

Reviewing Budget of Ethiopia fiscal year (2012&2013)

Fetiya Ahmed, Meskerem Legesse

Addis Ababa University, College Of Business and Economics, Department of Public Administration and Development Management

***Corresponding Author:** Fetiya Ahmed, Addis Ababa University, College Of Business and Economics, Department of Public Administration and Development Management

ABSTRACT

This article reviews Budget of Ethiopia fiscal year (2012&2013) In order to gather relevant data different secondary sources of data were used. The collected data include the existing literatures as well as statistical reports, magazines, newsletters, manuals and guidelines. A budget is an operational plan expressed in monetary terms. Ethiopia has gone through a number of changes in budget format and also the budgeting process. To be an effective instrument of financial management, the government budget must in the first place be credible. To be credible, the expenditure program must be affordable. Therefore, budget preparation must take as its starting point a good estimate of revenue.

Keywords: Budget, Public Budget

INTRODUCTION

One of the significant developments in the intellectual history of the 20th century has been the explicit recognition by economists, politicians and the public at large of the importance of government in the operation of the economy. The public budget generally reflects the policy of the government toward the economy. According to Schick, A. (1971) Public budget is a forecast of governmental expenditures and revenues for the ensuing fiscal year, which may or may not correspond to the calendar year. Except for primitive economies, the budget is the key instrument for the expression and execution of government economic policy. Public budgets have wide implications for the national economy. By budgets governments exercise their locative, stabilization and distributive functions. Although the major budgetary decisions that affect the performance of the economy and the national debt are usually made by the central government, most countries have local or state (provincial) governments. These are responsible for the provision of various services and have the authority to raise revenues through taxation or to borrow on their own account.

A budget is one of the useful tools for monitoring the implementation of a correctly budgeted operational plan of an organization. Historically, budgets emerged out of a need to control and monitor the projected income and

the utilization of funds by entities. In line with the evolution of societies, budgeting processes underwent a number of changes both in terms of objectives and formats (Rubin IS, 1990). Budgeting as it is applied today is a product of this evolution. In this regard the review focus on a public budget; its purpose; variables that impact on an effective public budgeting. Furthermore, it provides the characteristics of public budgeting; public budgeting as a means to an end; the Ethiopian context of public budgeting. Lastly, the review provides some comments on Ethiopian actual performance of 2012/13 and budget approved for of 2013/14.

MEANING AND NATURE OF PUBLIC BUDGET

Definition of Public Budget

A public budget is a document indicating how a public entity spends the financial resources in order to realize specific public goals (Gildenhuys JSH, 1997). It is a compilation of the financial needs for the achievement of the objectives of an entity. It becomes a legal financial plan after it has been approved through the legislative process of the country. The Chartered Institute of Public Finance and Accountancy (CIPFA, 1996) also defines public budget as: "a plan quantified in monetary terms prepared and approved prior to a defined period of time, usually showing planned income to be generated and/or expenditure to be incurred

during that period and the capital to be employed to attain a given objective". For a public budget to be present, the budgeting process by government needs to take place. Its existence meant to ensure the effecting of the entity's operational plans. The next section will explain in more detail the purpose of public budgeting.

The public budget generally reflects the policy of the government toward the economy. Public budget is a forecast of governmental expenditures and revenues for the ensuing fiscal year, which may or may not correspond to the calendar year. Except for primitive economies, the budget is the key instrument for the expression and execution of government economic policy. Public budgets have wide implications for the national economy. By budgets governments exercise their locative, stabilization and distributive functions. They are, therefore, political as well as economic documents and are products of the political processes by which competing interests in any nation achieve agreement. Although the major budgetary decisions that affect the performance of the economy and the national debt are usually made by the central government, most countries have local or state (provincial) governments. These are responsible for the provision of various services and have the authority to raise revenues through taxation or to borrow on their own account.

Features and Function of Public Budget

The following are the most important features of a public budget:

- The budget, after its approval by the legislative authority, is enforceable.
- The results of most of the objectives to be realized by the budget are not quantifiable.
- The budget brings together a variety of considerations.
- As the objectives of action taken by public institution differ widely from those of private organizations, the processes for determining the content of a public budget are therefore unique.
- Authorities do not always adapt their expenditure to fit their available revenue.

