years rolling financial plan of Federal Government (FG) to envisage the resource envelop in the coming three years and to broadly indicate the resource allocation among the major categories of expenditure such as recurrent, capital and block grant to regional states. Up on approval by the Council of Ministers[3], MEFF is to be used to trigger the preparation of next year detail annual budget with the framework provided by the ceiling for each expenditure categories. The resource projection and allocations for the outer years in MEFF will only be indicative.

The preparation of MEFF involves projection of macroeconomic aggregates of the real sector, as well as monetary and balance of payments (BoP) to be used as a basis for domestic revenue (tax and non-tax revenues) and foreign resource projections. The overriding objective of the MEFF is to assess the resource frontier both from domestic and external sources and decide on the resource allocation framework used for detailed annual budget preparation. Hence using alternative methods, revenue projection is done for the coming three years[4]. The most important variables employed in the projection of domestic resources are the real and nominal GDP growth, tax elasticity and buoyancy, import projection, exchange rate developments, inflation, and anticipated tax and non tax revenue and administrative measures; while the foreign resource projection is mainly based on the development partners' commitments and historical trends on disbursements. Another important ingredient of the MEFF is determining the level of fiscal deficit to decide on the level of domestic borrowing. Unlike other developed economies capital market is nonexistent in Ethiopia. Thus, the only available source of

[2] The Technical Working Group is composed of professionals from MoFED's divisions: Development Plan and Research Department, National Income Accounts Department, Budget Consolidation Department, Multilateral and Bilateral Cooperation Department and NBE's Economic Research and Planning Department. MoFED's Macroeconomic Policy and Management Department is tasked with the coordination of the MEFF.

[3] Financial Regulation No. 17/1997 contends that MEFF should be prepared on time and officially approved by the Council of Ministers.

[4] . MoFED attempted to develop a Macroeconomic Model that would aid in budget preparation by linking the revenue and expenditure projections with the underlying economic realities. Beyond its many other uses, the model is being used by the macro team in the Ministry in assessing the overall resource envelop, although use of the model is still under scrutiny and used to produce adjunct shadow forecasts.

domestic borrowing is from banks. Its adverse effects on macroeconomic stability notwithstanding, this form of deficit financing allows the government to mobilize more resources.

With the Macro model still under experiment and used to produce only shadow forecasts, the current practice of forecasting macroeconomic aggregates is based on simple computations including setting targets, using simple trend regressions and growth projections. The GDP forecast is done by the National Income Accounts Department of MoFED using simple growth projections by taking the most recent past economic growth trends and aligning it with the PASDEP targets. The BOP and Monetary projections, on the other hand, are done by the National Bank of Ethiopia[5]. The tax revenue projection is done by the Macro Economy Policy and Management Department of MoFED based on the GDP, BOP and Monetary aggregate forecasts. The tax revenue projection is technically done by forecasting the components. Since there is little useful data on tax bases for almost all types of taxes the direct tax and domestic indirect tax projections are done, using projected nominal GDP growth and the respective tax elasticities/buoyancies. The projection of foreign indirect taxes on the other hand depends on the value of projected imports, corresponding effective tax rates and the exchange rate.

Determination of the resource envelope is an iterative process. Revenue policy formulation and administration are under the domain of two different institutions: MoFED and the Revenues and Customs Authority (FRCA). MoFED is responsible for the former, while the later is managed by FRCA. Although most of the variables employed to forecast the tax revenue are under MoFED's jurisdiction consulting FRCA on the revenue administration impact could not be overemphasized. MoFED has more discretionary power in mobilizing non tax revenues as these are generated by government owned enterprises. The other critical and most unpredictable source of revenue is the budget support from the country's development partners. These sources are equally important in determining the resource envelope as long as they are not tied with specific projects and programs. Reliable and accurate projection from these sources is difficult since they are influenced by donors' internal policies and commitment.

Once the overall resource envelope is agreed upon, the subsequent task is dealing with the expenditure allocation which is largely linked with the country's development plan and global commitment. The government has designed a five years development plan with the objectives of eradicating poverty (PASDEP), promoting growth and enhancing service delivery at grass root level. To achieve these objectives the government has given priority to enhancing block grant allocations to sub-national governments on top of the allocation made to finance development activities carried out under FG control. Thus, in the preparation of MEFF firm commitment is emplaced on increasing the block grant by 3-4 billion Birr annually. The next priority is Federal recurrent expenditure which largely finances non discretionary payments including defense, debt services payments, and foreign relations. Federal capital expenditure is prepared as a residual. Although theoretically the formulation of MEFF involves a top-down and bottom-up process it is evident that the top-down is dominant. In addition, it should also be noted that both recurrent and capital budget allocations to social-sectors are essential in achieving the objectives of PASDEP and meet the MDGs.

Regional governments autonomously administer their budget and are constitutionally entitled to block grants. The allocation of grants into recurrent and capital spending and priorities in sectoral spending

[5] The detail methodologies the NBE uses could not obtained, but we wouldn't anticipate fundamental difference from that of MOFED approach.

are decided by regional governments themselves. The federal government seldom interferes with the allocation process of the block grant. However, the Constitution stipulated that the Federal government has the power to audit and inspect the proper utilization of subsidies it grants to Regional States[6]. As mentioned above the three year MEFF is prepared in line with the objectives and directions of PASDEP. The MEFF, in turn, provides the basis for the annual budget and the determination of the level of block grant. Hence budget allocation both at Federal and Regional level is assumed to finance priority sectors of the PASDEP. Priority sectors, education, health, road and water, have their respective programs. As the Regions have autonomy in designing these programs, it is assumed that there is an underlying, mutual, commitment to give priority to these sectors. Furthermore, most of relatively prominent projects are run by the federal government and recurrent costs are financed by the regional states themselves. Thus, regional states are obliged to allocate a part of total expenditures to cover the cost of such programs. Moreover, the federal government along with its development partners designed a program named “Protection of Basic Services”, following the 2005 disputed election, intended to finance basic services including education, health, agriculture, water and natural resources as well as road projects at the sub-national level. Regional states are engaged in designing and evaluation of this program. Accordingly, there is a semi-annual review forum to evaluate the implementation of this program as per the agreed conditionality. The evaluation focused on gauging the level of allocation to these sectors, which is expected to increase significantly over time. Fair allocation of the resources among regions and *Woredas*, monitoring of transparency, accountability and conducting roving audits to check whether the fund is used for the intended purposes are essential elements of the evaluations. It is also worth mentioning that foreign financed projects are managed largely by the Federal Government. However, regional states are expected to assume future recurrent costs. Although the federal government is not directly involved in the administration of block grant transfers in regional states, MoFED exercises some form of control in the affairs of the regional state budget allocation through the channels discussed above.

The most important link between the Federal MEFF and Regional Budgeting is the Block grant allocation. The MEFF determine the level of the Block grant which contains about 80-95% of regional resource. Some regions have also adopted the Federal MEFF as part of the bid to improve public management of resources. In other words the allocation in Federal MEFF does not entirely influence regional budget allocation. However, the consensus is that more or less the priorities of regional states are the same and this identical need will guide the budget allocation to be identical across the board whose overall leading objective is to reduce poverty.

Basically regional governments in Ethiopia do not run any primary fiscal deficit i.e. they have a balanced budget which would be financed through the Federal block grant and own revenue sources. In terms of revenue assignment the Federal government exercises strong control while regions have relatively significant role with respect to expenditure assignment as it is depicted in Table1.

Table 2 Percentage Share of Regional Own Revenue and Total Expenditure Compared to the National Level

	2003/04	2004/05	2005/06	2006/07	2007/08
Regional own revenue (%Share)	22.2	22.9	22.5	20.1	18.4
Total regional expenditure(%Share)	37.6	35.7	38.3	37.6	42.4

[6] Article 94/2 of the Constitution of the Federal Government of Ethiopia and article 62 of the Financial Administration Law of Federal Government.

As noted earlier, donor-pledged resources, particularly in the form of direct budget support (non-project tied) and debt relief are part of the overall resources envelope. Thus, the size and its predictability have significant impact on the overall resource envelop. Continuous efforts are being exerted to promote predictability in pledged funds and minimize the associated set of conditionality. Donors that channeled aid through budget support frequently want to make sure that the county's financial management system is continually reformed along international standard practices, and promote financial transparency and accountability. However, in most cases, negotiations with donors do lend themselves to the requirements of transparency advocated strongly by donors themselves. Multilateral donors, such as the World Bank, the African development Bank, European Union and UK from bilateral donors are the principal development partners that administer direct or quasi-direct budget support modalities. As several bilateral donors such as the USA, Germany, Japan, Scandinavian countries have large stake in those multilateral and regional organizations', disbursements are affected by unclear, political and non-transparent conditionality. Hence, although specific conditionality are not attached with direct budget supports there are continuous program reviews, delays in release of the intended finance, even withdraw in pledged support. Hence, it should be noted that the formulation of MEFF is not free from the influence of development partners.

In terms of coverage, the MEFF doesn't cover the while of the country's aggregate budget. The remaining amount of the aggregate budgetary resources, although very limited, comes from regional states and the resources there are able to muster. Hence, the Federal Government MEFF does not correspond on a one to one basis with the PASDEP. However, given the high level of the block grant, it can approximate the PASDEP with respect to aggregate resources. Finally, MoFED submit the draft MEFF to the Council of Ministers for its deliberation and approval.

Annual Budget Formulation

Once the document is approved, MoFED designs a budget ceiling to spending agencies as well as liaise with FRCA to disaggregate tax revenues in line with the budget code. Though it is difficult to demarcate properly the boundary between the planning and budget formulation stages the later covers the annual budget cycles that involve:

- Setting budgetary expenditure ceilings and developing guidelines;
    - Produce budget ceiling note and notify budget call;
    - Provide indicative Block Grant amount to Regions;
- Preparation and submission of detail budget proposal by Budgetary Institutions (BIs) to MoFED;
- Appraisal of the submitted budget proposal and conducting budget hearing by MoFED; and
- Drafting of the Federal Government Budget by MoFED;

The three years macro and fiscal framework (MEFF) is the basis on which the annual budget of subsequent years is worked out. The actual details of annual budget preparation then commence with decisions on the Indicative Planning Figures (IPFs) for line Ministries and spending units that implement sector development programs and projects as part of the public investment program (PIP). The IPFs are further disaggregated to conform to the capital ceilings set by the framework. Once the IPF's are decided upon, MoFED issues a budget call incorporating the budget ceiling for each budgetary institution which will be issued along with the Budget Call Letter (BCL) to line Ministries and spending units in accordance with the Financial Calendar. The budget call outlines requirements and time table to be followed by the budgetary institution and demands the budgetary institutions to prepare their budget request document constrained by the respective ceilings of their capital budget (IPFs). The line ministries and spending agencies have the discretion to propose prioritization and allocation of resources for the projects they will implement in the budget year. MoFED does not compare the impact and return across projects to make budget decisions. Whereas the approval to implement a particular project is done a priori during the planning stage (formulation of sector development programs and PASDEP) particularly for programs and projects high on the list of priorities in the agriculture and rural development, education, health, road and water sectors. The above applies to the preparation of the various sector programs such as the Education Sector Development Program (ESDP), the Health Sector Development Program (HSDP), the Water Sector Development Program (WSDP) the Road Sector Development Program (RSDP) and The Ethiopian Rural Travel and Transport Sub-Program (ERTTP), rural electrification program under the Universal Electrification Access Program (UEAP).

As the MEFF indicates the level of block grant to regions, MoFED also forwards indicative transfer amounts to regions in order to allow them to do their budget in time and allocate block grant transfers to Woredas.

The recent budget reform introduced new technicalities in the budget structure apart from the budget process. Both recurrent and capital budgets are allocated and linked at cost center level to maintain consistencies/balancing of recurrent and capital budgets. Cost centers could be programs, sub-agencies, sub-programs, and projects. The introduction of the cost center would technically guide and facilitate decisions of budgeting, i.e., at what level activities can be funded and which combination of projects to fund. Moreover, presenting the total cost by activity facilitates analysis of the composition of expenditure (e.g. the proportion of capital, wage, and non-wage expenditure) for each project or sub-agency. Effective mapping of budgets by organization and program has been introduced in the budget system which, in principle, promotes accountability of the use of resources by budgetary units. The new budget structure also helped the organization of budget data to be simple and accessible to policy makers and parliamentarians.

Sectors with rolling programs include: Education, Health, Road, and Water and natural resources. These programs are financed by the federal government, regional states and various donors. The respective program documents are prepared by a joint team of delegates from the GoE and donor organizations. Presently, for instance the third Education Sector Development Program (ESDP-III) is being implemented. The design and implementation of the program is managed by "Local Education Group". This includes the Government, CSOs, and the local donor group working together with specified division of labor agreed upon at country level to appraise, endorse, monitor and evaluate the Education Sector Plan. The GoE is responsible for the development and implementation of the sectoral plans.

Although the PASDEP notes that Agriculture and Rural Development is an overriding priority, there is little in terms of a comprehensive sectoral program. The above may have been due to the particularly small attention given to the sector by the International Financial Establishment. Although, the lack of support in the preparation of a comprehensive sectoral program may have made some of the development partners complicit in problems that may arise as a result of the lack of a comprehensive sectoral program, one cannot readily assign blame on any of the parties involved in the preparation of a development plan. The World Bank has, recently, admitted to have ignored global agricultural issues in response to the outcomes of the recent global food crises and skyrocketing prices.

However, the GoE and its development partners including the World Bank designed food security and productive safety net (PSN) programs that continue to be implemented. Nevertheless, unlike the other programs discussed above, they lack sectoral program objectives, modalities, design and implementation architectures. The food security and the PSN are designed to focus on vulnerability. They are intended to mitigate chronic food insecurity rather than addressing long-term development objectives of the country in general and the agricultural sector in general. Thus, their contribution to growth and development remained minimal; and how they are linked with the rest of the economy is a mystery.

Budgetary institutions using the available guidelines and formats prepare their budget request in line with their medium term strategies and sector's key objectives. With the increasing need of adopting a budget system synchronized with the strategic plan, currently, implementation of performance based budgeting is underway in some selected pilot institutions at FG level. These institutions, including Ministry of Agriculture and Rural Development (MoARD), are required to submit a budget request along with performance based budget requirements which suppose the issuance of budget requests that associate needs with concrete and articulated outputs and outcomes where unlike the existing system, evaluation and monitoring strictly focuses on planned deliverables irrespective of the financial aspects of the equation. This, however, is at its early and pilot stages and doesn't cover all institutions. Ideally, at least all institutions are expected to present their budget proposal by program and spending category with clearly outlined financing needs for salaries, operations, maintenance and investment as well as cost effectiveness analysis – but these are missing.

As regard sources of financing, expenditure allocation focuses on two major sources, namely: *treasury sources* (mainly consisting of the tax and non-tax revenue sources and untied foreign loan and assistance funds directly flowing to treasury), *foreign project grant and loans* (foreign assistance and loan disbursements to earmarked to specific projects and/or area). Hence spending agencies are expected to present their budget proposals by aligning them to the respective sources of financing.

As part of the budget formulation process, MoFED reviews spending agencies' budget proposals, verifying their consistency with overall government priorities and spending limits. The process begins with a budget hearing with all respective agencies that are consulted on budget ceilings whereby highlighting on emerging consensuses. Budget hearing, usually taking two weeks, is part of the budget preparation process that provides a forum for budgetary institutions to openly justify their budget requests. The institutions are promptly notified if their requests exceed expenditure ceilings routinely provided by the MoFED. The information obtained during this process is believed to serve as the basis for allocation of available funds by providing effective negotiation among all administrative levels in the budgeting process and an appropriate and financially sound method of allocation of funds. The guidelines given in Box 1 are taken into consideration in designing both capital and recurrent budget requests. Finally, MoFED compiles the revised budget proposal and submits it to the Council of Ministers for legislation and approval.

