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**PFM CAPABILITIES
ASSESSMENT REPORT SERIES
NO. 3**



**Institutional and personnel
capabilities for programme
budgeting and monitoring
in Ethiopia**

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Acknowledgements

This report was written by Dr Biniam Bedasso from the CABRI Secretariat. The fieldwork and validation were conducted by Econ Insight Consultancy and Fekadu Berhe. Comments were provided by Dr Philipp Krause of the CABRI Secretariat. CABRI extends its gratitude to the team of officials from the Ministry of Finance and the Planning and Development Commission who helped facilitate the review from its inception as well as to all key informants and survey respondents for their participation in the study. The CABRI Secretariat also expresses its gratitude to the Bill & Melinda Gates Foundation for their invaluable support.

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Executive summary

The next fiscal year will mark the 10-year anniversary of the full-scale implementation of programme-based budgeting across the federal government in Ethiopia. This milestone coincides with the government's efforts to ramp up preparations to roll out PBB in several regional states. As a reform exercise that tends to transfer more ownership to budgetary organisations, the success of PBB depends on the planning and monitoring capabilities of spending entities as well as macro-level institutions.

This report aims to examine the state of institutional and human-resource capabilities for programme planning and monitoring in Ethiopia in the context of the rollout of PBB and the extra demand such reform may place on those capabilities in budgetary organisations.¹

The report is set against a backdrop of increasing public concerns regarding worsening audit outcomes across federal institutions. As such, it had its origin in the long-standing interest within the Ministry of Finance (MoF) to obtain further understanding of the underlying capabilities the absence of which may have impacted the effective implementation of PBB and contributed to deteriorating audit outcomes. However, the report does not attempt to directly assess the level and rigour of the actual implementation of PBB at the federal level.

The Government of Ethiopia has been engaged in a series of public financial management (PFM) reform activities that have been rolled out in a phased and incremental fashion. The substantial growth the economy has registered over the past few decades and the corresponding expansion in government activities also meant that the PFM reform space needed to accommodate emerging challenges. However, despite the increasing importance of the programme planning and monitoring functions within spending entities, there is little systematic review of the capabilities of ministries, departments and agencies (MDAs) to carry out those responsibilities.

CABRI has conducted a review of the programme planning and monitoring capabilities of federal and subnational entities at the request of the MoF and in collaboration with a team of officials from the ministry who were tasked with investigating factors affecting the effectiveness of PBB reform at the

federal level. The review consists of extensive interviews with 24 key informants from 10 federal and subnational entities who are responsible for planning, budgeting, monitoring and evaluation (M&E) and oversight functions. The key informant interviews focused on organisational and systemic capabilities for programme planning and monitoring. The qualitative interviews are supplemented with a quantitative survey of 200 planning, budgeting and M&E officials from 18 federal and subnational entities covering the subjects of personnel capabilities and reform experiences. The key insights from the review are summarised below.

At the level of macro institutions that are responsible for top-down programme planning (such as the MoF and the Planning and Development Commission), the weaknesses in analytical capabilities pertain to the lack of rigorous models and scenario-planning exercises that would help increase the readiness to respond to the effects of changing economic situations ex-ante. There are also significant gaps in the quality of information macro-level institutions receive from MDAs as part of the programme planning and budget formulation processes. However, MDAs, on their part, complain that the information requirements of supervising institutions can be onerous because multiple agencies have disparate templates and guidelines, exerting pressure on their personnel resources. When it comes to training provided by the MoF, while the budget formulation component of the training has been well developed, capacity building to MDAs on programme planning remains inadequate.

A case study of the Federal Ministry of Health (FMoH) reveals that, through extensive and iterative process, the ministry appears to have built strong capabilities to coordinate the planning of health sector programmes across various tiers of the federal system with a view to maintaining a coherent national policy framework. Regardless of the well-oiled planning machine that characterises the health sector, however, budget execution can suffer due to inadequate allocation through the government budget to cover personnel expenses such as per diem and travel allowances. A review of the planning capabilities of the Ethiopia Roads Authority (ERA) shows that, despite the routine application of feasibility criteria for project selection, social and political considerations remain an essential component of decision

1 The scope and definition of capability as employed in this project is broad enough to encompass both the narrow notion of capacity (i.e. volume of inputs such as human resources and information communication technology systems) and the more intangible conceptualisation of capability (i.e. the efficiency and effectiveness of organisations in using these inputs to achieve their objectives).

making in the case of high-stakes projects such as major road construction.

The experience of Addis Ababa University shows that chronic delays in project completion and unplanned spending due to emergency expenditures keep more projects in the pipeline than the MoF can budget for. This means budget execution challenges eventually spill over into the planning realm, creating a vicious cycle of project delays and unrealistic plans. The case study of the Authority for Research and Conservation of Cultural Heritage (ARCCCH) provides corroborating evidence on the impact of capital project delays on subsequent planning in a high-inflation environment and especially for organisations with limited bargaining power.

Key performance indicator (KPI) data provided by MDAs as part of the budget formulation and reporting processes remain scanty. This is mainly because there is a lack of capabilities and resources at the MDA level to collect and analyse data for a reliable system of KPIs. However, the case of the FMOH demonstrates that a combination of a well-established monitoring technology and sufficient coordinative capabilities could help create a robust framework of KPIs. Sometimes, as in the case of ERA, even though there is a substantial amount of data collected at the project level, at the programme level, KPIs might remain poorly developed and not clearly laid out in the annual budget.

Some key informants commented that the lack of decisive and timely action by management in response to monitoring information could ultimately reduce the incentive to improve M&E capabilities. This is not limited to internal monitoring, however. In regard to audit findings as well, weak enforcement of corrective actions at both political and administrative levels seems to leave some organisations trapped in a perpetual cycle of adverse findings and inadequate follow-up. In some of the case study organisations, donor-funded projects can fall outside the purview of the regular M&E structure.

When it comes to oversight capabilities, the Office of the Federal Auditor General has continued to build its capabilities to carry out the external control function despite significant challenges in attracting and retaining suitably qualified auditors. At the regional level, the case study of the Oromia

Regional State Council demonstrates that better recognition of the role of the Budget and Finance Standing Committee has enhanced the legislature's oversight function. However, the effectiveness of the committee's work is adversely affected by the severe shortage of expert staffers to assist the members as well as the lack of tailormade training to committee members on technically demanding public finance issues.

The results of the personnel survey show that, although reported levels of motivation among planning, budget and M&E personnel in sample institutions are relatively high, there is little evidence that the public sector is competitive enough to attract employees as a preferred option and retain those with outside alternatives for a long time. The lack of professional growth opportunities and low salary are found to be two of the strongest predictors of potential turnover of staff across planning, budget and M&E units. A sizeable portion of the units in areas such as planning that require specialised technical expertise suffer from significant skills mismatch. However, a great majority of interviewed officials reported that their units/organisations offered on-the-job training. As might be expected, the personnel capabilities of regional administrations are generally weaker than federal central finance agencies (CFAs) or MDAs.

Finally, a review of the reform ecosystem in planning, budget and M&E units across 18 institutions reveals that superior government agencies are generally considered the foremost source of reform ideas. The very small share of officials who identified consultants and development partners as the primary originator of ideas signifies the relative autonomy of PFM institutions in setting the reform agenda. As far as process is concerned, the results show that structured internal reviews are the most commonly used process to drive reform, particularly in CFAs and federal MDAs. Close to half of sample respondents reported a significant proportion of work in their organisations was done in cross-department teams. Overall, mutual exchange and learning between teams as well as successful application of best practices were identified as the two most common drivers of improved performance in planning, budget and M&E units.



1 Introduction

The capabilities of public sector organisations to properly plan and monitor their activities have become even more crucial for effective service delivery and government efficiency with the rising popularity of programme-based budgeting (PBB). Ethiopia adopted PBB almost a decade ago across all federal government institutions, shifting more planning and monitoring responsibilities towards spending entities. Preparations are under way to launch PBB in a number of selected regional and city administrations. Against this backdrop, the current report aims to examine the state of institutional and human-resource capabilities for programme planning and monitoring in Ethiopia in the context of the rollout of PBB and the extra demand such reform may place on those capabilities in budgetary organisations.

Despite the official adoption of the formal rules and procedures of PBB at the federal level, there are several unanswered questions regarding the level and rigour of implementation of the reform as well as compliance by involved parties. Moreover, there is increasing public concern regarding worsening audit outcomes across federal institutions, part of which may have been attributed to gaps in the implementation of PBB. Therefore, it was imperative that an in-depth review of the underlying capabilities that are key to the success of PBB be conducted. This report is the result of a review conducted by CABRI in partnership with the Ministry of Finance (MoF) of the Federal Democratic Republic of Ethiopia, and constitutes part of a broader effort by the government to understand factors affecting the effectiveness of PBB reform at the federal level.

The scope and definition of capability as employed in this project is broad enough to encompass both the narrow notion of capacity (i.e. volume of inputs such as human resources and information communication technology systems) and the more intangible conceptualisation of capability (i.e. the efficiency and effectiveness of organisations in using these inputs to achieve their objectives). Further to the basic conceptualisation of capabilities, the report is informed by the functional classification of state capability provided in Lodge and Wegrich (2014) as delivery capability, coordinative capability, regulatory capability and analytical capability. This means the programme planning and monitoring capabilities of macro-level institutions and spending entities are examined from the point of view of the analytical, regulatory and coordinative functions they fulfil.