It may therefore be stated that a public budget is an instrument at the disposal of the legislative authority. It enables to guide the economic, social, political and other activities of a

community in a certain direction in order to realize predetermined goals and objectives, the results of which are not always quantifiable. The budget also contains all of the measures needed to subordinate the executive authority to the legislative authority as the representative of the voters and taxpayers. The features of a public budget ensure the unique foundation on which its preparation, approval and execution are based (Savoie R: 1996).

The Functions of A Pubic Budget are

- The budget is a policy statement declaring the goals and specific objectives an authority wishes to achieve by means of the expenditure concerned. It is public policy expressed in amounts of money and is the actual embodiment of policy and of implied policy objective. In policy-making, realization of the most important objectives and aims should receive priority. As a policy-making document, the budget generally contains a definition of both the quantity and the quality of the envisaged service delivery. However, no normative guidelines exist by which priorities may be scientifically determined, thus that is the result of political expedience.
- The redistribution of wealth is one of the most important functions of a public budget. It requires that total integration should exist between the two sides of the budget—revenue policy and expenditure policy—in order to comply with a fiscal policy for the redistribution of wealth.
- For the administrative authority, the budget is a work program on which each department can base its own operational work program. This function of the budget demands that the structure of objectives, the activity schedule, the resource schedule and the financial schedule is clearly expounded in the budget documents.
- The budget serves as a source of information for everyone concerned; the information contained in the draft budget document is necessary for its consideration and, after approval, serves as the most important source of information to the administrative authority for executing its functions.
- The budget also serves as a coordinating instrument by which government activities can be integrated, because it is supposed to contain all the information on the policies,

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objectives and activities of the government in one document.

- The budget is also a control instrument to be used by the legislative authority over the executive authority and by the executive authority over the administrative authority and even for internal control within a single component of the administrative authority. Two types of administration control are important in this regard, namely, a priori control and ex post control (Ibid).

Purpose of Public Budgeting

Public budgeting is a process leading to the creation of a public budget. It is guided by the government's priorities in the delivery of services to the public. *Gildenhuis (1997)* states that: "Budgets were developed as instruments (i) for the compilation of executable programs, (ii) to serve as meaningful documents through which programs may be approved by the legislative authority and (iii) to serve as instruments of control of the execution of approved programs by the administrative authority and for the revision of programs". *Rubin (1990)* explains public budgets as follows: "Public budgets provide a powerful tool of accountability to citizens who want to know how government is spending their money and establish as to whether government has generally followed their preferences." *Rubin (1990)* further explains that budget information should not focus on informing the few but should: "at all times ensure government spending reports are easily accessible to every citizen of the country".

Public budgeting is not a set of a wish list. For a public budget to achieve its purpose, it needs to be realistically compiled with clearly defined plans to be achieved within a specified period. It should also be open to scrutiny by the public. The process that followed in setting the public budget needs to take into account the desired objectives. It also needs to consider the limited nature of the available resources. The compilation of the public budget takes place within a dynamic environment.

Variables Affect Effectiveness of Public Budgeting

In compiling a budget a number of variables that affect the budget allocations should be taken into account. Variables within the public sphere tend to impact on the decision made on budget allocations. *Howard (1973)* states that: "Budgeting more than any other

institutionalized administrative process raises key issues and brings into sharpest relief for the political decision makers the hard priority choices they must make in distributing limited resources". A number of individuals within an entity have an influence on the outcome of the budget. Moreover, the scarcity of the resources results in a number of programs or projects competing for these limited resources. *Beardon et al (2000)* states that: "The budget is the outcome of systems and relationships, through which the varying needs and desires of a nation are heard, prioritized and funded".

Public budgeting is far more constrained than business or individual budgeting. It is often compelled to strike a balance in allocating resources to all areas of society that require the services and the welfare of the government. In some instances these services and welfare are less critical yet still essential to the public. Legal obligations also compel the choices that government makes for the public at large. For instance, loans made by the previous government(s) oblige the government of the day to honor those obligations (*Rubin IS, 1990*). The public wants to see the government policies that were preserved in its election manifesto being implemented. Election manifestos hardly make mention of the constraints that government may have to face in getting the resources to deliver on its mandate. This is in part due to the limited resources and the tradeoffs that had to be made in deciding the allocations. Managing the varied demands of the public with the limited resources has proved difficult if not impossible to balance.