- Box 1: Guidelines in designing both capital and recurrent budget requests

- Each public body should be able to justify its budget requests with supporting documentation if called upon by MOFED;
- Budget requests should be based on the responsibilities of each public body to implement its action plan for the coming fiscal year;
- Medium term plans including PASDEP, sectoral plans and the strategic plan for each public body should be considered when preparing and prioritizing budget requests;
- The budget allocation requests for programs, sub-agencies, sub-programs and projects should be properly prioritized;
- Requests for increased budget allocations from the existing levels of recurrent expenditure should be elaborated;
- Budget requests should be prepared within the limits of the budget ceilings (by source of finance) and using the formats advised by MOFED. Justification should be presented for the budget requests in excess of the advised ceilings.
- Priority should be given to expenditure requirements for existing or ongoing programs and projects. Budget requests should ensure that existing programs, facilities, infrastructure and services are adequately funded and maintained, before giving consideration to the funding of new programs or projects. The budget request for ongoing projects should only be for the activities to be performed in the coming fiscal year
- Based on the evaluation of the actual recurrent expenditure and the adjusted recurrent budget of last year, identify unnecessary expenditures that may be cut this year, and determine which must be included for the coming year;
- Determine if there have been any changes in decisions, directives, rules and regulations that affect activities of public bodies and which might have effect on their recurrent budget requirement;
- Budget requests for the coming financial year should be comparable with current year's budget and estimated annual expenditure outturn for the current year;
- Based on the evaluation of the capital budget of last year, identify programs and projects that will be completed this year, and which may be ongoing in the coming budget year;
- The capacity of the public body to implement and manage the project would be considered;
- Costs of the projects;
- The availability of project feasibility or study documents for the proposed project should be considered. New projects need to be based on studies and should have clear objectives and goals;
- The recurrent budget implications of the completed capital project should be considered. The annual recurrent operating costs to maintain and support the service or infrastructure once the project is completed should be examined, and the availability of recurrent funding to the public body over the medium term to fund these costs should be checked;

Budget Legislation/Approval

The approval of the annual budget is the third stage as depicted in the budget cycle above consisting of:

- Approval of the draft budget by the Council of Ministers and submission of the recommended budget to Parliament; and
- Ratification of the recommended budget by Parliament;

The approval of the annual budget by the Council of Ministers guarantees ownership by the executive body. During its deliberation on the draft budget, the Council is expected to enforce common or collective interests in pursuit of the country's development and poverty reduction strategy. Thus, the Council decides the aggregated limit of spending, level of domestic financing, and check whether the budget is prepared in conformity with the MEFF. The Council also reviews and reaches consensus on the major budget details of prominent programs as most of the spending institutions are represented by the respective Ministers.

The office of the Council of Ministers after incorporating its comments submits the draft budget to the House of Peoples' Representative for final approval. The Federal Financial Administrative Law stipulated that the annual budget should be approved by the Parliament prior to the start of the new fiscal year. To promote public participation and facilitate the Parliament's deliberation, the Minister of MoFED delivers a detailed Budget Speech. His speech largely covers domestic and global economic climate, programs intended to promote economic and social developments, constraints, challenges as well as opportunities and challenges in the implementation of the proposed budget. The Budget and Finance Standing Committee at the Parliament also organizes a public hearing to incorporate public views prior to the approval of the budget.

The House of People's Representative approves the total recurrent and total capital budget while instructing the Ministry of Finance and Economic Development to disburse the budget according to the allocation presented in the 'Approved Budget'. More appropriately this means that the 'Approved budget' will be allocated along the lines of recurrent and capital expenditure by the budget categories of public body, program, sub-program, sub-agency and sub-program, and project, and disbursement will takes place as long as resources are attained.

Budget Implementation and Control

The remaining steps depicted in the annual budget cycle are devoted to budget implementation and control. This stage focuses on:

- Notification of the approved and allocated budget to the budgetary institutions by MoFED;
- Submission of annual and sub-annual cash flow need planning by the budgetary institutions and release of fund by MoFED through zero-balance cash flow management system;
- Notification of the approved resource budget to revenue collecting agencies like the FRCA, PEs, and others for their implementation.
- Evaluation and monitoring of implementation of projects.
- Comprehensive auditing of Federal Government accounts by the Office of the Federal General Auditor and submission of the audit report to the Parliament; and approval of the report by Parliament; and
- Take corrective actions based on the audit findings and recommendations by MoFED.

These aspects of the budget administration, however, keep on over the year. This stage covers budget execution including disbursement, accounting, reporting and auditing. Proper control of budget execution and modern and efficient cash management, comprehensive accounting, regular, timely, and accurate reporting are pre requisite to building an efficient public financial management.

The new fiscal year budget implementation begins with the issuance of budget notification from MoFED to budgetary institutions. Institutions are expected to submit action plans (financial and physical) for the budget year based on the approved budget spending. Budget execution is implemented using a three month rolling disbursement request to MOFED by the BIs. MoFED in turn releases funds according to their request. Previously institutions were obliged to submit their requirement monthly. MoFED conducted cash management reform and introduced a zero-balance cash disbursement system[7] as part of the move to modernize the tasks performed by the treasury. In addition, an improvement in the cash forecasting capability of the treasury is required and further reform is expected in that regard.

Spending agencies are required to submit performance reports to the Central Accounts Department of MoFED on the use of funds on monthly basis. Similarly, MoFED also collects information on resource (revenue collection) organized by FRCA and other revenue collecting institutions. This is a mandatory activity of the spending units. Recording of reconciled accounts is done regularly by MOFED based on the budget structure and approved/revised budget allocation. Moreover, physical performances of projects and programs would be reported to MoFED by implementing institutions. The report is expected to follow the proper reporting format and should contain information on disaggregated levels including wages and salaries, operating expenses, separately for recurrent and capital spending. MoFED recently moved from the single accounting to modified cash basis double accounting system. Ultimately, MoFED consolidates and presents the entire Federal Government financial report to the Office of Federal Auditor General (OFAG). This report compares actual revenue and expenditures to approved budget figures. OFAG evaluates and submits its opinion on the accuracy of the report and government's compliance with financial laws and regulations. The budget cycle ends with approval of OFAG's audit report by the Parliament. However, there is a backlog in closing the government accounts and reporting to the parliament.

During the execution stage, release of fund/cash to the spending agencies is constrained by domestic revenue performance and external resource disbursement. In the case of shortfall of actual resource mobilization, the Government curtails non-pro-poor capital expenditures and non-salary recurrent expenditures with lesser priorities. In fact, there could be projects which have slow implementation pace due to lengthy external procurement procedures which would force MoFED to reallocate funds from such areas to projects that can be implemented quickly.

During any fiscal year, even when project implementation is in progress, there could be strenuous circumstances that could compel Government to make budgetary adjustments. These circumstances could range from unforeseen economic shocks that lead to shortfall in budgetary resources to unexpected windfall gains in additional resource, and delays in the implementation of projects by sectors. Due to the above, a *supplemental budget* could be introduced in the event that new sources of budgetary support are identified, *budget reallocations* are made due to delays of project

[7] Zero balance cash disbursement system is a system which would enable the spending agencies to access their cash need without putting a frequent request to MoFED. The system allows the spending agencies to withdraw cash from their account while their account has no balance but up to a limited quarterly ceiling set by MoFED based on their pre-submitted cash plan.

implementation in one sector and better performance in others sector, *curtailing expenditure* in the event of shortfalls in projected budgetary resources.

MoFED does not carry out critical evaluation and monitoring of physical performances of programs/projects save for the financial aspects of the projects. The 'spending agencies' are, however, obliged to provide reports to MoFED on a regular basis. The performance report, however, would be utilized in the preparation of the coming year's budget cycle and MEFF as a feedback mechanism of sectoral performances. There are, however, other review mechanisms on the implementation of projects particularly externally funded ones. One such mechanism is critical regular joint reviews carried out by funding agencies and Government while review of implementation of domestically funded projects is practically non-existent.

2.2 Rational and Composition of Federal Government Budget Allocation

During the formulation of the Federal Government capital budget, expenditure allocation is done to widen the range of projects in the annual budget. In EFY 2001, for instance, allocation was made close to 560 small and large/proper projects of various sectors (with cost of Birr 14.2 billion) from treasury sources in the budget proclamation; of which 47 are ARD projects (with cost of Birr 2.3 billion). So it is easy to observe how the expenditure prioritization task is cumbersome and demanding for MoFED.

The development objective of the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) is Ethiopia's guiding strategic framework for the five-year period (2005-2010). These objectives envisage the reduction of poverty through the provision of basic public services like education and health for the general public, building the required infrastructure to foster growth and development and enhance agricultural productivity. These objectives and goals are also in line with the Millennium Development Goals (MDGs). During the preparation of PASDP, cost requirement to achieve these goals has been estimated by MoFED in consultation with the respective line ministries. Formulation of the MEFF and the annual resource allocation in the Government budget lies in implementing these broad development objectives. Implementing PASDEP through the annual budget allocation is therefore the overriding objectives of Government's agenda.

The general consensus as regards resource allocation, therefore, is to give priority to the financing of development programs that PASDEP focuses on. While the issue of prioritizing expenditures among projects included in the PASDEP is crucial, MoFED does not do much in terms of analytical work to identify which sets of priorities come before the others (using economic returns or not). MoFED does not have readymade microeconometric models (for instance the CGE model) to undertake sectoral analysis which would be useful in rationalizing decision making in prioritizing projects of various sectors during budget formulation, although there are extensive records of analytical studies on the area by independent researchers. Capacity constraint, on the other hand, to carry out such analysis is also an impediment. In addition to the above, as the physical planning and costing of programs/projects takes place at the sectoral level there is no appropriate rating of projects according to the best use of their economic return at the central level. It is worthwhile to mention here that the merging of the two separate ministries (Ministry of Finance and Ministry of Economic Development and Cooperation) may have blurred the importance of planning and project appraisal. Implementation capacity is one of the major factors considered in resource allocation. What is currently practiced in prioritizing among projects is to compare, for instance, previous year budget utilization, the capacity of the public body to implement and manage the project, costs of the project, the recurrent budget implication, and to some extent the availability of project feasibility or study document, and the role of the project to accomplish the country's development plan and the institution's mission. More importantly the budget hearing is the most important forum to discuss and negotiate on the proposed project.

In the process of formulation of the MEFF, the line ministries and spending agencies would submit their recurrent and capital expenditure requirements/demand for the three years which is normally a reflection of an immense development need and constrained by scarce resources. Spending units are required to base their budget request on their medium term plans consistent with PASDEP, sectoral plans and their strategic plan. The budget allocation requests for programs, sub-agencies, sub-programs and projects should be properly prioritized. During the preparation of the budget spending institutions should give priority to expenditure requirements for existing or ongoing programs and projects. Budget requests should ensure that existing programs, facilities, infrastructure and services are adequately funded and maintained, before giving consideration to the funding of new programs or projects.

Table 3 Summary of General Government Finance Performance

	2003/04	2004/05	2005/06	2006/07	2007/08
Total Revenue and Grants	17918	20147	23262	29381	39705
Revenue	13917	15582	19530	21797	29794
Tax revenue (inc measures)	10906	12398	14159	17354	23801
Direct taxes	3431	3930	4461	5168	7015
Indirect taxes	7476	8468	9698	12186	16785
Non-tax revenue	3010	3184	5371	4444	5993
Grants	4002	4565	3732	7583	9911
Expenditure	20509	24795	29325	35607	46915
Current expenditure	11965	13228	15234	17165	22794
Defense	2452	2920	3009	3005	3453
Pro-poor expenditure	*4045*	*4968*	*6493*	*7795*	*10627*
Interest payments	1080	1011	1054	1207	1133
Others	4389	4330	4677	5158	7582
Capital expenditure	8271	11343	14042	18398	24121
Central Treasury	5403	8376	10785	13832	18277
External assistance	1047	1513	2196	3081	4034
External loans	1821	1454	1061	1484	1810
o/w: Pro-poor expenditure	*6130*	*9036*	*11099*	*14571*	*19424*
Special programs	272	224	50	44	0

Overall fiscal balance including grants	-2590	-4648	-6064	-6227	-7210
Financing	2590	4648	6064	6227	7210
External (net)	2399	2384	1512	1913	2396
Domestic(net)	2147	3492	2735	6246	6580
Banking system	2155	3156	2876	4259	3879
Non-bank sources	-8	336	-141	1988	2701
Privatization	11	10	0	0	1008
Other and residual	-1967	-1237	1816	-1932	-2775

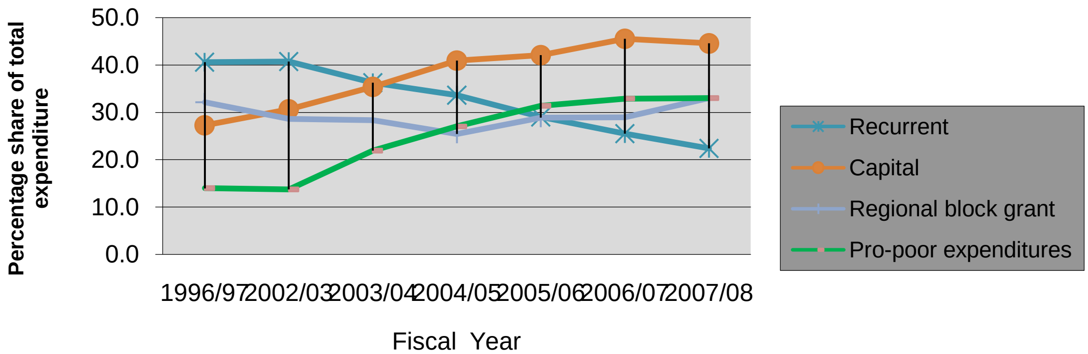
It is also true that current capital expenditures entail future recurrent costs. Thus budget proposal should consider the recurrent implication of completed capital projects. Incidence of transferring completed capital expenditure to the regional governments is a common practice as most of public services are delivered at lower level. More importantly most of the poverty oriented sectors including education, health; agriculture and water are provided by the sub-national governments. Therefore, increased allocation of the block grant to the Regional Governments (2-4 Billion Birr annual increase for the last four years) is consistent with the priority given to these sectors in PASDEP. Thus, both the increased allocation at Federal level to these sectors and the rise in block grant transfer should translate into the government's development plan (PASDP).