The review consists of extensive qualitative interviews with 24 key informants from 10 federal and subnational entities that are responsible for planning, budgeting, monitoring and evaluation (M&E) and oversight functions. The key informant interviews focused on organisational and systemic capabilities for programme planning and monitoring. The qualitative interviews are supplemented with a quantitative survey of 200 planning, budgeting and M&E officials from 18 federal and subnational entities covering the subjects of personnel capabilities and reform experiences. A detailed account of the methodology used for the review is provided in Appendix 1.

The report highlights the constraints in the capabilities of macro-level institutions to carry out their top-down planning and monitoring functions. It also presents four case studies representing various types of federal ministries, departments and agencies (MDAs) in terms of size and complexity of budgets. The MDAs covered by the case studies are i) the Federal Ministry of Health (FMoH), ii) Ethiopia Roads Authority (ERA), iii) Addis Ababa University, and iv) Authority for Research and Conservation of Cultural Heritage (ARCCH). The case studies shed light on systemic and organisational capabilities that are deemed to have led to good practices in programme planning and monitoring. They also attempt to untangle some of the endogenous and exogenous factors that may have led to poor planning and inadequate monitoring of budgetary programmes. In addition to the four MDAs, the report also presents the cases of two oversight bodies to highlight the role such capabilities play in reinforcing planning and monitoring functions. The report attempts to tackle the organisational and personnel aspects of capabilities separately although an attempt is made to weave together the two dimensions when possible.

The rest of the report is organised into eight sections. Section 2 furnishes a brief background to Ethiopia's economy and PFM reform history. Section 3 presents the results of the organisational review into programme planning capabilities. Section 4 is dedicated to monitoring capabilities whereas section 5 deals with oversight capabilities. Section 6 shifts the focus to human-resource capabilities by presenting key results from the personnel survey. Section 7 provides survey findings on the reform ecosystem and practices of federal and regional institutions. Section 8 brings together some of the most salient findings of the previous sections to further analyse and interpret the evidence using a specific lens of state capability. Section 9 concludes.

2 Background

Economic context

Ethiopia is the second most populous country in Africa with the fourth largest economy in Sub-Saharan Africa. The country has registered one of the highest overall economic growth rates over the past decade and a half. During those years, there has been a decisive shift in focus towards infrastructure spending with the aim of spurring growth through government spending and the resultant improvement in productivity. However, Ethiopia remains one of the poorest nations in the world, with per capita income of US\$602 (US\$2,221 in purchasing power parity terms) as

of 2019 despite significant gains in recent years in terms of reducing headcount poverty measured against the national poverty line.

The state-led effort to increase productive capacity and social sector investment has, to a certain extent, come at the expense of macroeconomic stability as evidenced by the relatively high rate of inflation (Table 1). Moreover, public debt has been mounting over the past decade, forcing the government to consider stabilisation measures in recent years.

Table 1: Key economic indicators

| | Average 2015–2019 or most recent year | Years covered | Source |
|---|--|-------------------|------------------------------|
| GDP growth | 8.91 | 2015–2019 average | World Development Indicators |
| GDP per capita (constant 2010 US\$) | 602.6 | 2019 | World Development Indicators |
| GDP per capita, PPP (constant 2017 international \$) | 2221.4 | 2019 | World Development Indicators |
| Poverty headcount | 23.5 | 2015 | World Development Indicators |
| Inflation | 11.3 | 2015–2019 average | World Development Indicators |
| Debt to GDP ratio | 58.5 | 2020 | International Monetary Fund |

History of PFM reform

The Federal Government of Ethiopia has been engaged in a series of PFM reform activities since 1996 when a comprehensive package of civil service reform was introduced by the transition administration. The overarching framework of civil service reform rested on five pillars formulated as sub-programmes: expenditure management and control; service delivery; top management systems; human-resource management; and ethics. Most of the PFM reform agenda falls under the expenditure management and control sub-programme which is further divided into a range of projects, including: legal framework, budget reform, cash

management and disbursement reform, accounts reform, public procurement reform, public property management reform, internal audit reform, information technology reform, financial transparency and accountability, accountants' and auditors' profession reform and external audit reform.

The government adopted a largely incremental approach to implement PFM reform in multiple phases. Peterson (2001: 134) describes the three-step approach to PFM reform in Ethiopia since the late 1990s and into the early 2000s as follows: "the first step is to promote widespread *comprehension* of existing systems. The second step is to *improve* existing systems to make them more efficient. The third step is to *expand existing* systems by introducing new

features that can make them more effective” (emphasis in the original). In the realm of budgeting system reform, the phased approach meant that, until 2004, the emphasis remained on improving the functionality of line-item budgeting before introducing new features such as performance budgeting. Moreover, regional administrations which were set up in the second half of the 1990s have been given more time than the federal government to acquire basic capabilities and attain sufficient functionality before embarking on demanding reforms.

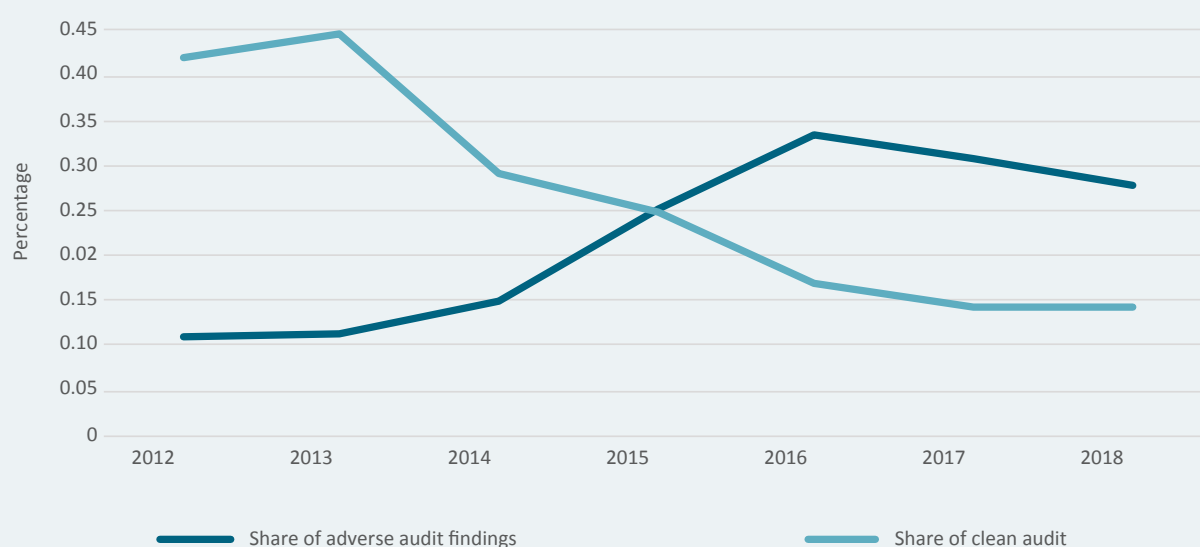
PBB implementation

The federal government began transitioning into PBB in the 2005/06 fiscal year with pilot initiatives implemented in a few federal public entities. This was then followed by all federal public bodies implementing programme budgets on an experimental basis in 2009/10 and 2010/11. Since 2011/12, PBB has been adopted by all federal agencies in its full-fledged form. A few regional states and city administrations, including SNNPR² and Addis Ababa, have been experimenting with PBB while awaiting preparations to be completed for a full rollout at the subnational level (MoFEC 2018).

The background work for this report included a focus group discussion with MoF officials to take stock of the state of implementation of PBB. The discussion indicates that, regardless of plans to scale up the rollout of PBB to regional states, no rigorous review has been conducted so far to establish the effectiveness of the reform in meeting its objectives at the federal level. However, officials at the MoF point to inadequate planning capabilities that often lead to unrealistic targets and compliance-oriented internal and external audit systems as two of the challenges bedevilling the effectiveness of PBB across federal entities.

One of the indicators public finance officials cite to underscore their concerns regarding the effectiveness of PBB in improving accountability is audit findings by the Office of the Federal Auditor General (OFAG). Figure 1 presents the trend of clean audit versus adverse findings in the years since the full-scale implementation of PBB across the federal government. The declining share of clean audit and increasing share of adverse audit findings are likely to have been caused by two major factors: the rise in the number of complex capital projects implemented by federal public bodies in recent years and the lack of internal control and monitoring capabilities matching the flexibility brought about by the adoption of PBB.