Characteristics of Public Budgeting

According to *Babunakis* the characteristics of public budgeting are: i) public budgeting involves a variety of actors who often have different priorities and different levels of powers over the budget outcomes. Government has a responsibility in striking the balance in its allocation and in ensuring that everybody is satisfied with the outcome. In government there is a distinction between those who pay taxes and those who decide how money will be spent – the citizens and the elected politicians respectively. Public officials can force citizens to pay taxes for servicing of the expenditure they sometimes do not want. Citizens however can vote politicians out of office if they are not satisfied with their performance.

The budget document is important as a means of public accountability. The public needs to be

able to access the document and find it easy to read. Budget documents are at times compiled in a manner that becomes difficult to hold the Government accountable, as nobody is able to understand its content. Having stressed the importance of budgeting, it is also safe to say that budgeting is not a solution to all the financial problems of an entity. Babunakis (1976) captures this fact by saying that: "Budgeting is a means of delivering value for money against a background of aims, objectives and targets. Budgeting will only fully realize its full potential if it has the support and involvement of top management, if there are strong connections between budgets, outputs and results and if it operates within a supportive central and managerial environment".

Overview of Ethiopia's Budget Practices

The budget process is guided by a directive (known as Financial Calendar) issued by the Ministry of Finance and Economic Development (MOFED) to all entities listed as public bodies. This directive has a schedule to ensure that planning and budgeting are prepared, approved, appropriated and executed accordingly. Budget preparation is guided by a document known as Macro-Economic and Fiscal Framework (MEFF) prepared by MOFED. The MEFF provides, among others, forecast of government revenue and expenditure, expenditure financing, the split of aggregate expenditures between federal and regional, and the split of federal expenditures between recurrent and capital for the next three years. Based on this 3 year MEFF, MOFED prepares annual fiscal plan by January 24, which includes identification of the amount of resources (foreign and domestic) known as the resource envelop, the amount of money needed know as the expenditure requirement, setting the block grant amount for regional governments and administrative councils from all sources (domestic and foreign), and spilt the federal share between capital and recurrent budget. Following this MOFED prepares the totals of the annual subsidy budgets and notifies the regional governments and administrative councils by February 8 at the latest. This is the starting point of the budget preparation.

Ethiopia's budget process has conducted following four stages at all level of jurisdiction (Federal, Regional, and Woreda government. These are: 1) budget preparation, 2) budget approval, 3) budget implementation, and 4) budget control (*MoFED Report 2012*).

Accordingly the budget preparation stage has also four phases. **Firstly**, all public bodies are required to perform all budget preparation activities including mid-year program review for the current fiscal year, preparation of unit costs and work plan for the upcoming fiscal year. This phase facilitates the second phase, the submission of budget request on time. The **second phase** of budget preparation includes a budget call letter issued by MOFED/BOFED to all public bodies. The budget call letter includes recurrent and capital expenditure budget ceilings, priority or focal areas to be considered in preparing the budget, submission date of the budget request by public bodies to the respective finance and economic development institutions at all jurisdictions. Public bodies are required to respond to the budget call by preparing their budget according to the guidelines with their action plan. If a public body fails to submit its budget request with the time specified in the budget call letter, MOFED/BOFED shall recommend a public body's budget based on the information available before. The **third phase** is conducting a budget hearing of the public bodies with MOFED/BOFED. Based on this discussion and government policies and priorities, total expenditure ceiling, allocated ceilings for each public body; the requested budget will be reviewed, adjusted and consolidated for each entities separately. The fourth phase is summarization of the recommended budget by MOFED/BOFED/woreda to be presented to the executive body, Council of Ministers, Regional Council, and Woreda Council. The executive body at all level can review and recommend the budget.

The second stage of the budget process/cycle is budget approval and appropriation. After the recommended budget is reviewed and adjusted by the respective executive body at all levels, it is then presented to legislative bodies of the federal house of people's representatives, regional house of people's representatives, and woreda house of people's representatives for approval of the budget and annual appropriation of the approved budget at all levels. These, legislative bodies review, amend, and approve the budget.

The third stage is budget execution. Once the budget is approved and appropriated by the legislative bodies of the respective levels, MOFED/BOFED prepares the budget allocation guideline and the notification to public bodies indicating the source of finance and line item of expenditures for the disbursement of the

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approved budget. Then after, the public bodies use the budget to carry out their activities for the year.