Table 4 The composition of Federal Government Expenditure

Pro-poor sectors	1996/97	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
In percent of total government expenditure								
Recurrent	40.6	40.7	36.3	33.6	29.0	25.5	22.4	23.8
Capital	27.3	30.6	35.4	40.9	42.1	45.5	44.6	45.2
Regional block grant	32.1	28.6	28.3	25.4	28.9	28.9	33.0	30.9
Pro-poor expenditure (excluding regional block grants)	14.0	13.7	21.9	27.0	31.4	32.9	33.0	31.5
o/w Education	3.4	5.2	9.7	8.4	8.8	10.4	9.1	8.8
Health	0.9	0.8	0.4	0.3	0.3	0.3	0.4	0.3
Road	6.5	3.0	3.1	4.5	6.9	9.2	13.0	13.6
Water	1.4	0.6	0.3	2.4	2.2	2.0	1.7	1.9
Agriculture and Rural Development	1.9	4.0	8.3	11.4	9.3	7.3	6.2	4.7
In percent of GDP at current market prices								
Total expenditure	16.0	21.5	20.7	20.3	19.9	18.8	16.7	17.1
Recurrent	6.5	8.8	7.5	6.8	5.8	4.8	3.7	4.1
Capital	4.4	6.6	7.3	8.3	8.4	8.6	7.4	7.7
Pro-poor expenditure (excluding regional block grants)	5.1	6.2	5.9	5.2	5.8	5.5	5.5	5.3
Pro-poor expenditures	2.2	2.9	4.5	5.5	6.3	6.2	5.5	5.4
o/w Education	0.5	1.1	2.0	1.7	1.7	2.0	1.5	1.5
Health	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.0
Road	1.0	0.6	0.6	0.9	1.4	1.7	2.2	2.3
Water	0.2	0.1	0.1	0.5	0.4	0.4	0.3	0.3
Agriculture and Rural Development	0.3	0.9	1.7	2.3	1.8	1.4	1.0	0.8

The data on composition of Federal Government Expenditure depicted in Table 3 substantiates the rational of resource allocation noted above. According to this data in 2007/08 over 66 percent of the total Federal Government expenditure was spent on the regional block grant and pro-poor sectors where this share showed a dramatic growth over the last years as a result of the expenditure policies of the government. It should also be noted that since the realization of programs/projects takes more than one fiscal year and the implementation is in phases, the budget is allocated only for the segment of the project that has made meaningful preparations to be implemented in the fiscal year.

Graph 2: Composition of Federal Government Expenditure



Undertaking regular evaluation of the existing public expenditure management (PEM) system is crucial in implementing the required reform measures. In the Ethiopian experience in depth evaluation has not been carried out except the PEFA[8] assessment which has been carried out in 2007. The findings of this assessment revealed that in general the performance of the Ethiopian budget system is excellent with regard to credibility of the budget since the actual amounts spent were not materially different from budgeted amounts and the aggregate revenue outturn compares well with federal budgeted revenues and there are no concerns about expenditure arrears. As regard budget comprehensiveness and transparency, and the information contained in the budget documentation, the finding pointed out some weaknesses; notably, the exclusion of some government operations that account for more than 10% of the total federal budget. Moreover, the assessment concerning policy-based budgeting contends that the budget process is well ordered with the existence of a budget calendar generally adhered to, and a budget circular issued to budgetary institutions. Developments in economic and fiscal aggregates are reported yearly. The PEFA assessment also evaluated the extent to which federal expenditure outturn reached entities the resources were originally intended for. It found out that the above, measured in terms of variance in the composition of primary expenditure, exhibited significant changes in the original composition of primary expenditures in the period 2002/03-2004/05.The MEFF and the Public Investment Programs (PIP) cover plans for capital expenditures over a three-year period outlined as the second stage of the Planning Cycle of the budget. The above covers the costing of sector strategies for at least 50% of primary expenditures have been prepared. However, although there has been an effort to link investment budgets and forward recurrent estimates since the implementation of the SDPRP, the processes of recurrent and investment budgeting have been

[8] An independent Public Expenditure and Financial Accountability (PEFA) evaluation study of performance of the Public Expenditure Management (PEM) was carried out in 2007 based on an international reference framework methodology. The evaluation contemplated six critical dimensions of PEM with the use of high level indicators: (i) the credibility of the budget (ii) comprehensiveness and transparency (iii) policy-based budgeting (iv) predictability and control in budget execution (v) accounting, recording and reporting and (vi) external scrutiny and audit.

separated in practice. The fact that cash flow management and forecasting systems of expenditures is not fully established entails weaknesses in predictability of expenditure while controls in payroll and procurement are found to be satisfactory.

2.3 Illustration of the Budget Formulation Process with the Agriculture and Rural Development (ARD) Program

Agriculture and Rural Development (ARD) is considered a top priority and a strategic sector for the country's economic growth and poverty reduction agenda. The government recognized that although structural transformation is imperative in the long term, more immediate gains for the rural poor can be attained by giving priority to agriculture and its productivity. Accordingly the agricultural development strategy of the country which is part of PASDEP focuses on enhancing the productive capacity of smallholder farmers, promoting diversification, shifting to a market based system, ensuring food security at the household level and strengthening emergency response and reducing vulnerability.

To achieve these and other objectives, the government introduced various programs including food security, productive safety net, agricultural extension and research programs, small and medium size irrigation projects, improving agricultural inputs, training of farmers and agricultural marketing facilities. MoARD as a responsible agency to implement these objectives allocated budget for the last few years. The process of prioritizing budget allocation in Agriculture and Rural Development is not free from weaknesses in the budget system as will be discussed in detail in the next section. The majority of the sector's budget (89% on the average) is devoted to food security spending (Table 5) with absence of project appraisal and evaluation of previous allocations during the past five years

Table 5 Composition and Budget Utilization Rate of Federal ARD Projects (Treasury Source)

Expenditure Items	Budget utilization rate				%Share of ARD projects expenditure in the total ARD expenditure				
	2004/05	2005/06	2006/07	2007/08	2004/05	2005/06	2006/07	2007/08	2008/09
Agriculture and Rural Development	95.8	96.7	95.7	93.3	100.0	100.0	100.0	100.0	100.0
Food Security & Productive Safety net Programs	99.0	101.6	100.0	99.8	86.7	91.1	94.2	93.1	85.5
Other ARD projects	79.4	64.6	56.1	49.7	13.3	8.9	5.8	6.9	14.5

As regards ARD, the budget proposal is done by MoARD. Correspondingly regional level Bureaus of the Agriculture and Rural Development do the same. What is unique to ARD allocation at Federal level is the fixed annual allocation in the amount of Birr 2 billion earmarked to the Food Security Program (FSP) for an unspecified timeframe and is allocated to selected regions. This is an ad hoc arrangement by the Federal Government intended to lessen the food security problems of the selected Woredas. Ministry of Agriculture and Rural Development prepares and submits its budget upon receiving the budgetary ceilings from MoFED. MoFED, then, conducts budget hearings with MoRAD to verify whether the budget proposal is in line with the national development plan and the Ministry's strategic agenda. MoFED then incorporates MoRAD's proposed budget with the Federal Government budget proposal and submits it to the Council of Ministers along with its recommendations for evaluation by the House of People's Representatives. The Food security budget that contains 90% of the Ministry's budget, on the average, is not subject to this process as House does not have the mandate to override the allocation decision.

The FSP is considered the largest component of the country's agricultural development program with the objectives of (i.) helping five million chronically food insecure people and (ii.) significantly improving the food security of up to ten million additional food insecure people within five years. The three main planed components of FSP are Resettlement, Productive Safety Nets and Other Food Security interventions.

To manage FSP, a Food Security Coordination Bureau is organized under MoARD. The financial management system of the GoE also applies in FSP financing and budget administration. However, the budget process in allocating the food security fund doesn't follow the normal procedure. *Thus, effectively the agricultural sector planning and budgeting is fundamentally out of the normal budgeting and planning framework of the country.* The fixed annual allocation of 2 billion Birr is intended to ameliorate the food security problems of Woreda's in Tigray, Oromiya, Amhara, and Southern Nations, Nationalities and Peoples' Region (SNNPR) regional states. However, it is not clear if the need based element in the block grant allocation formula accounts for FSP allocations to these regions and hence the basis for the standalone program is not justified. Regional Food Security Coordinating Offices (FSCOs) are responsible for the implementation of the FSP components while FSCB coordinates the program at Federal level. Details of the components of the FSP are provided below.

Resettlement Programs

Under the current food security program a resettlement program targeting up to 440,000 chronically food insecure households is envisaged. Its implementation is proposed in three phases of approximately 100,000, 150,000, and 190,000 households be effectively relocated to suitable settlement areas.

Participation in the program is voluntary, and potential re-settlers are identified during awareness creation campaigns at both the Woreda and Kebele levels by the respective resettlement task force (composed of relevant bureaus and administration representatives). Host Woredas are identified based on an availability of arable land. Besides providing resettles with land, the program will establish basic infrastructure (health services, water supply, primary schools, roads, etc.) in and around the resettlement sites to ensure provision of services meeting, at least, minimum standards. A food ration will be delivered to resettled households for an eight months periods (or until the first successful crop harvest) and other inputs may also be distributed.

Productive Safety Net Program (PSNP)

The PSNP provides cash and/or food transfers to chronically food insecure households in ways designed to prevent asset depletion at the household level while creating assets at the community level. The PSNP is implemented in up to 263 woredas (35% of the aggregated Woredas in the country), in eight regions namely, Tigray, Amhara, Oromiya, Harari, Dire Dawa, Afar, and Somali. The program is expected to benefit about 5 million people approximately 1 million households.

PSNP has two major components. The first one is labor based public works; for those households who can contribute labor and the second one is direct support for elders and labor poor households. The public works support involves the rehabilitation of natural resources (land, water, aforestation, and rural roads). The direct support component deals with helping those who cannot participate in the public works.

Other Food Security Investments Projects

This component of the FSP involves the implementation of a range of food security interventions financed by the government and certain international donors. The overall objective of the program is to enable up to five million chronically food insecure people (essentially PSNP beneficiaries) to attain food security within 3-5 years and improve the food security of 10 million other people within the same period. This program has three major components including the Food Security Project and an emerging drought control project funded by the World Bank, and additional support provided by the European Union, earmarked for the food security program.

Since planning and budgeting in the agricultural sector fundamentally rests on this 'food security and safety net programs' it is instructive to see how it is conceived and planned to come up with planning in the Agricultural sector in Ethiopia. The basis for the formulation of a Food Security Strategy (FSS) in Ethiopia (initially in1996 and, later on, updated in 2002) were, primarily, GoE's Agricultural Development Led Industrialization (ADLI) and the poverty reduction strategy and the series of refinements to it. Policy documents leading up to the formulation of the food security strategy contend that the focus on agriculture has been formed by its strategic role in the architecture of structural transformation with food security as one of the primary goals.

As expounded in detail in various policy documents, ADLI "presupposes productivity enhancement of smallholder agriculture and industrialization, based on utilization of domestic raw materials via adopting labor-intensive technology." In addition, the rural development strategy underlines, productive smallholder agriculture complemented by the development of large scale commercial farms would entail an expansion of the market for domestic manufacture and hence higher incomes for smallholders. Hence, the original rounds of food security strategies stressed on the development and optimal use of labor and land and a market-led agricultural development emphasizing the demand-side and converse to earlier agricultural development strategies that were supply oriented.

Hence, earlier brands of the food security strategy assumed a structure that rested on three fundamental pillars:

1. The availability of food through increased domestic production.
    - Focusing on crop diversification,
    - Institution changes favoring a market based system
2. Access to food for food deficit households
    - Improving the livelihoods of pastoral communities, and;
    - Improving rural water supply coverage

3. Strengthening capacity in early detection and emergency response capabilities

While the formation of the pillars was based on food production zones that were labeled (adequate moisture, moisture deficit and pastoral), accordingly, the entire structure shifted away from the above following the drought of 2002/03. The food security strategy that followed suit increased its focus on safety-nets with the second generation PRS: the PASDEP emphasizing "rural-urban linkages and the promotion of rural non-farm enterprises, with continued efforts to tackle vulnerability and food security." The substantial spending on vulnerability and food security since 2003 signifies the shift in the architecture of ARD spending [see table 1. for a composition of the capital spending on ARD for the year 2007/08].

Table 6: Capital budget spending (Agriculture and rural development) 2007/08

Capital budget spending (Agriculture and rural development) 2007/08			
Spending component	Total (millions) ETB	Share in capital spending	Number of projects (%)
Productivity	304.08	6.3	9 (47%)
Natural resource and environmental management	131.93	2.7	4 (21%)
Agricultural marketing and improved seed development	35.18	0.7	2 (11%
Vulnerability and food security	4000.39	90.3	4 (21%

Although the intervention by GoE in averting a humanitarian crisis is admirable, the new approach neither makes overtures about the duration of the detour nor presents a theoretical basis for a new approach that has supplanted a strategy whose structure was developed in accordance with the national development agenda (ADLI). The World Bank's review of ARD spending in the period (1997/98-2005/06) expresses concern over the new direction adopted by the GoE and its limited potential to contribute to growth. The review recommends a re-examination of inter-sector linkages and particularly the alignment of "the food security program with the ARD growth agenda" [World Bank (2008): 17].

Since 2002 that marked an evaluation of 1996's food security strategy, the composition of vulnerability and food security spending has changed, in addition to its considerable growth in size. Although the national treasury is the source of a bulk of total national ARD expenditure, the traditional mismatch between capital and recurrent spending has been bridged over the past few years. A significant proportion of the foreign component of the ARD expenditure makes up the vulnerability and food security component of spending on agriculture.

The large federal resources dispensed to mitigate the food security problem in the country involves, largely, grants to regional governments to be used in the development of "enhanced agricultural packages (farm inputs), small scale irrigation and water harvesting, and voluntary resettlements. However, a significant portion of national food security program spending goes to the construction of infrastructure. [World Bank (2008): 17] notes that the limited focus afforded, by the federal spending plan, to important elements responsible for and perpetuating the poor performance of agriculture is clearly evident. Nevertheless, the Bank's report notes, where the federally funded programs were inadequate, foreign funded projects such as the PSNP and MERET have stepped up to address perennially neglected issues such as: water shade management, environmental degradation and rebuilding productive assets. However, the foreign funded projects represent neither an effort to supplement the national food security plan nor a fortuitous concatenation, but rather a superior facility with planning for sustainable development in the sector.

From the afro mentioned analysis it is imperative to note that the agriculture sector planning and budgeting is fundamentally out of the realm of the national budget and planning framework. Thus, it has neither sustainable planning framework nor strong mechanism that links the sector with the rest of the sectors and the economy at larger. Whatever linkage we may have is accidental and ad hock at best. This underscores not only the importance of planning and budgeting at the level of the ministry of agriculture but also the need to integrate its planning with the rest of the economy with the aim of obtaining synergy and efficiency.

In sum, as can be inferred from the discussion in this section the annual budget formulation is dependent on the MEFF, which is claimed to be broadly based on PASDEP. The legislation and planning process show the centrality of MEFF in planning, policy making as well as implementation. This raises the question of the level of experts that prepare MEFF and the quality of MEFF and whether it is measurably linked with PASDEP. The bulk of the job of this rests on macroeconomic management department with a little help from NBE. From this scenario it is legitimate to infer that (a) the department in charge has an enormous shortage of skilled experts that could do the demanding technical work of linking the MEFF with PASDEP, as well as across sectors (Ministries). Whatever the result, the implementation of the MEFF is besieged by unpredictability of donor financing. Second, the analysis also shows that the planning process is pretty much top-down, the federal capital budget (investment) which is central in the growth process invariably computed as residual directed to lower echelons about whose problem accurate information is missing. Third, we noted that there is no technically competent way of either setting up the budget ceiling for each spending units such as MoRAD or making a comparison across sector when request for budget increment or cutting is made to align resources with spending needs. In short there is no way knowing technically expected impact of the spending units in question. Fourth, the determination of the total regional block and its expected outcome is not technically done although the allocation follows politically established formula (to some degree technically done). Fifth, sectoral programs which are central for line ministries are not technically linked across sectors, their formulation is not integrated in the planning process explicitly. Six, in the Agricultural sector the most important programs that constitutes nearly 90% the resources, the food security and PSN are designed to focus on vulnerability with minimal growth and development contribution specified and integrated in the two important planning and policy implementation documents (MEFF and PASDEP). Seven, there is no strong and technically competent monitoring and evaluation system at MOFED, the latter pretty much relying on the reports of spending agencies such as MoRAD which will have difficulty to say they did bad as one may presume. Given such flows in the policy, planning process, it may not be difficult to see lack of efficiency of public spending in Agriculture which we will examine in detail in the next section.