Figure 1: The evolution of audit findings over the period of PBB implementation



Source: Compiled by author based on OFAG annual reports

2 Southern Nations, Nationalities and People's Region

3 Programme planning capabilities

The use of the budget as a planning instrument, instead of a means of control and management, is considered the hallmark of the shift to PBB (Schick 1966). The fiscal policy handbook of the Ministry of Finance and Economic Cooperation of Ethiopia also highlights that “PBB has the potential to inject more strategy into budgeting and more fiscal constraint into planning” (MoFEC 2018: 13). As such, the planning capability of MDAs is a critical element of the transition from line-item budgeting to PBB. This section presents key findings of case studies on programme planning capabilities in macro-level institutions such as the MoF, Planning and Development Commission (PDC) and Addis Ababa Bureau of Finance and Economic Development (AABoFED) as well as a sample of MDAs. Four MDAs were selected to represent various cross-sections of supervising ministries, agencies and frontline service delivery institutions: the FMoH (major ministry running complex programmes), ERA (agency responsible for the largest slice of federal budget), Addis Ababa University (frontline service delivery institution) and ARCCCH (medium-size agency with moderate budget).

Macro-level planning and budgeting capabilities

The top-down process of programme planning and budget formulation is the responsibility of macro-level institutions including the MoF, the PDC and the regional bureaus of finance and planning. The MoF is responsible for estimating the resource envelope based on revenue data from the Ministry of Revenue and the treasury. Most of capital expenditure planning is done at the PDC. The PDC chooses projects as budget candidates and the MoF decides on allocation based on the government’s priority on an annual basis. At the subnational level, regional bureaus of finance are responsible for allocating the block grant to sectors.

As far as macro-level institutions are concerned, the main classes of capabilities required to carry out the planning and budgeting functions are analytical and coordinative. The National Accounts unit employs simple trend regressions and growth projections to determine nominal GDP numbers that the MoF uses for revenue forecasting. In the absence of reliable data on tax bases, most of the forecasting is undertaken using projected nominal GDP growth and the respective tax elasticities/buoyancies (see Geda and Birhanu 2011). This makes the revenue forecasting process sensitive to the accuracy of the technical specifications of the models

used for projection. The key informant from PDC indicates that data are not as much a problem in the macro-forecasting process as robust and dynamic models that are accurately reflective of the Ethiopian economy.

Considering the characteristics of Ethiopia’s economy as vulnerable to international market fluctuations, domestic macroeconomic instability and environmental risks, budget execution can be subject to an uneven trajectory over the course of the year. A systematic effort to mitigate the impact of such risks and uncertainties should begin with the planning process. The current practice, according to PDC, is to conduct a periodic review of macro and global risks and uncertainties through a committee composed of macro institutions. However, there is no indication of the existence of capabilities for more systematic risk analysis processes such as scenario planning.

Apart from macroeconomic analysis and forecasting, macro-level institutions are also expected to conduct expenditure analysis. This is particularly the case in subnational administrative units that have not yet implemented PBB. The AABoFED has not updated the expenditure analysis it uses for planning in some years. This is due to the lack of internal personnel capacity for tasks beyond day-to-day routine assignments. The federal-level macro institutions that have adopted PBB expect budgetary MDAs to conduct their own analysis in identifying programme priorities. However, the MoF indicates that there are no strong incentives for MDAs to conduct rigorous analysis to assign scores for competing priorities with respect to criteria such as growth potential and environmental sustainability.

The coordination function of the macro-level institutions in the budget planning and formulation process pertains to the gathering of inputs, requests and reports from MDAs. In this regard, individual macro institutions appear to have sufficient capabilities to run the process pursuant to the annual budget calendar. However, from the point of view of MDAs, the lack of cohesiveness in the planning and reporting dimensions of the process creates inefficiencies as they are often expected to complete multiple templates for various supervisory bodies. In this light, the ambition to achieve “one plan one budget”, as expressed by PDC, is going to require more robust coordinative capabilities involving key institutions such as the MoF, PDC, parliament’s standing committee and Civil Service Commission.

The other function that is often carried out by macro-level institutions in relation to planning and budget formulation is capacity building of MDAs. The MoF, in partnership with the Civil Service University, has built core capabilities to provide trainings on planning and budget formulation on a regular basis. However, the failure of MDAs to delegate appropriate and qualified staff for the training can significantly undermine the effectiveness of the capacity-building exercise through a domino effect of mediocre transfer of knowledge to downstream operators in MDAs. Moreover, while the budget formulation component of the training has been well developed, the key informant from PDC acknowledges that capacity building to MDAs on programme planning remains inadequate. This is reinforced by the key informant from the MoF who believes MDAs could benefit greatly from training on harmonising plans and budget.

Most of the capabilities for budget planning and formulation discussed above are to some extent a function of the human-resource capacity of the macro-level institutions responsible for those functions. The budget directorate of the MoF currently has in place only half of the approved number of staff. This shortage of staff is further exacerbated, at least temporarily, as some junior employees work reduced hours because they enrol in postgraduate programmes. Except for sporadic efforts for capacity building initiated by individual staff or external technical assistance, there appears to be no structured and continuous capacity building to keep staff of the budget directorate abreast of new developments in the field. The lack of dynamism in internal capacity building seems to be shared by the PDC as they admit having to rely on consultants for tasks that may require innovation largely because the required skillsets are scarce in-house. As far AABoFED is concerned, at the core of the human-resource challenges of their planning unit lies the lack of transparency in promotion which is believed to have fuelled the high turnover of staff.

Sector-level and downstream planning capabilities: Case studies

Federal Ministry of Health

The FMoH is responsible for formulating and overseeing the implementation of national health policy in partnership with regional bureaus of health. As an organisation tasked with running complex programmes that are at the heart of global and national development goals, the FMoH undertakes extensive planning involving myriads of stakeholders ranging from local government to development partners. As such, the ministry has been experimenting with ways to create better harmonisation between plan and budget since 2007. Through an extensive and iterative process, the ministry appears to

have built strong capabilities to coordinate the planning of health sector programmes across various tiers of the federal system with a view to maintaining a coherent national policy framework. There is strong emphasis on the “one plan, one budget, one report” principle in terms of sticking to a sector-wide strategic plan and having the budget reflect the plan.

The FMoH employs standard tools and frameworks for planning such as Balanced Scorecard and Strategic Project Management. The planning process includes preparing detailed activities and financing requirements for each programme in each *woreda* (district) and institution. At the start of the cycle, the ministry provides a planning template and guidelines that will be used by all parties, whereas planning begins at the *woreda* level and goes up to the federal ministry level after various stages of aggregation. The ministry also offers training of trainers to representatives from regional bureaus of health who in turn adapt the planning template to their region’s context and provide training at the *woreda* level. The resource mobilisation plan normally includes the contribution of development partners to each programme at the *woreda* level. Once the plans are aggregated all the way to the national level, the respective director at the ministry will evaluate the plans for feasibility and coherence.

One of the most notable aspects of the planning process adopted by the FMoH is the extent to which it has managed to build a nationally cohesive health sector planning process around the peculiar features of a federal system which puts emphasis on subnational autonomy. This is regardless of the difference in the budgeting systems currently employed at the federal and subnational levels. The coordinative capabilities of the ministry are instrumental in managing the process vertically, involving various tiers of the federal system, as well as horizontally across multiple local and international stakeholders. One of the mechanisms with which the sector attempts to reconcile the need for national policy cohesion with the constitutional imperative of regional state autonomy is a joint steering committee of FMoH and all regional health offices that convenes every two months to deliberate on strategic matters and to review progress.

Regardless of well-coordinated planning, budget execution can suffer due to inadequate provisions through the government budget to cover personnel expenses such as per diem and travel allowances. In a situation where government-funded projects are implemented alongside donor-funded ones, the lack of sufficient incentives is shown to have encouraged personnel to allocate more time to donor-funded activities at the expense of government-funded work. Moreover, frequent leadership turnover appears to have caused a constant shift in priorities which ultimately makes capital expenditure planning and execution more challenging.

Ethiopia Roads Authority

ERA is responsible for managing the highest share of the annual budget of the federal government allocated to a single sector. It is also unique in the sense that it is tasked with a fairly straightforward mandate – building roads, with a jurisdiction covering the entire country irrespective of regional boundaries. As such, capabilities for capital expenditure planning are critical for the performance of the authority in carrying out its mandate.

ERA has used the five-year national Growth and Transformation Plan as a strategic planning framework for capital projects for the medium term. The annual planning process covers both capital and recurrent expenditures. Construction management branch offices prepare their respective plans for the fiscal year including the number of kilometres of road they intend to build and the budget required for those projects. Once those plans are collected, aggregation and plan reconciliation are carried out at the central level. It appears that the coordinative capabilities required to facilitate the planning process are not as extensive as other federal institutions such as FMOH because all the regional branch offices fall directly under the national structure.

The planning of road construction and upgrading programmes is likely to require careful prioritisation of competing proposals with sizeable resource requirements. Proposed projects receive scores according to a set of criteria including amount of traffic, connectivity potential, level of development of the community, investment potential and contribution to international trade (proximity to export corridors). Even though feasibility is considered a necessary condition in project selection, social and political considerations are used to further prioritise feasible projects. Regardless of the established scoring criteria for project prioritisation, it is not obvious how the data are obtained and analysed to score each candidate project on each criterion. The analytical capability of ERA to score projects as objectively as possible is an integral part of its capabilities to plan and execute its capital budget efficiently and equitably.