The last stage of Ethiopian budget cycle is budget control. At this stage the performance review will be conducted on each quarter by MOFED/BOFED and also by all public bodies too. It helps all the offices to understand their weakness in advance and to ensuring whether the revenue utilization is according to rules and regulations, the disbursement is made according to budget, public property is kept safe, and also the recording and accounting procedures are up to the required standard. The office of the general auditor is in charge of auditing public bodies and presents its findings before the House of Peoples Representative.

Comment on Actual Performance of 2012/13 and Budget Approved for of 2013/14

Expenditure Allocations and Other Management

As to MoFED report, recent trends in budget aggregates show continued improvement in Ethiopia's fiscal performance. Public Expenditures have declined while public revenues have increased the fiscal deficit has improved steadily. For sectorial expenditure allocations, a greater share of the total is going to education, health and roads sectors. However, the share of public expenditure going to education, Health and Agriculture has been declining for this budget year. It should be noted that a more realistic fiscal deficit figure, before grants, would be one that adjusts for the "grant equivalent" of concessional loans when examining fiscal targets. Expenditure Management remains a central component of ongoing Civil Service Reforms in Ethiopia. Significant achievements have been made in the

closure of public accounts and in formulating the legal framework for expenditure management and control in Ethiopia, which is commendable.

There remains the need for better coordination and synchronization of the ongoing activities by the authorities on the implementation of a Medium Term Expenditure Framework (TEF), Public Investment Program (PIP) and the Sector Development Programs (SDPs). Better budget preparation through adherence to a clearly defined budget calendar is also imperative. There is also the need for a coherent basis for the calculation of unit costs and budget norms to be used in budget preparation. Development of a civil service of appropriate quantity and quality is critical to ensure the successful implementation of envisaged SDPs in Ethiopia.

The implication of Federal-Regional fiscal relations needs to be examined in greater depth. This includes an assessment of the inter-governmental grant regime and finding ways of better management of the "budget offset" through improved aid management, better in-year budgetary control, and greater clarity in how the system operates including what expenditures are classified as public expenditures.

The Government's commitment towards maintaining fiscal discipline is clearly exemplified by improved fiscal performance over the past two years (see Table 1). There has been a steady increase in total revenue from a low figure of 85.6 billion birr in 2011/12 rising to 115.5 billion birr in 2012/13. At the same time, total expenditures have only marginally increased from 93.8 billion birr in 2011/12 to 124.4 billion birr in 2012/13.

Table 1. Government Revenue and Expenditure (in billion birr)

Description of Revenue and Expenditure	Actual 2011/12	FY 2012/13		Budget 2013/14	%age increment of 2012/13 actual performance from actual of 2011/12	%age increment of 2013/14 budget from actual performance of 2012/13
		Budget	Actual			
Total Revenue and Grants	85.6	96.4	115.6	154.9	35.05	34.00
Domestic Revenues	69.1	74.8	102.8	138.9	48.77	35.12
Tax Revenue	58.9	63.5	85.7	119	45.50	38.86
Non-Tax Revenue	10.1	10.9	17.1	19.9	69.31	16.37
Grants	16.4	22.3	12.7	16.0	-22.56	25.98
Total Expenditure	93.8	106.1	124.4	96.8	32.62	-22.19
By nature of expenditure						
Recurrent Expenditure	40.5	45.2	51.4	32.5	26.91	-36.77

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Capital Expenditure	53.2	60.9	72.9	64.3	37.03	-11.80
Subsidy	8.1	10.1	13.2	58	35.05	-
Overall deficit	(13.2)	(9.1)	(8.7)	-		-

Source: MoFED, 2012

Domestic Revenue

As indicated in the table, domestic government revenue has increased from Birr 69.1 billion in 2011/12 to birr 102.9 billion in 2012/13. Not only has domestic revenue of the government been increasing in absolute terms, but its share in total government revenue has also been showing an upward trend. The share of domestic revenue of the government in its total revenue has reached 89 percent in 2012/13 from 81 percent in 2011/12. The implication is that the government is increasingly relying on the more reliable domestic sources for its revenue.