III. PUBLIC FINANCE MANAGEMENT AT THE MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT

As a follow up of the national picture given in the previous section, this section will briefly evaluates the trend in budget expenditure, levels and composition over the past decade in the agricultural sector so as to draw the implications for the sectors growth and development.

2.1 Trends in Budget Expenditure on Agriculture

Public expenditure on agriculture and food security is large. Its share as part of the total public spending has increased from its level of 10.5% in 2001/02 to 18.4% in the year 2007/08. The share of the sector in total economic services accounts on average to over 46.1% over the seven years from 2001/02 to 2007/08. Governments pro-poor spending as a share of the total expenditure rose from 42.8 % to 60.2% over the period of 2001/02 to 2007/08. Agriculture and food security share from the total pro-poor expenditure is the largest share next to education and accounts for 12.6 %.

Table 7 Share of Agriculture and natural resources in budget allocation and performance

Share from	2001/02		2002/03		2003/04		2004/05		2005/06		2006/07		2007/08		Average	
	Budg.	Perf	Budg.	Perf	Budg.	Perf	Budg.	Perf	Budg.	Perf	Budg.	Perf	Budg.	Perf	Budg.	Perf
Economic service	40.7	41.2	44.8	39.7	48.6	50.0	52.2	51.6	47.9	50.0	48.6	45.2	40.1	40.1	46.1	45.4
Total expenditure	10.5	12.0	12.3	11.0	15.6	15.4	18.2	20.8	20.8	21.2	18.8	18.5	18.4	17.8	16.4	16.7

Source: Authors' calculations based on data from MoFED.

Table 8 : Trends in pro-poor sector spending in total public spending including regional block grant (% total spending)

Sector	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08 Budget	seven year average
Education	14.2	16.1	20.4	19.7	21.8	23.7	19.2	19.3
Health	5.9	4.9	4.3	4.8	4.6	6.6	7.2	5.5
Agriculture and food	9.2	8.1	13.4	16.3	16.8	12.5	11.8	12.6

security								
Road	10.7	9.9	9.6	11.3	12.5	14.1	15.4	11.9
Water and sanitation	2.8	2.9	2	4.5	4.4	6	6.6	4.2
Total Pro poor	42.8	41.9	49.7	56.6	60.1	62.9	60.2	53.5

Source: MoFED

Of the total budget devoted to the agricultural sector, federal government spending accounts for about 60% and 56%, respectively, in 2001/02 and 2007/08 while the share of regional states is close to 40 and 43%, during the comparable time. Public Investment at the regional level is much lower and accounts for close to 35.5% of the sector's budget. Decentralization in administrative systems has seen much of agricultural programs administered at regional level (see Table 8). Table 8 also show that the recurrent expenditure has shown an increasing trend in the regions, while the reverse took place for the federal budget – perhaps showing the increasing cost of recent decentralization.

Table 9 Share of budget by administration (national budget)

	2001/02		2002/03		2003/04		2004/05		2005/06		2006/07		2007/08	
	Federal	Region	Federal	Region	Federal	Region	Federal	Region	Federal	Region	Federal	Region	Federal	Region
Capital	51.8	48.2	59.0	41.0	67.7	32.3	62.0	38.0	71.5	28.5	71.2	28.8	68.1	31.9
Recurrent	64.3	35.7	58.7	41.3	57.4	42.6	55.4	44.6	50.0	50.0	44.9	55.1	42.2	57.8
Total	60.1	39.9	58.8	41.2	61.3	38.7	58.6	41.4	58.6	41.4	61.6	38.4	56.1	43.9

Source: Own calculation from MoFED data

The rate at which the capital budget is increasing is much higher than its recurrent counterpart. Public investment (capital budget) accounted, on average, for 54% of total government budget in 2007/08 from its level of 37.3 in 2001/02 (see Table 9). Capital budget accounted for 61.2% of the total agricultural budget in 2001/02 which grew to about 75% in 2007/08 budget year .

Table 10 Share of capital and recurrent budget of total budget allocated (including regional block grants)

	2001/02		2002/03		2003/04		2004/05		2005/06		2006/07		2007/08		Average	
	Budg.	Perf	Budg.	Perf	Budg.	Perf	Budg.	Perf	Budg.	Perf	Budg.	Perf	Budg.	Perf	Budg.	Perf
Capital	37.3	40.2	38.4	34.0	39.6	41.7	49.7	46.7	53.9	48.1	53.9	51.8	53.5	51.4	46.6	44.8
Recurrent	62.7	59.8	61.6	66.0	60.4	58.3	50.3	53.3	46.1	51.9	46.1	48.2	46.5	48.6	53.4	55.2
Share of capital budget in Agriculture budget performance	61.2	68.2	66.1	67.6	73.0	72.4	76.7	77.5	78.3	74.8	77.5	74.2	75.2	72.1	72.6	72.4

Source: Own calculation from MoFED data

As can be observed from Table 10 of the total agricultural budget financing, on average, 61.9% is derived from domestic sources while 22.1 and 16.0% are accounted for by foreign assistance and loan, respectively. When we look into performance share, domestic sources accounts to 66% while foreign assistance 19.3% and loan 14.8%. The contribution of domestic resources to, both, the budget and performance of the sector increased in the first four years of the period 2001/02-2007/2008 and slightly declined thereafter. However, the contribution of foreign assistance to the budget showed the opposite pattern, while its contribution to performance remained fairly unchanged.

Table 11 Share of Agricultural Budget and Performance by Source of Finance

Source of Finance	2001/02		2002/03		2003/04		2004/05		2005/06		2006/07		2007/08	
	Budget	Perf.	Budget	Perf.	Budget	Perf.	Budget	Perf.	Budget	Perf.	Budget	Perf.	Budget	Perf.
Domestic	41.4	35.8	56.8	54.7	73.6	81.0	79.2	82.7	64.4	71.8	58.9	68.6	59.4	67.1
Assistance	31.5	24.4	25.7	30.1	14.7	6.1	9.6	8.2	23.4	20.1	23.0	20.7	26.8	25.4
Loan	27.1	39.8	17.5	15.2	11.7	12.9	11.3	9.1	12.2	8.0	18.1	10.7	13.8	7.5
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Own Calculation from MoFED Data

2.2 The Budget Process at MORAD

Once we have looked at the components of the agricultural budget, both in terms of source of funding and functional categories of spending we now turn to budget processes and procedures that define budget formulation at the sectoral level. The following sections will high-light about the budget practices and begin with planning cycle.

In principle, the planning cycle has three stages which are implemented in sequence: (1) The construction of Macro-Economic and Fiscal Framework, (2) Public Investment Programmed preparation and (3) Annual fiscal plan. The first and the third, as discussed in the previous section are performed by MoFED with little inter-ministerial participation, while MoFED and other public bodies including MoARD assume joint-responsibility for the second. To recap what was discussed in the previous chapter, multi-year planning is based on the preparation of a Macro-Economic and Fiscal Framework (MEFF) which provides a three year forecast of the following: economic growth and the gross domestic product, government revenue and expenditure and sources of financing, the allocation between the federal government expenditure and the sum total of subsidies to regions and administrative councils and an allocation between capital and recurrent expenditure for the federal government. The MEFF is prepared no later than October 26 each year.

The second stage in the planning cycle is the preparation of the Public Investment Program which involves financial programming using the Indicative Planning Figures (IPFs). The IPF provides MoARD with a three year planning envelope to program its capital expenditure. Public Investment Program is designed based on MoARD's prioritization of expenditures that rest on the availability of resources and the capacity to financially absorb and physically implement the projects. The PIP requires that public bodies classify their capital expenditures into three categories of project/programs: *ongoing, approved and planned*. The financial regulations stipulate that "the priorities established in the Public Investment Program determine the priorities of the capital budget" and that "no capital expenditures shall be included in the capital budget if it has not been approved in the Public Investment Program." Preparation of the PIP begins on Nov. 11 and is completed by February 8th. MoARD prepares the PIP while MoFED coordinates the preparation and the consolidation of the PIP. MoARD is supposed to submit its investment program no later than December 25 every year. The PIP will be submitted to the Council of Ministers for review, revision and approval. It is, then, sent back to MoFED for the necessary changes. The revised PIP would then be forwarded to the Council of Ministers which in turn will present it to the Parliament for review, revision and approval. The approved PIP will then be returned to MoARD and frame the upcoming year's capital budget. The following major steps are followed by MoARD in preparing its capital budget of project/programs.

At MoARD, each Directorate of the Ministry prepares concept note/s as a precondition in preparing a project/program document/s. It is required that the concept paper be grounded in the policy and strategies set in the five year plan of the country concerning agriculture and rural development and the status of existing project/programs. Each directorate looks into the gap they have in achieving the planned sectoral targets and propose to bridge the gap through useful capital projects. The concept paper is discussed by the members of the Ministry's management committee. The committee, then, evaluates each concept paper and scrutinizes the concept papers and subsequently expound on their role in, actually, bridging the gap and contributing towards the successful implementation of the targets. Once the concept paper is endorsed, the next step is to undertake detailed studies. The directorate under question may carry out the detailed study on its own or collaborate with other directorates including the planning and programming directorate of the Ministry. In some cases technical consultants may undertake the study if deemed beyond the capacity of the ministry's staff. Once the document is prepared with the given project/program preparation standard, it is handed over to the Planning and Programming Directorate. The directorate assesses whether the submitted documents satisfy the minimum acceptable standards. The directorate submits the documents to MoFED within the limits of the proscribed deadline (25th of December) after carefully scrutinizing the documents and incorporating its comments. By turning in the documents to MOFED, the directorate is requests for the approval and funding of the projects/programs, if the financial funds have already been secured by MoFED.

Donor organizations also propose projects/programs after making arrangements for financial funds to be forwarded to MoFED. MoFED forwards the proposal to MoARD to look into the specifics including looking closely at whether the proposed donor project/program is in line with immediate development objectives implied in the PASDEP. The Planning and Programming Directorate liaises with other concerned Directorates to look into the proposed donor project/program document. The team scrutinizes whether the proposed projects/programs could potentially fill gaps in agricultural development financing, and assesses whether sufficient benefits accrue to the community and that the proposed projects have implications for the involvement of private sector, either during, or after the completion of the project. After these issues are discussed at the Ministry's management level, a draft response is prepared and sent back to MoFED with the appropriate adjustments, if the proposed project warrants support, or a rejection, if the development implications of the proposed projects/programs are minimal, or a unilateral acceptance of the proposed project. After receiving the draft response from MoARD, MoFED sends the documents back to MoARD with its comments, seal of approval and directs MoARD to submit a formal request for project funding, if the draft response from MoARD was of the favorable kind.

Regional projects large enough to merit an involved economic and financial feasibility are fewer and far between. In the past, and specifically during the military regime, it was common to undertake economic and financial feasibility studies for diary or poultry farms, however small the projects/programs were. However, public projects that fit the above profile do not, currently, exist making the need for the standard technical analysis less imperative. Generally, revisions of projects/programs provided by MoFED to projects/programs designed by MoARD are minimal. MoARD seldom sends new projects for approval on yearly basis and therefore project appraisal is less frequently conducted that may impact on the speed with which the appropriate project appraisal tools are adopted. The only determinant of continual budget allocation for Projects/programs that roll-over to following fiscal years is the status of the project/program.

The Budgeting Cycle: Preparation and Approval

A key principle of good budgets is that they should "comprehensively manage public expenditure." The budget cycle has three parts: (1) executive budget preparation, (2) legislative Approval, (3) executive implementation. The first and the third stages are the responsibility of MoRAD the second being that of the council of ministers, and House of Peoples Representatives. MoARD undertakes executive budget preparation and executive implementation. Each cycle has its own parts that are briefly discussed below.

Executive budget preparation

MoARD prepares the background information to support its budget request in the prelude to the announcement of the budget ceilings in the budget call. The budget preparation is scheduled for not later than February 8th. Executive budget preparation has two components to it: budget preparation and budget request. The **budget preparation stage** requires the completion of three tasks: (1) development of unit costs, (2) program review and, (3) work plan development. The unit cost analysis is an essential technique for developing the cost structure in the request stage. Unit costs, usually expressed as ratios, relate resources (expenditures and revenues) to purposes (defined as goals or workloads). They provide reference frames for estimating the costs of the budget. Unit costs will be developed for each major area of service and are calculated by dividing the respective resources invested in producing an output. Each task is undertaken by each Directorate and to the lower strata and will be developed for each major area of service.

The second task in budget preparation is the mid-year program review. Before a budget is prepared for the upcoming fiscal year, performance in the current and recent past financial years will be assessed. This provides an assessment of the performance of ongoing cost centers to their work plans. In preparing work plans to support the budget request for the upcoming fiscal year, the Ministry needs to assess the performance of ongoing project/programs. This assessment will also meet the legal requirement that recurrent budget requests must be accompanied by a program review which covers a review of performance in the previous year and mid-year of the current fiscal year. The program review provides the Ministry with an opportunity to review its existing activities prior to proposing work plans for the upcoming budget. A program review of projects/programs in the capital budget is mandatory. The budget requirement for the coming fiscal year is estimated based on the physical and financial status of projects and programs provided by the mid-year reviews.

The third task of budget preparation is the development of work plans for ongoing and new projects/programs proposed for the upcoming fiscal year. Work plans for the recurrent budget will be prepared for the sub-agency budget category, while work plans for the capital budget will fall under the project/program budgetary category. Preparation of work plans for new project/programs commences once the PIP is approved, while preparation of work plans for ongoing project/programs will be sidelined until the mid year program review is completed. The PIP will provide the list of priority project/programs for the coming fiscal year, while the mid-year program review will provide an update on the performance of ongoing projects/programs. Public bodies will adjust the work plans of their cost centers based on the ceilings issued in the budget call. Work plans provide the core of the budget process for they specify, in detail and by cost center, the activities to be implemented, their resource requirements and their outputs. Work plans constitute a reference frame for a contract entered between MoARD and MoFED, as regards budgetary spending and the set of expected outcomes. Hence, the justification of budget requests will be based on the work plans of cost centers. Monitoring of the budgetary spending will also be based on detailed work plans.

MoARD is routinely expected to provide three sets of documents/forms regarding recurrent and capital budget submissions, in the budget preparation stage. These include: (1.) ***Recurrent and Capital Budget Documentation forms*** that would present the unit costs used in the cost construction of respective cost centers (sub-agencies for the recurrent budget and project/programs for the capital budget). (2). Mid-year program review for sub agencies in the recurrent budget and project/programs in the capital budget. (3) Work plans (physical and financial) for sub agencies in the recurrent budget and project/programs in the capital budget

Budget Request: Budget request are submitted when public bodies receive MoFED's Budget Call. The budget call provides MoARD with what the budgetary ceiling is and how and when to prepare budget requests. The budget call includes (1) budget ceiling for recurrent and capital expenditure for the upcoming fiscal year, (2) the deadline for submitting the budget request. (3) a review of the policies that affect the expenditures of public bodies, (4) guidelines on treating external loan and assistance, (5) general guidelines for the preparation of the recurrent and capital budget submission and (6) detailed instructions and formats for preparing the request for the recurrent and capital budgets.