The size and timespan of road construction projects mean that their execution can often be subject to significant risks and uncertainties. Key informants from ERA identified three main sources of risks and uncertainties facing programme implementation: right-of-way disputes, security problems in certain parts of the country (although this is more temporary than others) and foreign currency shortages. ERA has accumulated extensive experience in dealing with right-of-way disputes, which is arguably the most common obstacle in road projects. Accordingly, the annual plan routinely takes into account steps that need to be taken to resolve right-of-way issues before the start of a project. This often involves coordination between ERA and regional and *woreda*-level actors. The planning template is also designed in such a way that, in the case of multiyear projects, lessons from implementation in the preceding year are explicitly recorded before laying out the plans for the upcoming fiscal year.

Recurrent foreign currency shortages are reported to have significantly impacted the implementation of import-intensive road construction projects. This is due to the rationing of foreign currency by the central bank. But it appears that ERA does not have an established process to source and incorporate forecast of foreign currency supply in its planning and budget formulation exercises. Similarly, inflation and the attendant cost overrun of capital projects pose significant challenges to the planning and execution of major projects. Although the planning unit attempts to account for inflation, the sizeable instability in both local and import prices makes it difficult to accurately forecast price levels on its own. As forex and inflation forecasting is ideally done at a macro level by the central bank and the Central Statistics Agency, the planning process could benefit from better analytics and flow of information between those organisations and budgetary institutions such as ERA.

Addis Ababa University

As the largest and oldest institution of higher learning in the country, Addis Ababa University manages large-scale educational, research and physical expansion projects with direct federal funding. Since the university is made up of several colleges and faculties, planning requires substantial coordination between multiple entities with diverse sets of interests. Therefore, much of the high-level planning is done through a committee consisting of the largest colleges and faculties. It is, however, debatable whether a committee is an effective coordination mechanism for a process that might require objective considerations of resource allocation.

Budgetary programmes are drawn from the mission statement of the university. However, as a service-providing institution with clearly defined inputs and outputs, the outcomes rarely change whereas the targets are revised regularly. That is probably part of the reason why budget planning is more reliant on expenditure history than strategic prioritisation. It seems that the most critical input for budget formulation is the number of students enrolled/expected to be enrolled in a certain faculty/college. The number of students often determines the number of capital projects undertaken by the university, which usually consists of the construction classroom and residential buildings.

One of the main difficulties the university is facing lies in the realm of capital expenditure management. Consecutive reports of the Auditor General show that many of the nation's universities struggle with maintaining acceptable practices of managing their capital projects. Key informants from Addis Ababa University revealed that overcommitment of capital expenditure by units implementing construction projects has become a significant problem. Project offices sometimes sign contracts exceeding the allocated budget in anticipation of a supplemental budget. This is partly because chronic delays in project completion and unplanned spending due to emergency expenditures keep more projects in the pipeline than the MoF can budget for. This problem gets worse when the government attempts to curb the growth of government

spending, as it has been doing in recent years. Overall, this challenge points to gaps in administrative capabilities and political incentives to optimise the use of capital budget in the face of overarching macro-level constraints.

Finally, there is a sense that the planning and budget processes at the university are only loosely linked. According to the key informants, part of the problem is that the two units fall under different wings of the organisational structure, creating a shortfall in formal coordination mechanisms. Ultimately, this has limited communication between the two units to the exchanging of reports.

Authority for Research and Conservation of Cultural Heritage

ARCCH follows the five-year Growth and Transformation Plan closely as a reference to guide annual planning. One potential reason that may have made it easier for the authority to stick to the strategic plan with little perturbation on a short-term basis is that the domain of services it usually delivers is not subject to political decision making. In addition to the strategic plan, previous performance is used as a key factor in prioritising projects. Key informants reported that, because the organization has limited resources at its disposal, the planning process would often aim to prioritise issues that, if addressed, are more likely to help the organisation tackle other issues. Although a desirable strategy for an organisation with limited resources, it is not clear whether the authority has the requisite analytical capabilities to clearly lay out the second-order impacts of programme outputs in maximising value-for-money.

Some of the challenges the authority encounters in capital budget management in relation to its restoration projects are illustrative of the budget planning problems faced by MDAs with limited bargaining power. The problem often originates in project delays caused by internal or external factors. Such delays usually force the authority to carry over project budgets in the high-inflation environment that has characterised the

Ethiopian economy for the past decade and a half. This means cost variation will have to be added in subsequent budget requests, which the MoF may not necessarily agree to in the case of organisations with limited bargaining power. This in turn could lead to further project delays, creating a vicious cycle of cost inflation and delays which can ultimately impact negatively on the planning process.

The most feasible strategy to prevent the above scenario for an organisation like ARCCH is to strengthen internal capabilities for contract and risk management. It was indicated that the urgent and unplanned nature of some of the restoration works required to be undertaken by the authority may contribute to delays in planned projects. But the authority attempts to mitigate the pressure surging demands for restoration put on its limited budget by distributing some of the burden to regional states. It appears that there are sufficient coordinative capabilities to achieve that on continuous basis.

Summary

The quality of programme planning can be impacted by the capabilities of macro-level institutions that are responsible for top-down budget planning, as well as spending entities that are tasked with detailed programme formulation under PBB. Modelling capabilities and the quality of information filtering up from MDAs are identified as key constraints on the side of macro-level institutions. However, MDAs also consider the fragmented demand for information from supervising institutions onerous. Even if MDAs can introduce important organisational innovations to improve coordinative capabilities to facilitate planning, structural constraints such as inadequate provision for personnel expenses can end up stifling the effort. In some organisations, delays in project completion and unplanned spending due to emergency expenditures keep more projects in the pipeline than the MoF can budget for. This means budget execution challenges.

4 Monitoring and evaluation

Considering that the main rationale behind PBB reform is better alignment of policy objectives with resource allocation, it is imperative that spending entities have robust systems of M&E to ascertain whether the targets set as part of the appropriation process are met. A preliminary review of the challenges faced in the implementation of PBB conducted by the staff of the MoF has identified weak M&E capabilities in MDAs as one of the bottlenecks undermining the effectiveness of the reform. Accordingly, this section looks at the macro- and sector-level capabilities for M&E at federal institutions and the Addis Ababa city administration. The same organisations as in the previous section are used as case studies.

Macro-level M&E capabilities

The monitoring of budget execution is an integral part of the mandates of macro-level institutions such as the MoF, PDC and regional bureaus of finance. Apart from the M&E work that is expected to take place at the implementing institution level, the MoF is also responsible for following up on the execution of the annual budget whereas PDC is tasked with monitoring capital projects. AABoFED, for its part, monitors capital projects executed by all units under the city administration. In the context of PBB, the budget monitoring responsibility of macro institutions goes far beyond monitoring of financial performance to tracking results against spending.

The institutional capabilities to facilitate the smooth flow of monitoring information and analyse such data are a key ingredient of M&E at the macro level. The MoF is expected, according to the PFM proclamation, to integrate budget formulation and monitoring by requiring MDAs to submit previous year's and current half-year's performance with budget requests for the upcoming fiscal year. However, it is indicated that MDAs do not always submit the required performance reports due to the lack of enforcement mechanisms. Moreover, the information content of reports submitted to the MoF varies significantly, often containing scanty details with respect to the outcomes of complex programmes. Moreover, even when such information is provided in the reports, it is difficult to verify given the internal capacity of the MoF.³

The PDC has recently unveiled a new framework for capital project M&E, including revising existing manuals. At a political level, there is recognition that the lack of robust M&E systems is affecting development outcomes. The key informant from PDC acknowledges that monitoring data quality remains a significant handicap as there are inconsistencies in reports received on a quarterly basis. The quality problem extends further to the data provided by the Central Statistical Agency, which is sometimes used to set programme baselines for impact evaluation.

At the subnational level, AABoFED appears to have adopted a more hands-on approach for project monitoring. The demand for monitoring information within the city administration is growing with the use of such data to guide budget reallocations and audit priorities. The M&E unit is responsible for monitoring over 3,800 projects, but it only has six staff members. Therefore, it takes a small sample of projects to monitor while relying on sub-city administrative units to collect further monitoring data. This makes the quality of information dependent on the capabilities in lower-tier structures, which are not always sufficiently robust. The city is attempting to increase the relevance of the monitoring process by incentivising good performance with rewards for project owners.

Key performance indicators (KPIs) are a critical component of the monitoring of programme budget execution at the federal level. It is noted that the recent reform of the monitoring framework undertaken by PDC has led to the development of a series of KPIs for various key sectors. However, the key informant from the MoF reported that the budget directorate rarely obtains reliable information on KPIs either from budgets or implementation reports submitted by MDAs. This is mainly because there is a lack of capabilities and resources at the MDA level to collect and analyse data for a reliable system of KPIs. Although the government allocates substantial resources to the Central Statistics Agency and sectors to collect monitoring data, many organisations still rely on donor funds to cover the relatively high cost of assembling monitoring information. In general, donor-funded projects are subject to more regular and rigorous M&E than government-funded projects.

3 At the time of the interviews, the MoF was in the process of setting up a dedicated unit for M&E to remedy this capacity gap.