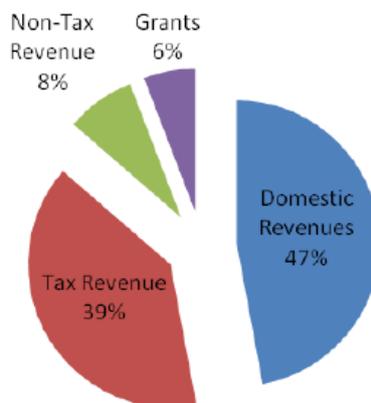
Tax Revenue

In 2011/12 and 2012/13, tax revenue collected amounted to birr 59 billion and birr 85.7 billion, respectively. Tax revenue collected in 2012/13 is higher than its planned target by about 35

percent, while it is higher than the performance in the preceding year by over 45 percent. In addition the budget amount approved by 2013/14 for tax revenue is almost double of the amount collected in 2011/12, which was only 58.3 billion birr. The primary factors for improvement of the tax revenue amount are relayed on effective administration of the tax system and the education and engagement of the tax payer's community.

The share of tax revenue in total government revenue was 39 percent in 2012/13. Likewise the share of tax revenue in total domestic revenue increased from 80.4 percent in 2010/11 to 85.3 percent in 2012/13 and to 83.4 percent in 2011/12. These trends indicate that the government is increasingly relying on the more reliable tax revenue as a source of its income.

Government Revenue in 2012/13



Source: MoFED, 2012

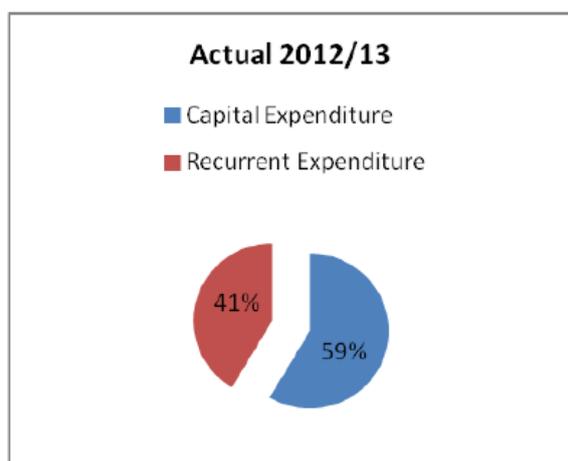
Diagram 1. Government revenue 2012/2013

Public Expenditure

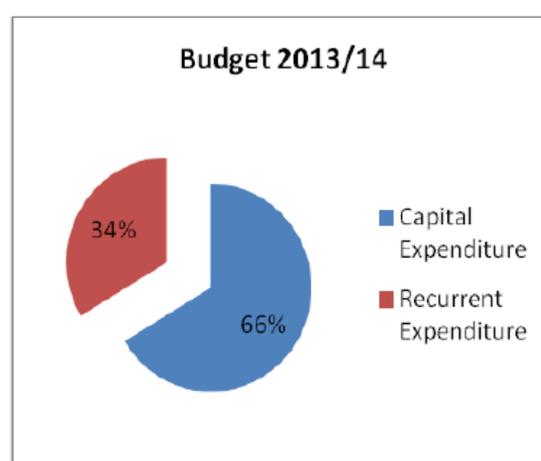
The Ethiopian public expenditure policy focuses on investing on growth enhancing pro poor sectors and covering recurrent expenditure from domestic resources. The policy also emphasizes the significance of eventually covering the government's capital spending from domestic resources. Moreover the policy emphasizes efficiency and effectiveness in the use of available resources. According to MoFED report, the major assumptions that have been considered in the course of allocating recurrent expenditure budget in 2012/13 and 2013/14 are the previous year budget performance,

estimation about the following year public service expansion, and the price developments. The allocation of capital spending emphasized primarily on giving priority to ongoing projects. In addition the capital expenditure allocation accommodated new selected investment projects that are given priority in the overall development polices and strategies of the country like expansion of regional universities. Moreover, the capital expenditure allocation focused on the growth-enhancing pro-poor sectors of agriculture, food security, water, education, health, road, and rural electrification programs.