The central task for MoARD, during the request stage, is to fit its request within the budget ceiling issued in the budget call. The above involves the following: (1) adjust planning and programming based on the resource envelope and work plans to the budget ceiling and (2) prepare a justification of the cost structure in the work plans of the respective projects/programs and sub-agencies. The decision to trim the budgetary requirements of some work plans and the recurrent spending of sub-agencies and not others appears to be the most difficult of the three tasks. MoARD will submit six forms each for its recurrent and capital budget request. The budget request includes two summary forms for the recurrent and capital budget and four documentation forms two each for the recurrent and the capital components of the budget. Once MoARD submits its budget request, MoFED reviews the requests submitted by different public bodies and reviews, and makes the necessary adjustments to the initial budget ceilings for public expenditure and the respective budget ceilings of public bodies. The review of the request is followed by a budget hearing is conducted. Budget hearings involve the justification of the budget request submitted by public bodies (for instance MoARD). A high ranking official (usually the Minister of the respective Ministries) is tasked with the responsibility of 'defending' the Ministry's budget requests to MoFED's management. The output of the discussion is used to prepare a draft budget request ready for legislative approval. This information serves as the basis for allocation of available funds and provides for an effective channel of communication among all administrative levels in the budgeting process.

Although there is no specific formula for the disaggregation of the budget into recurrent and capital spending, Box 2 shows major issues need to be considered in the preparation of the recurrent and capital budget.

- Box 2: Issues to be considered in Budget Preparation

- **Recurrent budget preparation should consider**

- When preparing a budget on human resource requirements, availability of manpower and financing is taken into account,
- The budget request is based on program performance budgeting. This avoids incremental budget request of past procedures and enables to clearly show the reasons why more or less of a budget is requested by measuring it in terms of what program has been done in the previous year.
- Budget requests are comparable with current year's budget and estimated annual expenditure for the current year.
- Budget request is partly based on own revenue, and the remaining balance is the subsidy provided by the government. Public bodies generating their own revenue have to budget this resource in detail in relation to the programs and projects they wish to perform and present it with the budget request.
- As per proclamation No. 199/1955, article 4, pension contributions should be remitted to the Pension Fund account.
- Retained revenue should be collected and used and will be included in the recurrent budget request.
- Expenditure programs that need special attention have to be identified and presented for decision
- Budget should be requested for projects whose plans have been drawn-up and await execution,
- Budget for approved salary increments and salary steps should be included in the budget request.

- **Capital budgets preparation should consider**

- An Assessment of the sector, programs and projects and how they correspond with sectoral policies and strategies,
- Ongoing projects rolling over to following years should be identified. Projects that are expected to be completed in one budget year have to be known, and projects that should be discontinued from the point of view of development strategies be listed,
- Have sufficient information on past performances and evaluate the investment situation as a precondition to prepare a new project budget,

- Expenditure assignment and implementation capacity should be assessed to aid in the preparation of capital budget requests of projects,
- The more predictable component of foreign sources of fund should be included in the preparation of 'a realistic' budget. Differentiating the composition and timing of foreign assistance and loan into their functional uses: procurement, technical support, or capital budget supplements. Procurement and construction activities constitute the major work processes that consume a significant amount of time and need appropriate planning,
- Project appraisal should be partly based on an evaluation of past years' performances, the current status of the project, and should take into consideration the implementation capacity of the public body,
- Program and project ideas should be derived from the identification of problems of the community and should be based on studies of the gaps in the delivery of economic and social services,
- Project appraisal should internalize the role of the project in solving the social and economic problems of the country. Projects need to be based on studies, have clear objectives and goals, and their future recurrent budget implication worked out,
- Take into account the pool of available resources: natural, human and capital in the preparation of action plans.

Much of the work on the capital expenditures will have already been completed in the programming stage of the planning cycle and work on both recurrent and capital expenditure will have begun during the preparation stage of the budget cycle. The programming stage will have established the priorities and project/programs of capital expenditure. The preparation stage will establish, for both recurrent and capital expenditure, the techniques for the construction of costs and proposed work plans.

It is imperative to note that MoRAD does not apply all of the standard economic and financial analyses to make a selection among competing projects. There is a general, albeit questionable, assumption that the benefit of some proposed project can still be scrutinized without utilizing the standard techniques and only subjectively assessing the merit of a proposed project making it into the planned/target lineup. The proposed projects/programs should be a reflection of the targets set in the PASDEP and policy directions of the sector. Specific projects that render themselves to economic analysis, for instance irrigation projects, are scrutinized using the standard techniques. Donor funded project, also, incorporate detailed economic and financial feasibility analysis. Other poverty oriented projects, for instance regional Farmers' Training Centers, Livestock clinics and projects of similar nature are developed without the preparation of feasibility studies (economic or financial).

Generally, MoARD has built up little in terms of the capacity to systematically prioritize projects/programs. Although the pool of projects/programs to select from is wide, the haphazard prioritization systems are not helpful in anyway. The rule of thumb in project/program planning implementation, thus far, has been that if all proposed projects/programs identify with the development agenda set in the PASDEP and general sectoral priorities, they are accepted and included in the budget pending the approval of MoFED. If project/programs are prepared and submitted to MoFED and qualify the criteria jointly set by MoFED and MoARD, it is improbable that the projects/programs are rejected. Although, as noted above, there is no unifying technical methodology in prioritizing projects/programs, production and productivity enhancing projects/programs are slightly more favored than others. Moreover, MoARD does not compare notes with other sectoral ministries regarding the amount of budgetary resources that it requests. It independently prepares its budget based on the fundamental principles outlined in the previous sections. Projects/programs that are run by NGOs and non-budgetary institutions on the sector are considered in tabulating sectoral output. The above also helps in minimizing redundancy.

The link with regional agricultural bureaus is also limited. Thus, the amount of budget allotted to the Ministry does not have any bearings on the size of the subsidy allocated to Regional Agricultural Bureaus. Regional Agricultural Bureaus have their own budget allocation formula that is independently applied to the specific regional state and is not related with, and does not take into consideration, allocation decisions made in MoARDs budget. There are, however, projects/programs funded by the Federal Government that are managed by the Regional States. There is a weak relationship between the ministry and the regional bureaus in budget preparation, and execution.

Legislative Approval, Operation and Implementation of the Budget for MoRAD

Once the budget hearings are conducted and the necessary adjustments are made, MoFED prepares recommendations and forwards them to the Council of Ministers. The Council of Ministers, then, recommends the budget for the final approval and approval by the House of Peoples Representatives, when it is convened. The budget is finally ratified and dispensed for use by public bodies including MoARD. Once the budget is dispensed, MoFED notifies MoARD to implement the budget within the limits of the revised and ratified request. MoARD, then, proceeds to operation and implementation of the approved budget.

The first task is to adjust the work plans of cost centers to the ceilings of the approved budget and to prepare financial and physical plans. The financial action plan indicates the projected monthly disbursement while the physical action plan shows projected deliverables by month for the cost centre. MoARD is required to submit the action plans for recurrent and capital expenditure to MoFED using standardized formats. Implementation is the last phase of a budget cycle. MoARD manages the request and recording of transfers and supplementary allocations, and in addition prepares monthly reports to MoFED on the status of the action plan highlighting financial and physical implementation the output. A summary of the budget execution phase is provided below.

One way of measuring financial efficiency is to see the budget allocated to a given institution and its performance. A 10% deviation in actual expenditure compared to what is stated in the budget for; at least, the same level of output is found acceptable in standard budgetary implementation exercise. Overall performance of budget expenditure, during the past seven years, is fairly good (Table 11). Although agricultural budget performance does not deviate excessively from the total budget average performance, it should be noted that there is a sizeable within sector variation. Budget performance of the administrative categories of the agricultural sector for recurrent is almost within the given standard (see Table 12). However the same is not reflected in the capital budget.

Table 12 Budget expenditure performance of total budget allocated for the year

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Average
Total budget	92.5	95.6	92.7	85.8	83.6	85.1	87.7	89.0
Agricultural budget	105.6	85.3	91.3	98.1	85.0	83.9	84.6	90.5

Source: Own calculation from MoFED data

Table 13 Performance of agriculture budget by administrative category

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Average
Capital	117.7	87.2	90.6	99.2	81.2	80.3	81.0	91.0
Recurrent	86.6	81.5	93.2	94.5	98.8	96.3	95.3	92.3

Source: Own calculation from MoFED data

An evaluation of the average performance of the agricultural budget by source of finance in the past seven years shows that, both the capital and recurrent components of the budget performed well for resources obtained from domestic sources, compared to components of the budget financed from foreign sources.

Table 14 Performance Data by Source of Finance, 2001/02 – 2007/08

	Average			
	Capital		Recurrent	
	General	Agriculture	General	Agriculture
Domestic	92.5	95.0	90.7	92.3
Assistance	79.3	76.4	113.6	-
Loan	75.7	81.9	-	-
Total	87.8	91.0	92.3	-

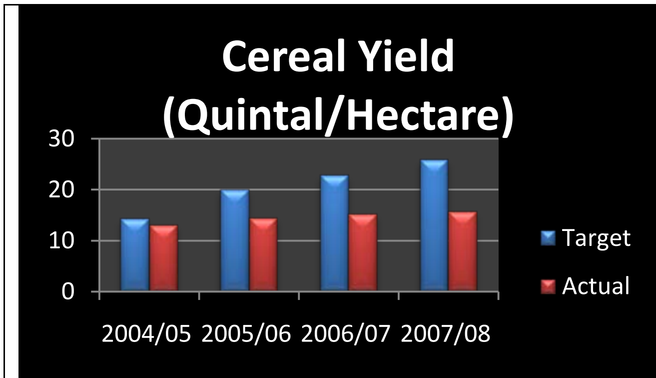
Source: Own Calculation from MoFED Data

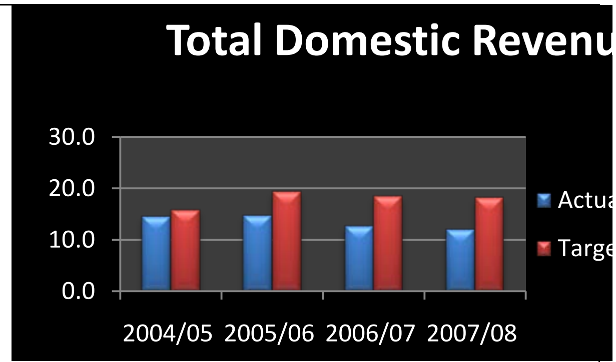
MoARD and regional bureau of agriculture and rural development (BoARD) have put in place a system of monitoring and evaluating both for the recurrent and the capital budget. Monthly and quarterly financial and physical progress reports are collected from each directorate and sent to the Planning and Programming Directorate of the Ministry. The Planning and Programming Directorate compiles the reports and forwards them to MoFED. MoARD and MoFED are expected to conduct field visits to supplement the reports forwarded by different stakeholders. Donor funded projects/programs mainly have their own independent M & E sections that thoroughly follow the progress of the project.

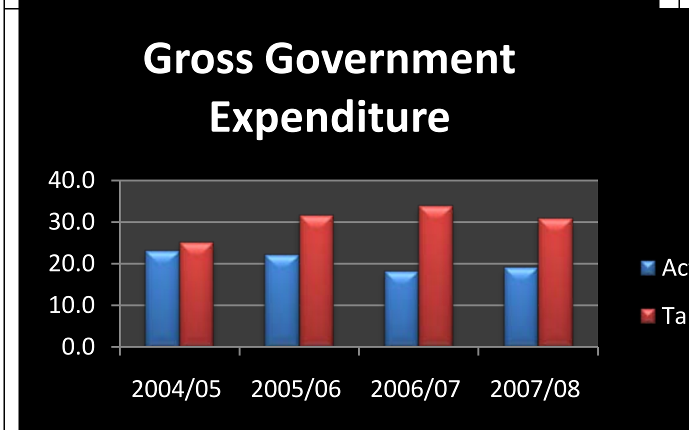
The system however has weaknesses that include: Inadequate attention is paid to both human resources and budget design, there appears to be lack of commitment, hurried plans are submitted, poor quality data is employed, there is lack of feedback from domestic stakeholders at every stage, poor accountability and failures, among others.

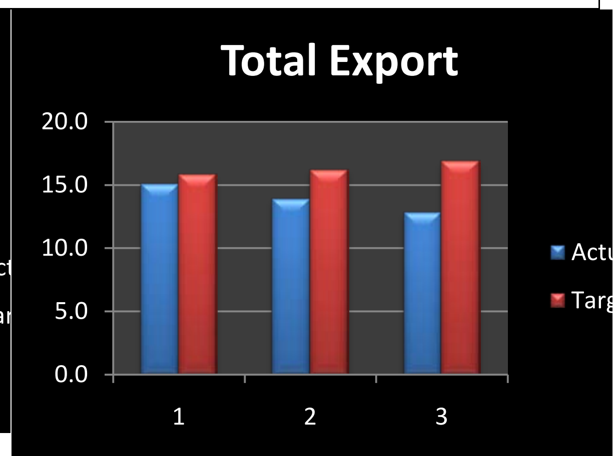
To sum up, we note the following points in the practice of policy, planning and budgeting in the Agricultural sector. First, activity at the MoRAD level depends on the preparation of public investment programs (PIP), similar to the fact that national level activity is rested on MEFF and its link with PASDEP, assuming the latter is perfect. Thus, the quality of the PIP preparation determines the planning and budgeting quality of the ministry. Unfortunately that process is very weak. Second, we learn from this section that once MoRAD has prepared its budget using PIP, revision dictated by MOFED is minimal – showing the importance of what MoRAD does for national and sectoral development. However, MoRAD does this planning and budgeting, including primarily PIP preparation, with no skill base to speak of and without proper technical evaluation and prioritization, paying little heed how its activity is linked with the rest of the economy and over time. Thus, if PIP is bad so is the sectors (MORAD's) plan and hence the national plan. Third, we also noted that once a decision to cut the budget of MoRAD is made by MoFED, MoRAD doesn't have a technical way or formula of picking one project/program and leaving another based on technically measured impacts. Fourth, most projects, except perhaps some donor related once, one of which is briefly appraised in the next section, that constitute above 90% of projects/programs in MoRAD are not technically analyzed and evaluated owing to lack of skill/capacity, and the sheer large number of projects. Thus, rule of thumb is the ruling, not the exception, in planning at level of spending units (MoRAD in our case). In fact, more specifically in MoRAD since an average of 90% Federal ARD projects in the last five years are directed to food security and productive safety net projects that are out of the normal planning and budgeting process[9], the agriculture sector is effectively not planned at all. These fundamental challenges in the efficiency of public spending in Agriculture combined with macro or national level problems alluded before, substantiated the argument that there is spending without proper planning in the country in general and the Agricultural sector in particular, and hence the sector's disappointing performance. It is legitimate to infer from this that similar practice is ubiquitous across all Ministries in the country. The implication of such lack of proper planning and spending is to create a rift between targets and outcomes set at the national level, as can be inferred from the set of diagrams given in Figure 2. Figure two abundantly shows the sever weakness of public spending and planning in the country.

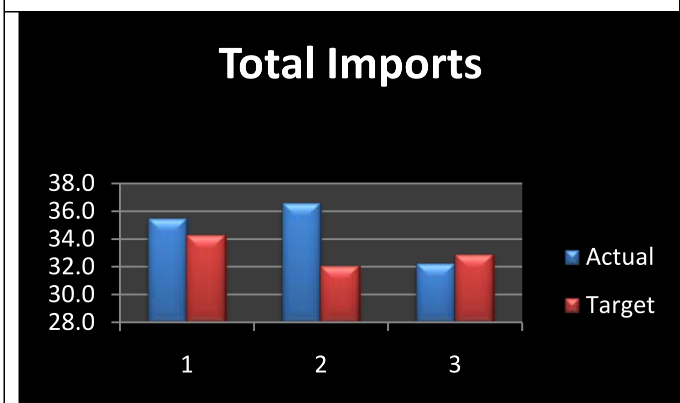
[9] Even donor evaluation of the PSN programs is done on questionable, non-ethical and unprofessional manner (as the experience of the latest Ethiopia's World Bank country offices related evaluation of PSN in which the authors were part of shows). From that angle, it is difficult to make a case for existence of quality planning and evaluation by donors in the sector. Even if there is, it is an enclave not linked with the rest of the economy.