In terms of core capabilities for M&E, skills and technology are identified as key constraints by all macro-level institutions. M&E capabilities remain precarious in many institutions because of high staff turnover. In such a dynamic area as M&E that also requires significant institutional memory, staff turnover prohibits opportunities for continuous learning. At the subnational level, where the traffic of M&E information is higher, the lack of suitable technological solutions such as project monitoring software is mentioned as a significant handicap. According to AABoFED, it could take over two months to collect data for a single monitoring report using the manual system they currently run. The absence of an integrated project monitoring system makes it notoriously difficult to obtain comprehensive data on contracts and payments from a diverse set of agencies under the city administration.

Sector-level and downstream M&E capabilities: Case studies

Federal Ministry of Health

The FMOH has been working to improve its monitoring and evaluation process as part of the “one plan, one budget, one report” framework. In the same way as in the planning process, a series of stakeholders, including subnational government units, participate in the monitoring of programmes. The ministry has developed an extensive framework of KPIs and overall performance measurement, including quarterly targets evaluated at directorate and regional levels. There is also a structured and participatory process of indicator revision that takes place every five years. In this regard, the ministry appears to have leveraged its coordinative capabilities to set up a robust system of monitoring the health sector across the country despite regional autonomy constraints.

The digitisation of the “one plan, one budget, one report” framework through the District Health Information System (DHIS) has reached universal coverage, although the quality and timelines of data provided by various parties are not uniform. Key users of monitoring information are provided with access credentials to enable them to utilise the system seamlessly. In compiling monitoring reports, data from the DHIS are complemented with administrative reports, particularly in the case of new initiatives which may not have enough representation on the digital platform. One of the benefits of deploying the DHIS across all tiers of the health system is increasing accountability and traceability by reducing the number of data collection points.

The digitisation effort is supposed to increase analytical capabilities for programme monitoring at the federal level. But there is a significance degree of interdependence between capabilities at the federal and subnational levels. Although the system helps to verify the quality of data coming from lower-tier units to a certain extent, there are non-technical

factors, including geography, that reduce the quality and timeliness of information. Moreover, there is also a network externality dimension in the overall effectiveness of the digital platform – a robust system and capabilities at FMOH level could be undermined by lack of reliable infrastructure at lower-tier units.

The key informants comment that the increasing quality and accessibility of monitoring data is creating its own demand among internal and external users. Internally, data collected through the monitoring system is aggregated on a semi-annual basis and used to rank the performance of directors against their monthly spending plans. There have been some attempts to use monitoring data to reward individuals as well as units. However, the key informants believe that the attempts suffered from unintended consequences of demotivating officials due to inconsistencies in the performance measurement framework, including the difficulty of measuring performance in certain areas compared to others. Leadership turnover at the FMOH has also undermined initiatives to use monitoring for rewarding performance.

It appears that the internal monitoring of the technical and physical implementation aspects of the health sector programmes runs more smoothly than reporting of financial execution. For instance, key informants have remarked that the lack of flexibility in the Integrated Financial Management Information System (IFMIS) design to allow for multiple sources of financing for a single programme, which is quite common in the health sector, has created reporting problems. Moreover, it was reported that regions do not always send comprehensive budget utilisation reports timeously. Regardless of the fairly streamlined monitoring process within the health sector, the key informants noted that the final outcome in terms of informing macro-level decision making could be undermined due to fragmented reporting frameworks on the part of the MoF, PDC, civil service and parliament. The recent reform by PDC which has introduced Master Reporting Guidelines is expected to address this challenge.

Finally, it is emphasised that much of the success of the M&E initiatives under the FMOH is attributable to donor support and technical assistance. In other words, the resources allocated through government budget are insufficient for the extensive M&E activities the ministry is undertaking, and the personnel requirement is not covered by the type of skillsets the public sector salary scale is able to attract and retain. In general, the FMOH has been able to build sizeable capabilities because it is embedded in a global ecosystem of public health system innovations that are easily adaptable to its context.

Ethiopia Roads Authority

As an organisation that is primarily responsible for building and maintaining the nation’s roads, the M&E process at ERA has distinct characteristics in that it requires significant engineering expertise. This sometimes means that most

of the technical data collection responsibility is left to independent project consultants. Even though this is often the most feasible approach from technical and logistical points of view, it is not entirely clear how accountability for data quality is established given that both the contractors and the consultants are private sector operators. The financial aspects of monitoring data are obtained from the finance department of the authority on a monthly basis. In this regard, some of the most difficult challenges the M&E unit has to grapple with relate to discrepancies in physical and financial execution status which are hard to reconcile based only on third-party reports.

Even though there is a substantial amount of data collected at the project level, at the programme level the KPIs are not well developed and clearly laid out in the budget. To a certain extent, this can be linked to the gaps in training on programme budgeting provided to the planning and M&E staff at ERA. The turnover of staff already trained in PBB results in gaps in institutional memory on the subject. It was also indicated that structured mid-term reviews are conducted for donor-funded projects only. This can again be linked to the lack of internal personnel capacity to review government-funded projects, as opposed to donor-funded projects which provide for the recruitment of external consultants.

The demand for monitoring information comes from various federal and regional entities. Moreover, internally, the budget department uses monitoring reports to determine the resource allocation in the subsequent year. There are some initial, but nominal, attempts to reward performance based on monitoring reports. However, the M&E unit does not seem to have the data management capabilities to efficiently cater to reporting demands from multiple stakeholders with divergent needs and requirements. The key informants mentioned the lack of a centralised database which they could use to generate reports as an impediment to reporting. The authority employs a specialised project tracking software, but they lack a system to aggregate the information to programme-level indicators and reports.

Addis Ababa University

The planning and M&E unit of the university collects quarterly reports from colleges and directorates in the university and compiles a monitoring report. There is dissatisfaction with the quality of information supplied by constituent units owing to reporting irregularities. The lack of commitment by the leadership of units, including vice presidents, for the monitoring process was mentioned as a reason for irregularities. Donor-funded projects are largely outside the purview of the planning and M&E unit. Moreover, results monitoring and budget monitoring are handled separately, with little formal communication between the M&E unit and the budget directorate. This problem came up repeatedly as a gap in the M&E framework, including the lack of direct access of the planning and M&E team to the IFMIS platform. This points to a significant lack of coordinative capabilities mostly attributed to gaps in the organisational structure.

The monitoring report is shared with internal users as well as external stakeholders, including parliament and the Ministry of Higher Education. The M&E unit pays close attention to tracking data on KPIs identified in the strategic plan. It should be noted that the university, serving a well-defined population, may find it easier to track KPIs than larger organisations with more complex mandates. The key informants mentioned that it did not appear that monitoring information is consistently acted upon by the university management since the reports keep picking up the same issues year after year. As far as external users are concerned, they receive feedback from parliament although there seems to be a communication gap with the supervising ministry, that of Higher Education. The university had started rewarding performance based on monitoring reports. However, the practice was discontinued due to lack of institutionalisation, although reward for research output is still in place.

The planning and M&E unit has only three experts catering to a university of 46,000 students and over 10,000 staff. Moreover, even the existing staff are not provided with sufficient capacity building to keep them up to date with new developments in a dynamically evolving field. On the surface, the human-resources department of the university attempts to conduct staff training needs assessment on a regular basis. But, functionally, the budget allocated to capacity building is limited and is often among the first to be diverted to other activities. In addition to personnel problems, the M&E system also faces technological handicaps as monitoring data need to be collected from reports and compiled manually. This is because a previous attempt at digitisation could not be sustained.

Authority for Research and Conservation of Cultural Heritage

The ARCCH compiles a monitoring report which it submits to the Ministry of Culture and Tourism and parliament on a quarterly basis. Most of the monitoring data is obtained using standard templates that need to be filled out by constituent units. Key informants claim that the flow of information across the organisation is smooth because the planning, monitoring and reporting processes are well synchronised. One exception where the synchronised approach does not apply is donor-funded projects, which are not fully incorporated in the organisation's plan even if the M&E unit receives reports on their status. The key informants also admit that at times it is difficult to verify the data provided through reports since they are not able to organise field supervision.

The key informants point out that the lack of corrective action following an adverse monitoring report may undermine overall confidence in the process. Moreover, a shortage of experts in the M&E unit was mentioned as a reason for the inability to conduct field supervision to verify monitoring data. Low public sector salaries are cited as a factor behind the high turnover of qualified staff in the planning and M&E department.

Summary

Due to its high demand for data and specialist skills, programme monitoring remains a challenge to many organisations in the federal government. At the macro level, the KPI data provided by MDAs as part of the budget formulation and reporting processes remain scanty. Often, the technology employed by MDAs for collecting and compiling monitoring information is rudimentary. This could lead to poorly developed KPIs at the programme level despite the availability of substantial information at the project level. No matter how deficient, the level of utilisation of current monitoring inputs by decision-making bodies impacts the future development of monitoring capabilities. The lack of decisive and timely action by management in response to monitoring information could ultimately reduce the incentive to improve M&E capabilities.

The lack of decisive and timely action by management in response to monitoring information could ultimately reduce the incentive to improve M&E capabilities

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5 Budget oversight capabilities

For PBB to have an optimal impact, the planning and M&E capabilities within budgetary and macro-level institutions need to be complemented with sufficient oversight capabilities in Supreme Audit Institutions and legislative bodies. Recently, much of the public discourse on the efficiency and effectiveness of budget performance in Ethiopia is being shaped by the reports of the Auditor General. At the subnational level, regional councils play a critical role in guiding the process of resource allocation as well as in overseeing the spending of the block grant. Even though regional states have not yet implemented PBB, the capability of their legislative bodies to carry out their oversight function is going to be a key element of forthcoming reforms. The following case studies look into OFAG and the Budget and Finance Standing Committee of the Oromia Regional State Council.