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Source: MoFED, 2012



Source: MoFED, 2012

Diagram 2. Distribution of Total Government

During 2012/13, total government expenditure has increased to birr 124.4 billion from 93.8 billion in 2011/12. Out of the total government expenditure, birr 51.4 billion or 41 percent is spent on recurrent expenses, while the remaining 73 billion or 59 percent of the total expenditure is spent on capital expenditures. In the same way for budget year 2013/14, of the total expenditure without considering regional subsidy, birr 32.5 billion or 34 percent is budgeted for recurrent expenditure while the remaining 64.3 billion birr or 66 percent is

budgeted for capital expenditure for the year. This spending and budgeted amount pattern is consistent with the stated fiscal policy of the government. For the budget year 2013/14, the recurrent and capital expenditure have decreased from the actual performance of year 2012/13. This indicates that even though the economy operated under tight fiscal policy, the capacity and commitment of the government to invest on national development programs has been sustained remarkably.

Table 2. Pro poor Government spending (Billion Birr)

Description of Expenditure	Actual 2011/12	FY 2012/13		Budget 2013/14	% of budget increment from actual performance of FY 2012/13
		Budget	Actual		
Total Expenditure	93.8	106.1	124.4	96.8	-22.19
Capital Expenditure	53.2	60.9	72.9	64.3	-11.80
Recurrent Expenditure	40.5	45.2	51.4	32.5	-36.77
<i>Education</i>	23.3	24.5	29.7	22.4	-24.58
<i>Health</i>	6.3	7.0	7.6	4.5	-40.79
<i>Agriculture</i>	8.2	13.1	11.0	6.6	-40.00
<i>Water</i>	5.5	5.7	10.1	11.0	8.91
<i>Roads</i>	18.9	21.7	28.8	33.5	16.32
Poverty Target Expenditure	62.3	72.1	87.5	78.1	-10.74

Source: MoFED, 2012

When we analyze the actual expenditure of (2012/13) and budgeted amount (2013/14) of the total expenditure about 70.4 percent or 87.6 billion and 81.2 percent or 78.1 billion birr budgeted for expenditure related to growth-oriented pro poor sectors. However, in contrary for the budget year 2013/14, the budgeted expenditure for growth oriented pro-poor sectors has decreased by 22 percent with that of the actual expenditure in 2012/13. As to MoFED's justification, the decrease in budget for growth

oriented pro poor sectors reflects that most of the projects are under commitment and also more of the projects are related Millennium Development Goals which is under completion.

CONCLUSION

A budget is an operational plan expressed in monetary terms. Ethiopia has gone through a number of changes in budget format and also the budgeting process. To be an effective instrument of financial management, the

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government budget must in the first place be credible. To be credible, the expenditure program must be affordable. Therefore, budget preparation must take as its starting point a good estimate of revenue. although the revenue estimate may change before the budget is finalized in order to produce a consistent revenue-expenditure package. To meet the government's objectives, the budgeting system must provide a strong link between government policies and the allocation of resources through the budget. Because most of these policies cannot be implemented in the short term, the process of preparing the annual budget should take place within a fiscal perspective several years into the future.

RECOMMENDATION

The future is inherently uncertain, and the more so the longer the future period considered: the general tradeoff is between policy relevance and certainty. An overoptimistic budget also leads to accumulation of government payment arrears, which create their own inefficiencies and destroy government credibility. Clear signals on the amount of expenditure compatible with financial constraints should be given to spending agencies at the start of the budget preparation process. During budget execution, no satisfactory way exists to correct the effects of an unrealistic budget.

Finally, selective cash rationing politicizes budget execution, enables corruption, and often substitutes suppliers' priorities for program priorities. Such an approach has recently come to be known as *cash budgeting*. Consultations can strengthen legislative scrutiny of government strategy and the budget. Legislative hearings through committees and sub-committees, particularly outside the high-pressure environment of the annual budget, can provide an effective mechanism for consulting widely on the appropriateness of policies.

The government should try to get feedback on its policies and budget execution from the civil society. Consultative boards, grouping

representatives from various sectors in society, could discuss government expenditure policy. On crucial policy issues, the government could set up ad hoc groups. Preparing evaluation studies, disseminating them, conducting surveys, and so forth provide information to stakeholders and the civil society and help the government receive reliable feedback. User surveys and meetings with stakeholders and customers when preparing agencies' strategic plans or preparing programs can enhance the effectiveness of such plans or programs. Finally, there should be effective budget execution and monitoring mechanisms to have feedback from the citizens. Such mechanisms are remarkably cost-effective and efficient to get the citizen's feedback and utilize for the next budget process.

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