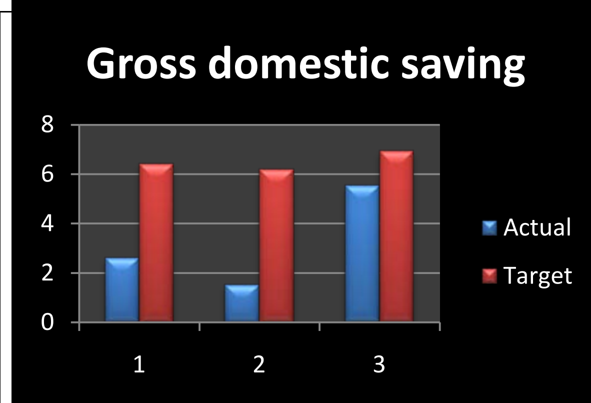

Cereal Yield (Quintal/Hectare)
30
20
10
0
2004/05 2005/06 2006/07 2007/08
Target
Actual

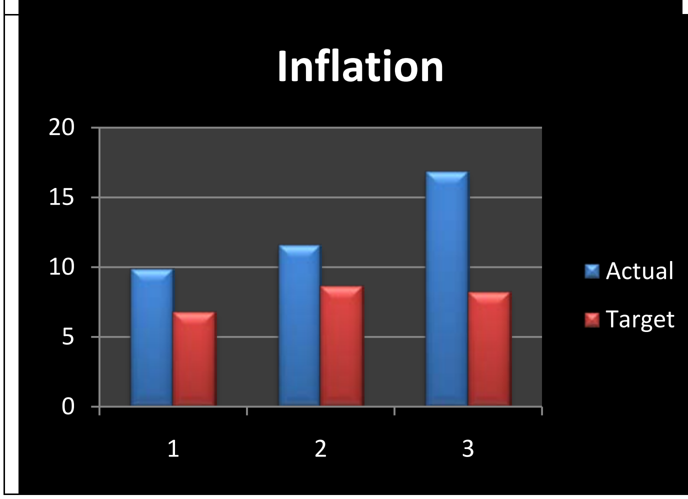

Total Domestic Revenu
30.0
20.0
10.0
0.0
2004/05 2005/06 2006/07 2007/08
Actua
Targe


Gross Government Expenditure
40.0
30.0
20.0
10.0
0.0
2004/05 2005/06 2006/07 2007/08
Act
Tar


Total Export
20.0
15.0
10.0
5.0
0.0
1 2 3
Actu
Targ


Total Imports
38.0
36.0
34.0
32.0
30.0
28.0
1 2 3
Actual
Target


Gross domestic saving
8
6
4
2
0
1 2 3
Actual
Target


Inflation
20
15
10
5
0
1 2 3
Actual
Target

IV. Focus Group Discussions and Sample Appraisal of Agricultural projects

To examine the issues discussed in greater detail in the previous sections from the vantage point of the policymaker, we conducted semi-structured in-depth interviews (SSDIs) with experts that have worked [still work], either closely with the Ministries, or at the Ministries of particular focus: MoFED and MoARD. These focus group discussions provide an expert-overview of budget practices and procedures, how these practices fare-against the underlying hypothesis of the study, and what important recommendations can be inferred from the discussions.

This section presents rejoinders to our inquiries into what characterizes budget practices and procedures at the two Ministries and, consequently, gives us insight into the impact of budget practices and procedures on the efficiency of public spending on agriculture. A summary of the inquiries is provided as an annex. Much of the narrative in the SSDIs is structured as presented in the annexes. We did not find it imperative to refer, constantly, to the respective experts in the third person singular and have presented their take on issues in freely flowing depositions, without the intrusion of a narrator. Although SSDI-1 and SSDI-2 emphasize on MoFED and MoARD, respectively, the SSDIs have, also, drawn attention to cross-cutting issues whenever the need to discuss them has presented itself.

4.1 Focus Group Discussion

Focus Group A: As discussed in sections *II*, and *III*, the budget structure is largely determined by a Macroeconomic Fiscal Framework that, most recently, is guided by PASDEP and the priorities that it embodies. The MEFF provides regional states, Ministries with indicative plans of focus, determines how much each regional state is going to receive in terms of block grants in the coming fiscal years. The construction of the MEFF begins with the identification of the resource base: including tax revenue; projections of growth in the tax base; an estimate of deductions (additions) in the form of tax holidays granted (that have reached their maturity date) as incentives to investment; estimates of non-tax revenue; and estimates of bilateral and multilateral aid. Forecasts were done using simple trend analyses that take into consideration lagged values of the same variable (usually lagged twice).

However, predictions of GDP and economic growth are now derived from PASDEP, and therefore revenue projections have also become a component of the indicators derived from the five year plan (PASDEP). There is no systematic method of obtaining an estimate of non-tax revenue and its determination has, largely, been left to 'expert opinion'. Although regional states are not legislatively obliged to disclose their revenue, they are requested to submit estimates of revenue that are used, only as useful approximations to get a general idea of the revenue block of the fiscal framework. However, regional states that have showed promise in the collection and declaration of revenue (commonly referred to as tax effort) to the federal government are provided with rewards in terms of upward revisions in the block grant allocated to the regional state. Foreign assistance plans of donors are, usually, multi-year and coincidentally match the duration of an MEFF. Even though foreign assistance is considered the most volatile component of the revenue block, close to *70* percent of foreign assistance is made up of multilateral grants that are more predictable than their bilateral counterparts. While grants are used in the form of budgetary support, the loan component of foreign assistance is, partly, used as a tool of deficit finance, after the latter has been determined.

Public expenditure, on the other hand, is subject to sectoral spending priorities that have been determined in the five-year plan (PASDEP): social sector spending (health, education), roads and infrastructure, rural electrification, agricultural sector development. The priority areas that have been outlined above constitute *60* percent of public spending. The structure of expenditure is primarily determined by policy priorities that have been decided upon in the five year development plan. The MEFF therefore serves as a mechanism; whereby the policy priorities and national development agenda embodied in the five year plan (PASDEP) are presented in a medium term perspective The MEFF ultimately determines the recurrent and capital budget ceilings of sectoral spending. Sectoral budget ceiling limits are a function of policy priorities, discretionary spending (defense), and transfer payments.

Sectoral Ministries such as MoRAD have planning and programming offices, whose general focus appears to be on designing work plans for their respective Ministries and, hence give insufficient attention to sectoral projects. In the less likely event that these units have come up with involved project plans, their contents have been broadly unoriginal, and with extensive similarities with better designed project plans, but with marginal adjustments to the budgetary needs of running a project of a specific scale. Rather than guiding informed decisions on how sectoral spending should be linked to a "national development agenda", planning and programming offices across different ministries spend a great deal of their time managing the day-to-day work-plans of the ministry[10]. The above, however, does not refer to sector development plans (programs) that are produced in conjunction with planning units of donor organizations that are more organized and experienced.

Furthermore, the capacity of sectoral ministries in linking budgets with physical outcomes, at the end of every fiscal year, is negligible. Only a number of sectoral ministries (close to 20 percent) come to MoFED's budget hearings with documents presenting some semblance of a properly designed project plan. However, the ones that prepare these proposals are the smaller ministries that are not, generally, considered a priority. Most of the ministries do not have the capacity to produce project proposals, while MoFED, itself, lacks the capacity to do an involved project appraisal. Moreover, the ministries lack the capability of tabulating the outcomes of their budgetary spending. Even though the ministries are required to produce physical and financial audits of projects/programs, MoFED does not conduct monitoring and evaluation sessions through field visits.

It can also be established that the representation of the PASDEP by the individual MEFFs, that provide medium term perspectives to the five year plan, precludes the possibility of a policy debate where spending in industry or education may be beneficial to bring about agricultural development than spending in agriculture itself. Hence sectoral priorities have been solely reflected through greater within sector spending, with almost no regard to inter-sectoral linkages and synergy.

Focus Group B: Unlike the EPRDF regime, cross-sectoral and national objectives were clearly linked during the Derg's planning and budgeting approach as can be illustrated by the livestock sector work in that period. Even though the paucity of data on the livestock economy precludes us from claiming that Ethiopia has the largest livestock population in Africa, ILCA estimated that livestock production

[10] Current reforms suggested in the BPR call for the strengthening of the planning capacities of sectoral ministries.

accounted for 24 percent of agricultural GDP during the reign of the Military regime. The third livestock project, launched in 1976, for instance, was one of the components of the Agricultural Development Program that envisaged a development program that is inclusive and that put emphasis on cattle development, sheep and goat development, poultry and apiculture development. The program was designed to develop rangelands, and roads in pastoral areas. The emphasis of the Southern Rangelands Development Project, funded by the AfDB and the World Bank, that was a component of the program was livestock commercialization, and to that effect a range of projects were designed to provide: *nutrition, water, trekking routes towards better pasture, and mechanism for building better functioning co-operatives,* and *animal health facilities.* The Ethiopian Livestock and Meat Board (ELMB) has a complementary program that consist of the construction of breeding, marketing and processing centers that purchase livestock off the pastoralists. The ELMB, then, sends the cattle to export abattoirs for processing and export to the Middle East (and other countries). The projects are thoroughly appraised by the funding organizations.

Consequently, the inter-linkages, discussed in the above paragraph, guarantee that the foreign exchange objective of the agricultural sector plan is fulfilled. The projects/programs accomplished the objectives set out in the agricultural sector development plan and did not stray from the core objectives to provide positive externalities to indigenous groups (such as teaching them basic marketing strategies). The projects/programs did not provide clinics or build schools and by design assumed that the windfall gains from exports would ultimately finance more projects across the country. However, supplementary services are also provided by other sectors. Hence, the military regime's development strategy had standalone sectoral pillars that are integrated at the macro level. This is now missing. Each ministry had a planning department that was actively involved in project/program design and they were good at it. However, a number of the planning and budgeting practices and procedures were criticized for not focusing on monitoring and evaluation of the projects. In addition, the ministries never kept tabs on how much was spent on a specific project and hence lacked the framework for budgetary transparency. Moreover, with respect to the crop subsector, a hundred and thirty high potential Woreda were selected to lead crop production in the country. The above was the immediate derivative of the food self-sufficiency objective of the government, which some critics claim has been one of the driving forces behind resource concentration in agricultural spending.

During the Dereg regime, each project coordinated by the MoA is assigned to a point-person that liaises with the project analysts of the sub-sectoral desks at the Ministry of Development and Cooperation's (MECaC) agriculture bureau. In addition, projects/programs proposed by a multilateral/bilateral donor is also forwarded to MEDaC's foreign relations bureau and successive consultations are conducted between the sub-sectoral desks at the Ministry and point-person/s assigned to the specific project at the Ministry of Agriculture. The consultation would scrutinize the rates of return utilized in the project proposals, and incorporate potential debates on the composition of the proposed spending and, specifically, the ratio of recurrent expenditure in the total cost of the project. The specific sub-sectors considered include: crop, fisheries, livestock, and the agricultural mechanization. Moreover, sectoral programs are divided into sub-sectoral programs that are integrated into the former and geared towards satisfying the national objectives of national development. Furthermore, since programs are continuous, budget is allocated on a yearly basis to cover the recurrent costs of projects that are of a short time span and have specific tasks to accomplish. For instance, the livestock development program is divided into an animal feed program, an artificial insemination program, a breeding program, an animal health program and so on. Non-salary recurrent spending (for instance animal vaccination) figures, prominently, into the program costs. The projects/programs that are proposed for annual budgeting should also show that they contribute to the short-medium-long term development strategies of the government. It is in the event that they do that these projects get financing.

The ministries should provide compelling evidence that the projects/programs they are proposing would satisfy the targets set by the government (that constitutes a projection of physical outputs that the proposed projects would contribute to the national objective [for instance, the amount of selected seeds to be provided to farmers, the length of roads to be constructed etc]). The financial costs of the physical targets are then worked out in detail. Once the MoA has turned in its financial requirements for the corresponding, expected physical outputs, a team of senior experts at MEDaC's Agricultural Bureau appraises it. Once comments and suggestions have been dispatched to MoA a budget hearing is conducted with high ranking officials from MoA, including the point-persons for respective projects, and the team of senior experts at MEDaC. The usual points of contention seem to be how relevant the project is in the light of short, medium, and long-term targets of the subsector. Are the objectives of the project linked with the objectives of the sub-sector? is a key question that is examined. After the budget hearing is finalized, another series of meetings is held where MoA's team is given another forum to defend its budget request in the presence of the executive body (a council of ministers and the premier).

Subsequently, following the approval of the budget, the proposed project comes to life and the responsibility of MEDaC turns to that of monitoring and evaluation of the implementation of the project. The latter is conducted through field visits and periodic reports that the implementing agency is required to submit every three months. MEDaC consolidates the reports submitted by MoA, evaluates them, and forwards them to the executive body with comments and recommendations on how best to solve problems associated with implementation. In addition, a separate autonomous Inspection Department does evaluate the performance of the implementing ministry and reported directly to the executive body on the progress of reports. These evaluations are periodically incorporated into the annual, medium term, and long term visions of the sub-sectors. The major flaw that stood out in budget procedure is the incapacity of the ministries, and the executive body to look into the financial aspect of the equation. Little was known in terms of the exact amount of resources devoted to a project, and neither the MoA, seated at the capital, nor the executive body was forthright about the reasons for budget austerity.

On a different note, the military regime also experimented with regional decentralization of planning. However, the experiment failed as the system would not yield to regional decentralization since the structure that rests on the sectoral pillars is built to accommodate a national agenda.

How different is the current planning and budgeting system from that of the Dreg system? After the EPRDF supplanted the military regime, budget practices and procedures slightly tilted towards a form with some semblance to the failed experiment of the military regime. With the introduction of the regionalization proclamation, and the drafting of the constitution in the first half of the 90s, the role of regional governments shifted to that of working out their revenue, and designing projects/programs, among others. The role of Federal Ministries, on the other hand, was confined to dealing with policy issues, and determining priorities. The above ushered in a new era, where the regional bureau and not the ministry is considered a unit of analysis in policy design.

The budget practices and procedures that were employed by the military regime were also adopted by the current government that supplanted it, up until 2001/2002, but with some modifications. The sectoral pillars forming the national development strategy changed into one that focused on regional states, whereas the development priorities also shifted towards pro-poor spending. The resource envelope for regional states included their tax revenue, the regional block grant and multilateral/bilateral grant/aid that is negotiated with the Federal government and directed towards regional states. Once the estimate for the resource envelope is determined, the Ministry of Finance and Economic Development works out the composition of spending of the block grant into recurrent and capital. Once the limits on spending are known, the zonal planning offices of the regional states submit their projects for funding by the regional government. However, there may also be federal projects that run concurrently with similar projects suggested, passed and implemented by the zonal planning offices

The justification for the change that followed the 2001/2002 revisions were not, readily, apparent although they appear to be in-tune with what one would expect from a decentralized system. The *Woreda* level decentralization meant that human resources were stretched beyond the practical limitations. Inadequacy in planning capacity has meant that, resources dispensed at these units of administration constitute recurrent spending. In addition, monitoring and evaluation that was in a precarious state before the introduction of *Woreda* level decentralization is, now, bordering on the atrocious. With hundreds of *Woreda* units dispersed across the country, neither MoFED, nor regional finance and agricultural bureaus are equipped with the capacity to appraise, monitor or evaluate projects handled at the *Woreda* level.