Office of the Federal Auditor General

OFAG is mandated to conduct various types of audit, including financial, performance, environmental and information technology audit on all organisations under the federal government. OFAG reports to parliament and provides assistance to the legislature to improve accountability in the use of public resources.

OFAG's increasing assertiveness in demanding more accountability from federal MDAs in recent years is indicative of the commitment of the leadership to see the institution fulfil its mission more effectively.⁴ The office has already reached its target of covering all federal organisations for annual financial/compliance audit as set out in its strategic plan. When it comes to performance audit, the annual coverage stood at 24 institutions (out of a total of 176) as of 2019. Although this represents only a small proportion of federal MDAs, the scope of performance audits currently being undertaken is rigorous enough that it provides a good window into the implementation of PBB.

The biggest internal constraint OFAG is facing in terms of improving its oversight capabilities is the shortage of experienced auditors. Given the highly specialised skills required for the job and the relatively high demand for

experienced auditors in the market, it is difficult for OFAG to retain skilled personnel. For instance, the promising stream of information technology audits was suspended after just a few reports were issued because the auditors could not be retained by the organisation. The high turnover inevitably leads to a significantly high workload on remaining senior staff. As an example, key informants noted that one director may have to assess up to 40 organisations and issue a report for each in a single auditing cycle. One way to partially overcome the effects of the high turnover of staff would be to maintain a reliable supply of well-trained auditors. In this regard, OFAG partnered with Addis Ababa University to set up a dedicated master's degree programme to train auditors. However, the initiative has been discontinued. Key informants mentioned the support of international partners such as AFROSAI in both capacity building and reform support as critical to filling some of the internal capacity gaps.

The overall capabilities of OFAG to carry out its mandate are determined by exogenous factors such as coordination between various stakeholders along the budget cycle, including the MoF, MDAs and OFAG. As such, the lack of robust communication on changes in official structures in MDAs often creates confusion with regard to the body responsible for audits. The ability of OFAG to conduct audits is also affected by the number of suspense accounts that have been kept open due to the lack of agreement between the MoF and the respective MDAs on a potential resolution.

Media reports and key informant accounts alike point to the systemic capabilities for enforcement as a key constraint on the impact of OFAG's activities. Despite the growing coverage of audits and public attention directed towards the outcomes, the corrective actions taken by MDAs remain poorly substantiated or mere action plans. The frequent turnover of senior personnel responsible for audits at MDAs and the dearth of experience of mid-level officials are mentioned as two of the most common reasons for inadequate follow-up. Owing to weak enforcement of corrective actions at both political and administrative levels, some institutions appear to be trapped in a perpetual cycle of adverse findings and inadequate follow-up.

4 Ethiopian Reporter, "Auditor General to reveal report to media if parliament fails to convene", 11 July 2020.

In spite of personnel and other resource constraints, the key informants reported that OFAG is ramping up its effort to conduct more systematic follow-up, particularly on MDAs with adverse and disclaimer findings. This includes enhancing coordination with legislative bodies and devising strategies to verify statements of corrective measures. Moreover, the organisation has installed a new audit recommendation tracking software whereby OFAG lodges audit recommendations and MDAs are required to document steps taken towards corrective measures.

Oromia Regional State Council: Budget and Finance Standing Committee

Oromia is the most populous regional state in Ethiopia. The regional council is the highest political structure in the regional state, consisting of directly elected representatives. The Budget and Finance Standing Committee is responsible for the oversight of the public financial management of the regional administration. As such, the committee conducts quarterly evaluation of the budgetary performance of all state-level MDAs in the region in collaboration with the respective sectoral standing committee of the council. Each quarter, MDAs are expected to outline at the beginning of their report how they have dealt with the committee's feedback in the preceding quarter.

The key informant reported that the committee had been working towards putting more structure onto the legislative monitoring and oversight process. A standard checklist is developed that is used to evaluate MDA reports as well as conduct field visits in a more consistent and coherent fashion. In recent years, the committee's reports are being taken more seriously by the council and the executive. In general, this has improved the technical capabilities as well as political capital of the committee to carry out its oversight function. However, the committee still lacks a complete overview of the PFM process in the region since most extra-budgetary allocations, including donor-funded and federal government-funded projects, are outside its purview.

The council appears to have paid some attention to the skills requirement of the committee by appointing members with a relevant academic background to sit on it. However, there is a severe shortage of expert staffers to assist the committee members with their work. The key informant indicated that

there is only one supporting staff member for each committee of the council and that they often have less expertise in their field than many elected committee members. Moreover, members also lack tailormade training on pertinent issues of public finance that they inevitably encounter as part of their job. The human-resource capabilities of the committee are further weakened by the nature of the appointment of council members as part-time legislators scattered around the region. For one thing, this makes it difficult to hold regular meetings to summon and hold the executive to account. Moreover, committee members might not have the time and incentives to prioritise committee assignments since they have other responsibilities linked to their regular job.

At a systemic level, the external control capabilities of the Auditor General of the regional state as well as the internal control capabilities of auditors in MDAs complement the oversight capabilities of the council. The capabilities of the regional bureaus of finance and planning also impact the ability of the legislature to carry out its functions. As such, the external audit capabilities in the region are improving, albeit from a low base. For instance, the coverage of performance auditing increased from two or three per month a few years ago to 10 per month as of 2019. Moreover, internal control units within MDAs have been given more autonomy by making them report directly to the regional bureau of finance instead of to the management of their respective MDA. However, from the point of view of the council, the coordinative capabilities in the PFM system at the regional level may have been undermined by the frictions between the AABoFED and the regional planning commission.

Summary

At the federal level, OFAG has continued to build oversight capabilities to carry out the external control function despite significant challenges in attracting and retaining suitably qualified auditors. However, weak enforcement of corrective actions at both political and administrative levels seems to leave some organisations trapped in a perpetual cycle of adverse audit findings and inadequate follow-up. At the regional level, the case study of the Oromia Regional State Council demonstrates that better recognition of the role of the Budget and Finance Standing Committee has enhanced the legislature's oversight function.

6 Personnel capabilities

The findings of the qualitative analysis of organisational capabilities presented in the preceding sections show that human-resource gaps lie at the heart of poor performance in budget planning and M&E at both the macro and sectoral levels. A remark by a key informant at one of the organisations covered by the review succinctly captures the quandary public sector organisations face in hiring, training and retaining professional staff:

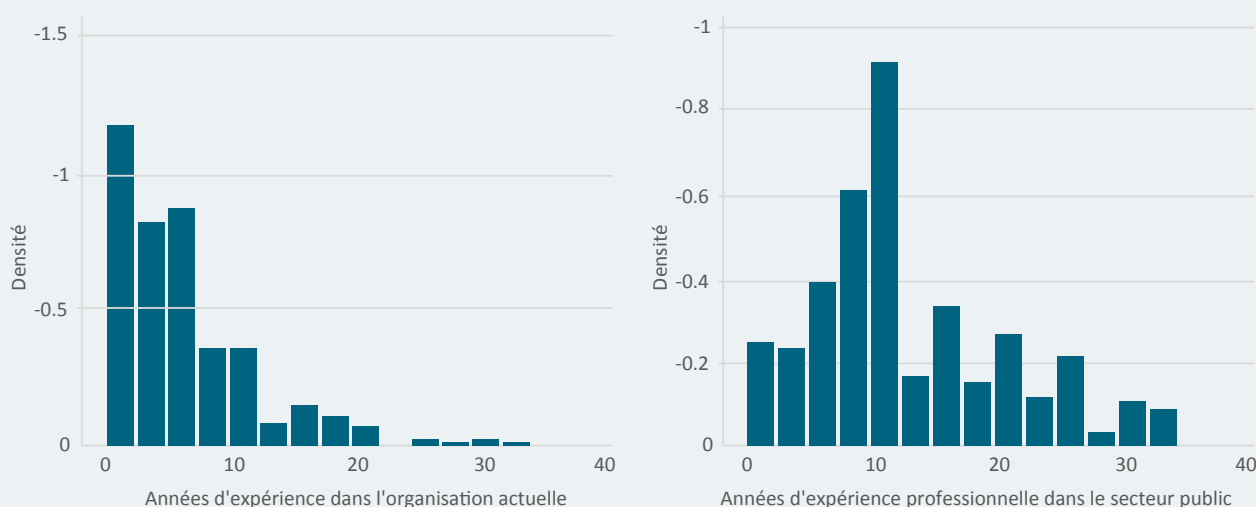
You may train staff but, as they get better, they would quit and start working somewhere else. So whenever experts get more proficient, we would be worried because they are the ones who do the job and we are dependent on them.