Focus Group C (SSDI-C): District [Woreda] Level Planning: According to *Woreda* planning experts budgeting strategies, in the recent past, offered little in terms of orientation towards needs assessments. In addition, the capacity of MoFED to scrutinize the execution of projects and its push towards an efficient utilization of financial resources, in general, was withered.

However, the *Woreda* planning expert claims, with the introduction of a new structure of public finance management things are looking up. The new structure involves at least four tiers of planning bodies tasked with the compilation of current statistics and needs assessments; forum for debate on the validity of statistics and the plausibility of the needs along with an approval to move ahead with the drafting of plans; and finally preparation of plans based on the recommendations put forth in the forum.

The zonal administrative units appoint a "Kebele Manager" whose main duty is collecting information, on "needs" from Kebele residents and relaying the information to the "Kebele Cabinet" that is composed of civil servants and residents; representatives from each pro-poor sector (health, education, agriculture, construction) and other elected members. The latter is tasked with collecting information on a host of statistics (for instance health posts, professional health workers housed by the health posts, the approximate number of people that these facilities attend to, among others). The manner in which data is collected avoids redundancy that appeared to be the hallmark of the previous structure where each sectoral unit took at the task of collecting statistics on its own and each statistical item was remorselessly debated on without apparent resolution. The *Woreda* planning unit, then, runs rigorous training regimes with members of the "Kebele Cabinet" on how to work with standard "Planning

Needs Assessment Forms". After compiling relevant information on a wide range of recent economic statistics and preparing planning needs assessment forms, the "Kebele Cabinet" presents them to the "Kebele council" that is composed of 300 or more people that regularly hold discussions on issues ranging from governance to public policy and financial management. The "Kebele council" provides the forum for ratifying or discarding the pool of statistical information provided it by the "Kebele Cabinet".

The ratification of the pool of information signals the point where the *Woreda* planning office prepares analytical profiles of key socio-economic statistics and supplies the compendium of facts and figures to Kebele sectoral planning units that prepare their plans based on information that has undergone several tiers of refinement. The *Woreda* Planning and Finance Offices provide recurrent advices on what national sectoral priorities look like and how best the draft plans should reflect the latter. However, the *Woreda* Planning and Finance Offices also take into account *Regional* and *Woreda* priorities to relay this information to Kebele sectoral planners and to use their discretion in choosing the priorities that apply in the case of the particular *Woreda* units.

Subsequently, *Woreda* Finance and Planning Offices prepare sectoral plans using the draft plans prepared and submitted by the "Kebele Cabinet", national development agenda, *Woreda* priorities, and the capacity of sound financial management in the particular Kebele units. The budget proposition is composed of the recurrent budget (per-diem, material supplies, etc…), the regular budget (mainly composed of salaries), and project budget. Each Woreda unit has to carefully tabulate each budget-line to arrive at the total annual budget request of the *Woreda.*

Following the preparation and compilation of the sectoral plans, the *Woreda* finance and planning office dispatches its, tentative, set of documents to the zonal office for evaluation, recommendations and approval. Not only does the Zonal Finance and Planning Office represent a brick located a step up the administrative edifice, but, most importantly, it arranges consultative meetings with *Woreda* planners to discuss budget-line items and provide explanations to queries regarding why some of the latter need amendment. The Zonal Offices are said to house seasoned development planners, at least in our case study Woreda which is one of the best in the region.

Consequently, the ratification of the budget is not an acknowledgment to budget plans that accurately impart needs assessments, but, rather, represent an authentication of fitting into the general picture of budget plans that reflect the national development agenda, and national priorities, even though these priorities may not be directly relevant to the particular *Woreda*. In addition, better performers in budget utilization and sound financial management are rarely rewarded by the Federal Government, while better performers [*Woreda residents*] in [agricultural yield] are routinely rewarded by *Woreda* administrative units lately. Hence, incentives structures seem to be skewed in favor of average performers in financial management, while local administrative units seem to offer better incentive arrangements than the Federal Government.

On the other hand, monitoring and evaluation, under the new structure, takes a peculiarly novel route. At the sample *Woreda* monitoring and evaluation has taken a more participatory approach. Outputs from a sample project are presented by project

management and cross-referenced with beneficiaries of the project. The *Woreda* facilitates the creation of forums where benefits and costs are cross tabulated and outcomes are debated on. In a different way, the above process provides a direct channel for confronting public finance mismanagement.

These are interesting aspects of the Woreda planning. It has also problems. One of the major problem relates the alignment of Woreda planning with regional and Federal planning. What is noted here that the demand for outcome from regional and Federal level is not only fails to tally what is demanded at Woreda level but also fails to provide the input or resource required to bring about that outcome. In short, the approach on major activities is characterized by top-down planning which fails' to have accurate information on the ground as well as the input required for the targeted output. For instance, there could be a target output growth of 40% for the Woreda imposed top-down, yet the required resource for this such as adequate fertilizer, high variety seed, and the issue of fragmented land as well as experts to advise the farmers on the use of these resources appropriately is missing. Thus, the targeted outcome is not realized. Political interference in professional planning, monitoring and evaluation is pervasive and hence one may judge not by the outcome that he/she brought about but by political view or alleged political view unrelated to the growth and development objectives f the Woreda in question.

The above review provides a counter-argument to focus group discussions B, may have appeared to repudiate the claim that the introduction of *Woreda* level planning and public finance management were a recipe for disaster. However, it should also be noted that the sample *Woreda* is not considered one of the best performer, has relatively good experts, and has received praise for setting an important example. Even in such cases one notes the fundamental problem of appropriate linkage in policy, planning and budgeting across Federal, regional and Woreda level. In addition, the inter-temporal view of long-term, medium-term and annual budgeting linkage is extremely blurred, if not completely absent, at the Woreda level. Another important point emerged in the discussion is the issue of whether the number of Woredas in the country is too much to take as a unit of planning given the skill and resource constraint of the country – this is an area worth re-thinking

VI. APPRAISAL OF SAMPLE AGRICULTURAL PROGRAMS/PROJECTS

The focus group discussions in section IV have broadly illuminated on the subject of the characteristic dichotomy, in terms of appraisal and M&E, between domestic projects and projects and programs designed by multilateral organizations. The latter benefit from a strong tradition of careful project appraisal and successive monitoring and evaluation, while the former have, largely, been unable to mimic the processes and procedures that have been the hallmark of the latter. The following paragraphs outline the procedures involved in the design, implementation and monitoring of a sample program: *Participatory Small-scale irrigation development program (PASIDP)* funded by IFAD. The review evaluates project appraisal reports and interim-assessment documents published jointly by IFAD and MoFED.

The Participatory Small-scale Irrigation Development Program (PASIDP) is a centerpiece of the second generation poverty reduction strategy paper: PASDEP that recognizes the need for developing small-scale irrigation to reduce dependence on rain-fed agriculture. One of the primary aims of program design is making sure that the objectives of a program are aligned with national development agenda. In addition, program design should incorporate linkages to similar projects to guarantee that the benefits from the coupling bring targeted changes and ways to sustain the changes. Development programs in less developed countries should target multiple development non-mutually exclusive goals. Target groups in PASIDP are selected using the parameters set in the Productive Safety Net Program (PSNP). Hence the program focused, not only, on utilizing the potential for irrigation development, but also on "relieving poverty and hunger" from selected food deficit woredas/districts.

One of the most important features of program/project appraisal is incorporating ways of integrating the components of the project/program to achieve the primary goals of the plan. PASIDP has three basic components: institutions' development, small-scale irrigation development, and agricultural development. The first component seeks to sensitize and build capacity at different levels of government about the merits of small-scale irrigation development, while the latter focus on improvement of catchment area planning, support, construction of small scale irrigation schemes and the strengthening of agriculture support services, improve farming practices in soil and water conservation, and seed production, respectively.

Another facet of program development is assigning program management and implementation responsibilities in a mutually exclusive manner. The PASIDP appraisal document notes that different tiers of government bodies will be involved in project management and implementation. MoARD will be responsible for coordinating program implementation at the Federal level while regional bureaus of agriculture (BoARD), Regional Environmental Commissions and regional agricultural research institutions will be responsible for the design and construction of small-scale irrigation schemes. At local administrative units, Woreda level Agricultural Office, Kebele administration units and Water User Associations (WUAs) were considered key partners. Although MoARD is responsible for the development of small-scale irrigation schemes, regional bureaus will be responsible for program planning, financing and implementation and management. The role of MoARD is limited to that of oversight and ensuring that regional, woreda and kebele administrative units are housed with adequate staff. Although the structure of management and implementation presented in the program appraisal documents does not contribute to new and insightful revelations about the strong suits of the program's organization, given the abundant information in previous sections about the capacity of local administrative units to perform project planning, financing and implementation, one would, certainly, have qualms about "proper program management". Although PASIDP appraisal documents concede that institutional capacity in decentralized settings may pose some threat, PASIDP has sought to rely on the significant funding that the GoE has mobilized for capacity building as a mitigating factor. Consequently, PASIDP may have put a lot of stock in capacity building projects that it neither has control over nor can influence substantially.

PASIDP covers 60-70 dense, food insecure and drought prone woredas with an estimated number of beneficiary households close to 62330, or roughly 311000. It is noted that about 200 households are expected to benefit from each small-scale irrigation project making the total number households that will directly benefit from the program around 35430. However, an additional 26900 households are expected to benefit from training and demonstrations on farm research and improved extension services. An unquantifiable number of households will benefit from their physical proximity to catchment areas and watersheds of PASIDP interventions, especially, through reduction in soil erosion, and soil and water conservation, among others.

Benefit incidence analysis shows that immediate benefits from the program come in the form of improved productivity through the introduction of irrigated farming and water management. PASIDP notes that the greatest benefit comes in the form of increased cropping intensities due to better managed water supply". Farm incomes are expected to increase eleven folds to ETB 6000 (roughly USD 630-690).

Project/program design should incorporate recommended solutions to challenges in similar projects and hence should benefit from inter-project knowledge sharing. PASIDP incorporates lessons from SCP I, and II [special country programs] that have come across technical difficulties with agronomic aspects of small-scale irrigation projects. Hence, PASIDP gave greater control over program design to MoARD and the respective BoARD, that to BoWR (Bureau of Water Resources) so that small-scale irrigation schemes are grounded in comprehensive agricultural development plans. The appraisals also delve into issues related to potential marketing risks that may arise due to lack of proper marketing infrastructure and the need to address them. PASIDP seeks to enhance access to markets through the construction of scheme access roads. The latter also promotes linkages with other donor funded programs (e.g. IDA's rural road program).

The program notes that the chronic food insecurity of the area funded by the project would also imply that a bulk of the increase in production is consumed locally. PASIDP did an involved evaluation of the sustainability of previous investments in small-scale irrigation and identified failure of beneficiaries to accept responsibility for regular maintenance of the facilities as the major setback. The appraisal documents indicate how the above contrasts with successful traditional irrigation schemes developed by communities without government assistance. The program appraisal indicates that the level of community involvement in PASIDP is bound to

"engender a sense of ownership" of the irrigation schemes. PASIDP implies community participation in scheme development, management and operation. The program also foresees beneficiary participation through Water Users' Associations, although, presently some legal hurdles preclude a significant involvement of the WUAs. Although the assessment was on track, the appraisal does not make a persuasive argument for higher community involvement and fails to explore alternative explanations [for instance the breakdown of the administrative edifice that is left to oversee the maintenance of facilities].

PASIDP, in final analysis, was well designed, addresses an important development constraint, is multi-dimensional, facilitates inter-program linkages and donor coordination, embraces a participatory approach to development, does an involved benefit incidence and environmental impact analyses, and envisages ways ensuring sustainability.

4.2 Appraisal of Sample Agricultural Program/Projects

The focus group discussions in section IV have broadly illuminated on the subject of the characteristic dichotomy, in terms of appraisal and M&E, between domestic projects and projects and programs designed by multilateral organizations. The latter benefit from a strong tradition of careful project appraisal and successive monitoring and evaluation, while the former have, largely, been unable to mimic the processes and procedures that have been the hallmark of the latter. The following paragraphs outline the procedures involved in the design, implementation and monitoring of a sample program: *Participatory Small-scale irrigation development program (PASIDP)* funded by IFAD. The review evaluates project appraisal reports and interim-assessment documents published jointly by IFAD and MoFED.

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appraisal indicates that the level of community involvement in PASIDP is bound to "engender a sense of ownership" of the irrigation schemes. PASIDP implies community participation in scheme development, management and operation. The program also foresees beneficiary participation through Water Users' Associations, although, presently some legal hurdles preclude a significant involvement of the WUAs. Although the assessment was on track, the appraisal does not make a persuasive argument for higher community involvement and fails to explore alternative explanations [for instance the breakdown of the administrative edifice that is left to oversee the maintenance of facilities].

Despite such weaknesses PASIDP, in final analysis, was well designed, addresses an important development constraint, is multi-dimensional, facilitates inter-program linkages and donor coordination, embraces a participatory approach to development, does an involved benefit incidence and environmental impact analyses, and envisages ways ensuring sustainability. Unfortunately such projects are extremely insignificant in the total activity of MoRAD and suffer from lack of inter-sectoral and inter-temporal linkage that besieged the planning and budget environment in the country

V. SUMMARY AND CONCLUSION

Budget is the principal government instrument that translates national development agenda into public expenditure programs. It is a tool to estimate potential resources and matching the limited resources with unlimited needs. The process is more challenging in developing countries where the resources are very limited on one hand and the expenditure need is enormous. Ethiopia, as one of the poorest low income countries, shares this reality and is obliged to manage its budget process under such circumstances.

Efficiency and effectiveness in public spending requires improving resource allocation and utilization capacity. Theoretically, efficient and effective resource allocation and utilization should have an impact on maximizing social welfare and the equalization, at equilibrium, of the marginal utility from public expenditure and the marginal cost of increasing resources. It is evident that the Ethiopian planning and budgetary system is at the initial slopes of a much needed reform and may not accommodate a sustained growth maximizing public spending. Adopting various forms of performance/output based budgeting is essential to guarantee that there is efficiency in public spending. The appropriate design of program and projects is essential in clearly defining objectives, outputs, outcomes and impacts to enable efficient resource allocation across sectors.

The annual budget cycle involves planning, budget formulation, approval and implementation and control. In recognition of the need to look at medium term perspectives the budget process starts with the construction of a medium term fiscal framework. MoFED bases its annual budget on a medium term macroeconomic, financial resource and expenditure forecasts. However, significant improvements in MEFF formulation remain, particularly in the areas of: *mechanisms by which priorities can be set in the process of making broader resource allocation* and *weak coordination in the preparation of MEFF*. This allows to design the annual budget based the national development objectives and policies. It largely finances priority areas of the development plan which is aimed at bringing fast and sustainable economic and social development and reducing poverty.

Annual budget formulation is governed by a budget calendar with responsibilities of each stakeholder clearly spelled out. Although various reforms were undertaken and are being implemented to modernize and make the budget process efficient and effective additional reforms are required to bring efficiency and productivity in public budget spending. Currently, MoFED is developing a new generation of budget reforms that are directed at the rectifying the weaknesses of the existing budget system and evaluating how development outcomes would respond to improved public management systems with the introduction of international standard practices in budget planning, formulation and execution. The reforms should also focus on the improvement of expenditure forecasts in MEFF by considerably improving the quality of inputs. The new reforms should also focus on the improvement of budget allocation and execution of spending at regional level, since a bulk of public spending is constituted by regional spending.