This section explores the personnel capabilities across planning, budgeting and M&E functions in a sample of macro-level institutions, federal MDAs and regional administrations. The analysis in this section and the one to follow is based on the survey data collected from 200 officials tasked with planning, budgeting or M&E responsibilities in 18 federal and regional institutions. A list of organisations covered by the survey is provided in Appendix 2. Table 2 presents a summary of the characteristics of the study sample. A third of the sample officials are women, while 40 percent have postgraduate training. The summary statistics also show that the age and work experience distribution of sample officials across different functional and organisational categories is relatively uniform.

Table 2: Summary characteristics of the sample officials

| | Functional classification | | | Organisational classification | | | |
|---|---------------------------|----------------|----------------|-------------------------------|----------------|--------------------------|----------------|
| | Planning | Budget | M&E | CFAs | MDAs | Regional administrations | Total |
| Percentage | | | | | | | |
| Male | 69.8 | 53.1 | 71.7 | 60.6 | 66.4 | 70.8 | 66.5 |
| Female | 30.1 | 46.9 | 28.2 | 39.4 | 33.6 | 29.2 | 33.5 |
| Postgraduate training | 50.7 | 18.4 | 44.7 | 42.4 | 42.6 | 33.6 | 40.5 |
| Mean (Standard deviation) | | | | | | | |
| Age | 36.4 (8.26) | 36.8 (8.63) | 36.9 (8.01) | 37.3 (9.31) | 36.3 (8.48) | 36.8 (6.65) | 36.6 (8.19) |
| Years of experience: current post | 3.73 (4.14) | 3.02 (2.97) | 2.95 (2.49) | 2.42 (2.17) | 3.55 (3.63) | 3.00 (2.52) | 3.23 (3.21) |
| Years of experience: current organisation | 6.63 (6.55) | 6.30 (6.97) | 6.55 (5.31) | 6.33 (6.61) | 6.62 (6.41) | 6.37 (4.92) | 6.51 (6.09) |
| Total sample (percentage) | 31.5 | 24.5 | 42.5 | 16.5 | 59.5 | 24.0 | 100 |

Figure 2: Distribution of years of experience in the sample



The panel on the left in Figure 2 shows that the distribution of sample officials is skewed towards those who are newer to the current organisation. However, the panel on the right shows that there is a relatively more symmetric distribution of experience in the public sector in general (including previous employment), with a modal experience of 11 years. Therefore, the sample is expected to capture a wide range of perspectives and personal experiences with regard to budget planning and M&E capabilities in the public sector in Ethiopia.

The organisations covered by the personnel survey represent central finance agencies (CFAs) such as the MoF, the PDC and the Ministry of Revenue, as well as federal and regional MDAs. The bulk of the federal government is composed of MDAs with varying levels of supervisory or service delivery mandates. Therefore, 60 percent of sample officials are drawn from federal MDAs, with 16 percent from CFAs. The share of sample officials (24%) from regional administrations is representative of two of the central subnational

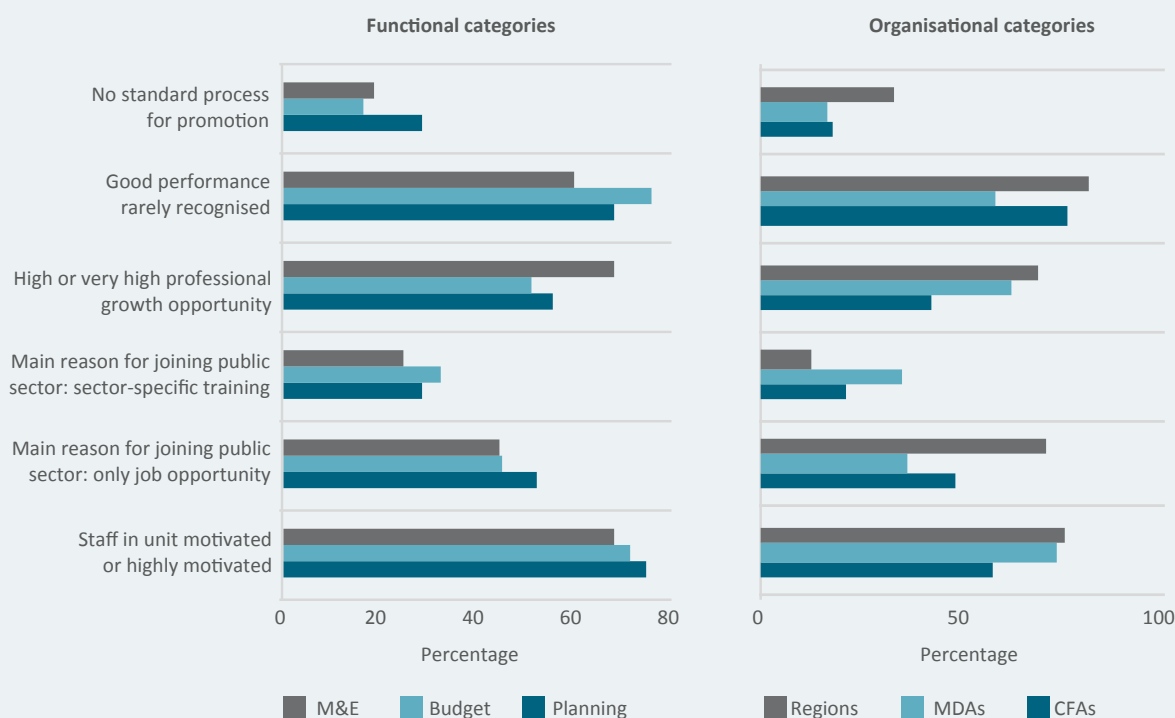
administrative units that are being considered for the scaling up of PBB (Oromia regional state and Addis Ababa city administration). In terms of functional classification, the sample officials are drawn from planning, budgeting and M&E functions in each of the 18 organisations included in the study. The sample covers the universe of officials in the three units in each organisation. Therefore, the percentage share of each function in the sample, as shown in Table 2, is considered to be reflective of the distribution of officials across the three functions in most government organisations.

Personnel capabilities are defined as a combination of motivation, competencies and resources. The original questionnaire (available on request or on the CABRI website) features more questions that can be used to measure personnel capabilities than are discussed in this report. Table 3 provides a classification of the indicators discussed in this report with respect to the three dimensions of personnel capabilities.

Table 3: Dimensions of personnel capabilities

| Dimension | Indicator used in report |
|--------------|--|
| Motivation | Perception of level of motivation of colleagues Main reason for joining public service Reward and growth opportunities Staff turnover |
| Competencies | Skills mismatch in unit |
| Resources | Mentoring On-the-job training opportunities |

Figure 3: Personnel motivation and associated indicators



Civil service performance is partially dependent on the ability of an organisation to overcome the principal-agent problem in addition to reining in bad principals. In the presence of imperfect monitoring, which is particularly the case in areas such as PFM that require specialised expertise, personnel motivation is a key element in improving capabilities. The survey presents a question to respondents to assess the motivation of other officials in their unit in carrying out their official duties. By doing so, the expectation was of eliciting a more honest response than would have been forthcoming had the respondents been asked the question directly of themselves.⁵ Figure 3 shows that the levels of motivation of officials as reported by peers are relatively high across the board. Overall, 71 percent of respondents believed officials in their unit were either motivated or highly motivated. While the highest proportion of officials who believe their colleagues are motivated comes from regional administrations (75%), the lowest is from CFAs (57%). Of all respondents who said their colleagues were not motivated, 46 percent cited low pay as the main reason for lack of motivation.

In addition to a direct question about motivation, an indirect approach to gauge potential motivation would be to examine the main reason officials joined the public sector and the availability of career growth opportunities that might keep them motivated. This could also help to triangulate the information obtained through the direct question in case respondents are not providing an honest answer about their colleagues' motivation. The results show that around 46

percent of respondents joined the public sector because it was the only available job opportunity whereas 27 percent joined because they had sector-specific training. The fact that 70 percent of respondents from regional administrations joined the public sector for lack of other opportunities indicates that the level of motivation in their units might not be as high as the figures obtained through the direct question. In terms of functional classification, a majority of planning officials said they joined the public sector because it was the only opportunity available.

While 60 percent of all respondents perceive that their job offers high or very high professional growth opportunity, only 42 percent of officials at CFAs have that appraisal. On the other hand, over two-thirds of officials from regional administrations said their job offered good growth opportunity. One of the factors undermining personnel motivation appears to be the lack of recognition for good performance. Overall, 66 percent of respondents reported that good performance is rarely recognised in their unit. The lack of any form of recognition is particularly rife in budget units and regional administrations.

The results of the organisational review presented in the previous section show that high turnover of qualified personnel is the Achilles heel of building sustainable capabilities in budget planning and M&E in federal and regional government organisations. Interviewed officials were asked how long they would wish to remain in their current

⁵ This might be subject to personal biases in opinions about colleagues' motivation. However, we expect the biases to be in both directions and, therefore, to cancel each other out on average.

position and organisation. Close to 24 percent responded that they wished to leave in less than a year, while over 39 percent said they would be inclined to leave after one to three years. The proportion of officials who wished to leave their current role in the current organisation within three years is 73 percent for regional administrations. This does not augur well for the ability of regional administrations to maintain institutional memory in the context of a demanding reform exercise such as PBB.