The analysis in this study noted the following challenges, that can be classified as macro and sectoral (agriculture sector), challenges. At macro level, the study noted that medium and annual budget formulation is dependent on the MEFF, which is claimed to be broadly based on PASDEP. The legislation and planning process show the centrality of MEFF in planning, policy making as well as implementation. This raises the question of the level of experts that prepare MEFF and the quality of MEFF and whether it is measurably linked with PASDEP. The bulk of the job of this rests on macroeconomic management department with limited help from NBE, which itself is very weak. From this scenario it is legitimate to infer that (a) the department in charge has an enormous shortage of skilled experts that could do the demanding technical work of linking the MEFF with PASDEP, as well as across sectors (Ministries). Whatever the result, the implementation of the MEFF is besieged by unpredictability of donor financing. Second, the analysis also shows that the planning process is pretty much top-down, the federal capital budget (investment) which is central in the growth process invariably computed as residual directed to lower echelons about whose problem accurate information is missing. Third, we noted that there is no technically competent way of either setting up the budget ceiling for each spending units such as MoRAD or making a comparison across sector when request for budget increment or cutting is made to align resources with spending needs. In short there is no way knowing technically expected impact of the spending units in question. Fourth, the determination of the total regional block and its expected outcome is not technically done although the allocation follows politically established formula (to some degree technically done). Fifth, sectoral programs which are central for line ministries are not technically linked across sectors, their formulation is not integrated in the planning process explicitly. Six, in the Agricultural sector the most important programs that constitutes nearly 90% the resources, the food security and PSN are designed to focus on vulnerability with minimal growth and development contribution specified and integrated in the two important planning and policy implementation documents (MEFF and PASDEP). Seven, there is no strong and technically competent monitoring and evaluation system at MOFED, the latter pretty much relying on the reports of spending agencies such as MoRAD which will have difficulty to say they did bad as one may presume. Given such flows in the policy, planning process, it may not be difficult to see lack of efficiency of public spending in Agriculture.

At sectoral level, as illustrated by MoRAD, the study points out the following challenges. First, activity at the MoRAD level depends on the preparation of public investment programs (PIP), similar to the fact that national level activity is rested on MEFF and its link with PASDEP, assuming the latter is perfect. Thus, the quality of the PIP preparation determines the planning and budgeting quality of the ministry. Unfortunately that process is very weak. Second, we learn from this section that once MoRAD has prepared its budget using PIP, revision dictated by MOFED is minimal – showing the importance of what MoRAD does for national and sectoral development. However, MoRAD does this planning and budgeting, including primarily PIP preparation, with no skill base to speak of and without proper technical evaluation and prioritization, paying little heed how its activity is linked with the rest of the economy and over time. Thus, if PIP is bad so is the sectors (MORAD's) plan and hence the national plan. Third, we also noted that once a decision to cut the budget of MoRAD is made by MoFED, MoRAD doesn't have a technical way or formula of picking one project/program and leaving another based on technically measured impacts. Fourth, most projects, except perhaps some donor related once, one of which is briefly appraised in the next section, that constitute above 90% of projects/programs in MoRAD are not technically analyzed and evaluated owing to lack of skill/capacity, and the sheer large number of projects. Thus, rule of thumb is the ruling, not the exception, in planning at level of spending units (MoRAD in our case). In fact, more specifically in MoRAD since an average of 90% Federal ARD projects in the last five years are directed to food security and productive safety net projects that are out of the normal planning and budgeting process, the agriculture sector is effectively not planned at all. These fundamental challenges in the efficiency of public spending in Agriculture combined with macro or national level problems alluded before, substantiated the argument that there is spending without proper planning in the country in general and the Agricultural sector in particular, and hence the sector's disappointing performance. This and related problems in the rest of the economy has reflected itself in a big gap between targets and outcomes of the PASDEP. It is imperative to conclude the study by asking what need to be done to improve the situation. The following recommendations would aid in the strengthening of the planning, policy making and budget process at the MoFED, which has implications for spending entities such as MoRAD, as well as it MoRAD itself.

Improving the process of formulation of MEFF. Linking policy, planning and budgeting is essential in the erection of an efficient and effective budgetary system. Incidentally, the tasks of planning and budgeting are carried out by the same institution: MoFED. However, merging the two institutions that used carry out the two tasks, separately, (MEDaC and MoF) resulted in long-term policy issues being sidelined. The decision to merge the two institutions has effectively undermined the role of planning and project appraisal and may have impacted on the formulation of the MEFF. Thus MoFED should give attention to the formulation and coordination of long term planning and engage the relevant stakeholders in the formulation of MEFF that is currently lacking. That would in effect allow the preparation of a feasible and credible budget on the basis of accurate forecasts of the available resources. It is also imperative that additional focus be devoted to aid coordination and harmonization in budget design, since the volatility of donor pledges has proved extremely difficult in determining the resource envelope and hence coming up with a realistic MEFF. In general, the introduction of full Medium Term Expenditure Framework (MTEF) which bridges the gap of the current MEFF, along with appropriate analytical tools would enable to facilitate decision in prioritizing expenditures based upon their outcome and impact on the productivity of the economy. This would also enable an effective monitoring and evaluation of the implementation of projects and use the feedback for future decision making about budget allocations. This cannot be done without high quality experts, with a sufficient number and competitive incentive package at MoFED and core ministries. This needs immediate action.

Improving inter-sectoral linkages and appropriate planning and budgeting at line ministries: It is apparent from the current practice that inter-sectoral linkages are not evaluated and analyzed in allocation of resources at macro level. Neither the line ministries such as MoRAD do carry appropriate economic and social appraisal and prioritization of sectoral projects and programs using proper economic tools. This not only undermines the efficiency of resource used but precludes seeing the direction to which sectors and national economy trajectories are heading. The need to immediately address these problems cannot be overemphasized.

Improving the link between capital and recurrent expenditure as well as long term (PASDEP) and medium term plans (MEFF): Capital expenditure has a direct impact on future levels of recurrent expenditure. The current rise in capital budget, as shown in this study, is worrisome in view of accumulating massive future recurrent costs. Thus during the formulation of the capital budget a careful analysis should be done to consider the sustainability of recurrent costs. This again cannot be done without high quality experts, with a sufficient number and competitive incentive package at MoFED and core ministries as noted above.

Promoting participation: It is evident that wider participation in the budgetary process considerably improves the quality of decisions and ultimately provides checks and balances in the budgetary process. Firstly, budget preparation is not only the responsibility of MoFED. Other spending organizations have an important part to play in the process as well. Concerted efforts at organizing stakeholders in the planning phases should entail alerting them to focus on government development objectives and the alignment of institutional interests to national priorities. Revenue administration is the duty of the Federal Revenue and Customs Authority that should be consulted on in the construction of the overall resource envelop. Although the role of CSO's in governance has grown, the involvement of CSOs in public finance management is limited. Thus engaging some of the CSOs in budget preparation would prove to be enormously useful. Participation also need to be also extended to research institutions and universities without their input the planning process will not be effective.

Focusing on performance. In the current practice the use of line item budgeting provides the advantage of listing expenditures according to their objectives. It helps in specifying how much money a particular spending agency or unit will be permitted to spend on personnel, other benefits, travel, equipment and so forth. It has the advantage of putting ceilings on these items in the budget allocation process and ensures that agencies don't spend in excess of their allocations. But it doesn't give information about why money was spent or on the efficiency and effectiveness of projects/programs. It is also associated with the short-term horizon and has no longer-term cost implications. It doesn't indicate the output and outcomes gained through the allocated budget. Hence it is important to re-orient the incremental input based budgeting towards target-based budgeting. This approach will improve the budget performance as measured by output indicators, unit costs and measurable deliverables, or the quality of services for a given allocation of the budget process. It is imperative to introduce performance budgeting, consequently. However, this should be preceded by the completion of ongoing expenditure management and control reform.

Sequencing Reforms. Currently the GoE is undertaking a program budgeting reform that has rolled out on pilot basis in selected federal ministries. However, one cautionary note is that imposing a new system should not exceed the capacity to absorb it. Bringing the existing system up-to-date before introducing new systems is critical. Thus, to have a successful implementation of the reform the following measures are essential prerequisites. (a) there should be firm commitment from the executive and legislative bodies, (b) there should be skilled manpower both at MoFED and spending institutions to carry out the implementation, (c)the ongoing expenditure management and control reform measures should be finalized and implemented properly at all levels. More importantly the implementation of modern and integrated IFMS is imperative. (d) The use of unit cost in the budgeting process is essential.

Improving problems in Stretching resources as well as down-top Planning, as well as delays in reporting,: - From resource, skilled labour and planning perspective the current Woreda level decentralization is costly, unmanageable and stretches limited public resources. Moreover, Woreda level information shows the dominance of top-down planning, and high expectation in outcome with inadequate inputs. This need an improvement. Government's discipline in executing budget and compliance with the existing legal framework are the major strength observed in the financial management system. However, delays in producing accurate and timely financial reports are clearly identified. Decentralization in administrative systems may have come at the cost of stretching capacity in terms of trained professionals in this regard too. Thus, more should be done in terms of training personnel at the local level with the necessary skills to produce timely financial and audit reports, at least in the short run. The use of ICT base communication and e-government for planning and budgeting is an area worth exploring.

In addition, the analysis shows the following problems associated with budget formulation and execution at the Ministry of Agriculture and Regional Development. Although this generalization may be not unique to MoRAD (and hence relevant to all ministries), there seem to be no effective planning, budgeting and policy implementation framework that link the sector with other sectors as well as inter-temporally. This challenge may be related to (and discussed at length in the section)

- Lack of skilled experts and high staff turnover.
- Weak relationship between MoFED and MoARD on technical level,
- Weak relationship between Federal ministries and the regional bureaus and down to the Woreda level.
- Not enough attention is given to planning and programming sections at ministerial levels.
- Poor quality information/data and time concept in budget preparation and.
- Poor accountability.

Urgent actions in all these are required to bring about meaningful change in the agricultural sector.

ANNEX: QUESTIONS FOR FOCUS GROUP DISCUSSION

Focus Group A: Ministry of Finance and Economic Development

a) What are the necessary considerations accounted for in the preparation of the Macroeconomic and Fiscal Framework? [Emphasis on sectoral issues]

b) How are sectoral growth targets determined? How are forecasts of revenue and expenditure made, and how does the process fare against the standard practice? (may be for our own scrutiny)

c) How is the optimal split of aggregate expenditure between Federal and Regional/Recurrent and Capital determined?

d) Once calls for Public Investment Programs have been answered, based on what criteria are investment projects, proposed by public bodies, scrutinized?

e) Can you provide us with a summary of the process involved in the preparation of the Annual Fiscal Plan?

f) What are the guidelines associated with the budget call issued by MoFED to public bodies?

g) Are the public investment program preparation manuals uniform across sectors?

h) How are budget ceilings of lagged actual expenditures justified?

Focus Group B: Ministry of Agriculture and Regional Development

a) Give us a sketch of the budget preparation process once budget calls have been dispatched by MoFED?

b) Give us a, similar, sketch of the budget preparation process once public investment calls have been dispatched by MoFED?

c) How is the optimal split of the 'proposed budget', between Federal and Regional | Recurrent and Capital, determined?

d) Does the 'subsidy formula' routinely approved by the House of Federation and MoFED and used to determine the total budget subsidy needs of Regional Governments and Administrative Councils apply to the regional disaggregation of the proposed budget by MoARD? (Are regional needs-and-gaps assessments made to determine subsidy estimates?)

e) (Or in lieu of the above) Is regional agricultural budget calculated as a sum-total of the budget needs proposed at the Woreda Bureaus of Finance and Economic Development (WoFED)?

f) The EC-CIDA funded Public Regional Public Financial management Review (2008) notes that there are significant deviations between approved and actual expenditures in all functional classifications. Are there specific procedures for adjustments in these instances?

g) How are public investment projects in agriculture chosen and how does the process fare against the standard practice? (Emphasis on categories.)

- Public investment in enhancing productivity (natural resource and environmental management, extension and TVET, agricultural marketing and cooperatives, agricultural research, improved seed development)

- Public investment in infrastructure (water resource management, rural energy and mining, federal roads, small scale irrigation, rural roads, road infrastructure, rural water supply)

Focus Group C: Sample Woreda: Adama /Adama

h) Give us a sketch of the budget preparation process once budget calls have been dispatched by MoFED, regional government and zonal levels?

i) Give us a, similar, sketch of the budget preparation process once public investment calls have been dispatched by MoFED, regional government and zonal level?

j) How is the optimal split of the 'proposed budget', between Federal and Regional | Recurrent and Capital, determined?

k) Does the 'subsidy formula' routinely approved by the House of Federation and MoFED and used to determine the total budget subsidy needs of Regional Governments and Administrative Councils apply to the regional disaggregation of the proposed budget by your Woreda? (Are regional needs-and-gaps assessments made to determine subsidy estimates and the budget to your Woreda?)

l) Is regional agricultural budget calculated as a sum-total of the budget needs proposed at the Woreda Bureaus of Finance and Economic Development (WoFED)?

m) How difficult it to realize the target given to you given the resource at your disposal? Does the target tallies to your needs? Is the planning process bottom-up or top-down?

n) The EC-CIDA funded Public Regional Public Financial management Review (2008) notes that there are significant deviations between approved and actual expenditures in all functional classifications. Is that true and are there specific procedures for adjustments in these instances?

o) How are public investment projects in agriculture chosen and how does the process fare against the standard practice? (Emphasis on categories.)
    - Public investment in enhancing productivity (natural resource and environmental management, extension and TVET, agricultural marketing and cooperatives, agricultural research, improved seed development)
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LIST OF IAES WORKING PAPERS

No	Authors	Title	No and Year
		2011	
1	Alemayehu Geda and Kibrom Tafere	The Galloping Inflation in Ethiopia: A Cautionary Tale for Aspiring 'Developmental States' in Africa	WP A01_2011
2	Alemayehu Geda, Kibrom Tafere and Melekt Amedu	Remittance and Remittance Service Providers in Ethiopia	WP A02_2011
3	Alemayehu Geda and Abrham Abebe	A Dynamic Modelling of Gebre-Hiwot Ideas: 0f Early 20th Century Ethiopia's Development Problems	WP A03_2011
4	Alemayehu Geda and Atenafu G. Meskel	Impact of China-Africa Investment Relations: Case Study of Ethiopia	WP A04_2011
5	Alemayehu Geda	Economic Ideas of Gebre-Hiwot Baykadagn (A great early 20th[1924] century thinkers, in AMHARIC)	WP A05_2011
6	Alemayehu Geda and Idris Hussein	The Potential for Intra-Africa Trade and The Supply and Demand Constraints for its Realization	WP A06_2011
7	Alemayehu Geda and Kibrom Tafere	Official Development Assistance (Aid) and Its Effectiveness in Ethiopia	WP A07_2011
8	Alemayehu Geda and Abebe Shimelesss	Trade Liberalization, Inequality and Poverty in Ethiopia	WP A08_2011
9	Alemayehu Geda and John Weeks	Growth Instability and Development Assistance among African Countries	WP A09_2011
	Alemayehu Geda and Dawith Berhanu	*Spending without Proper planning: Why Ethiopian Agriculture is not Growing Despite High Public Spending in the Sector by Africa Standard, A Macro Perspective*	WP A10_2011
	Alemayehu Geda and Dawith Berhanu		WP A11_2011
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