Table 4 presents the correlation between the characteristics of officials or their units and the probability of remaining in a given role in their current organisation. The results show that the lack of professional growth opportunities is one of the strongest predictors of the propensity for turnover. Holding everything else constant, officials who believe their job offers a low professional growth opportunity are 74 percent less likely to stay in their current job than officials who expect decent professional growth. Not surprisingly, the perception of an unfairly low public sector salary plays a major role in the potential turnover of officials. Officials who consider their salary unfair are 51 percent less likely to stay in their current job. Another factor that appears to strongly predict potential turnover is officials' aspirations to join non-governmental organisations (NGOs) or international organisations (IOs) once they have left the public sector. Assuming that employees who intend to join such organisations have more transferable skills adaptable across sectors, it can be argued

that the possession of more marketable skills increases the likelihood of leaving the public sector. This is reinforced by the finding that more experience in general lowers the desire to stay: a year of experience reduces the likelihood of staying by 4 percent.

The survey includes a question on what the main reason for departure would be, if and when the official decided to leave. Figure 4 shows that over 58 percent of respondents said low pay would be the primary reason for leaving. Breaking down this figure by functional classification reveals that 60 percent of officials in planning consider their salary to be low enough to potentially cause them to leave their current job. When it comes to organisational classification, 75 percent of officials in regional administrations reported low salary would be the reason to leave. The corresponding number for CFAs is 42 percent. Although, objectively, the federal and regional pay scales are not dramatically different, the marginal difference in salary and other benefits in favour of federal CFAs seems responsible for a significant disparity in the role of salary for potential turnover. Regarding the prospective destination after leaving the current organisation, NGOs and IOs appear to be the most popular outside options, particularly among planning officers and employees of federal MDAs. However, more budget officers said that, if and when they left, they would join another public sector agency rather than an NGO or IO.

Table 4: Predictors of potential turnover (ordered logit estimates)

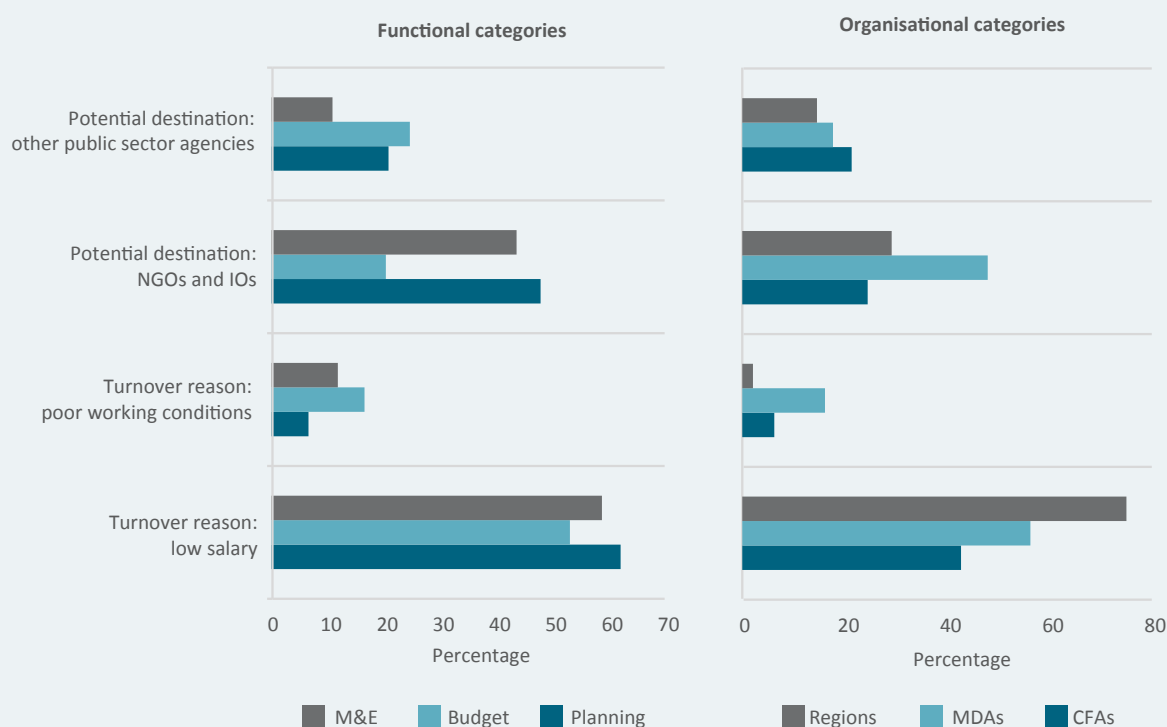
| Dependent variable: How long would you wish to stay in this role in the same organisation? (choices: less than a year, 1–3 years, 4–5 years, over 5 years) | | | |
|--|-------------|-----------|---|
| | Odds ratio* | Z-value** | Interpretation |
| Joined public sector because it was the only job available | 0.680 | -1.26 | Statistically insignificant (whether an official joined public sector for lack of other opportunities or not does not predict turnover) |
| Does not consider public sector salary fair | 0.489 | -1.94 | Officials who consider public sector salary unfair are 51% less likely to stay in their current job |
| Low professional growth opportunity | 0.253 | -4.55 | Officials who believe their job offers low professional growth opportunity are 74% less likely to stay in their current job |
| Aspires to join NGOs or IOs | 0.419 | -2.83 | Officials who aspire to join NGOs or IOs once they leave public sector are 58% less likely to stay in their current job |
| Years of experience in organisation | 0.958 | -1.61 | A year of experience reduces the likelihood of staying by 4% |
| Age | 1.04 | 2.23 | A year of age increases the likelihood of staying by 4% |
| Postgraduate training | 1.05 | 0.17 | Statistically insignificant (whether an official has postgraduate training or not does not predict turnover) |
| Gender: female (baseline: male) | 0.738 | -1.04 | Statistically insignificant (gender does not predict turnover) |
| Pseudo R2 | 0.08 | | |
| Observations | 200 | | |

Notes:

*The odds ratio is defined as the ratio of the odds of "A" in the presence of "B" and the odds of "A" in the absence of "B".

**The z-value is the regression coefficient divided by standard error. The higher the z-value, the more likely the relationship between the outcome and explanatory variables is statistically significant.

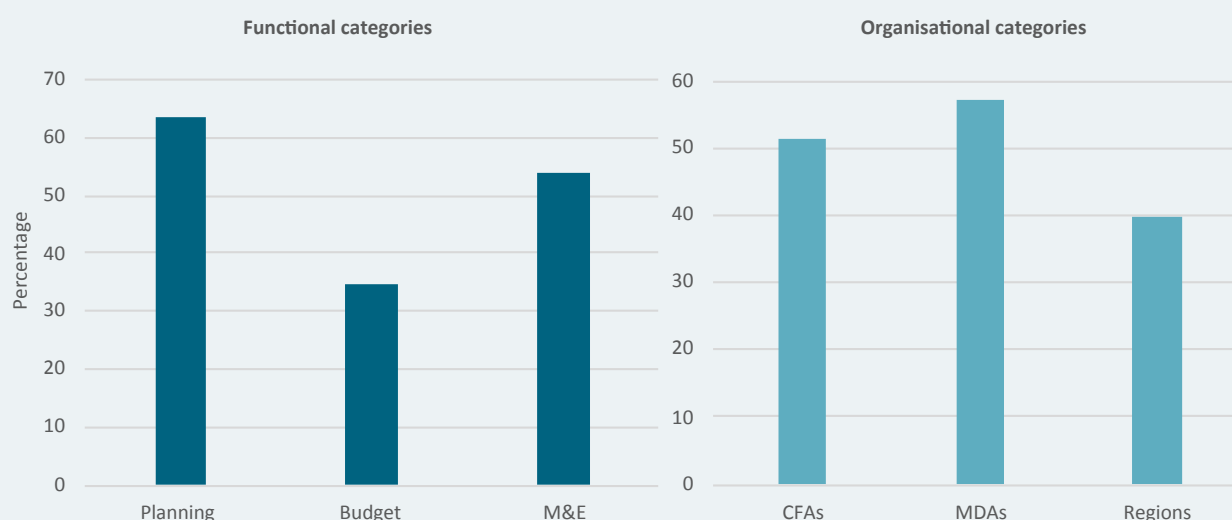
Figure 4: Potential turnover reasons and destinations



The functions of planning, budgeting and M&E in most organisations are likely to require such specialised skills that having the right person in the right role is critical for performance. Particularly, personnel in rapidly evolving fields such as M&E should keep abreast of new techniques and tools to avoid significant skills mismatch. Overall, a majority of officials believe that their unit's performance has been negatively affected by not having the right people in the right roles. Figure 5 shows that the highest share of officials who reported skills mismatch in their unit is in planning (63%). This is possibly because there is both a supply and demand side problem in the development of planning expertise in the public sector. On the supply side, higher education institutions offer relatively few training options in planning. On the demand side, planning is often relegated to the backwater of public sector organisations, with ambiguous job descriptions. Budget officials, on the contrary, indicate there is relatively low skills mismatch in their units, testifying to the relatively well-established training in accounting and the more mainstream status of the unit.

Regarding the specific aspect of capacity that is often lacking in the immediate work environment, Figure 6 shows that technical know-how stood out as the most prominent deficiency (43% overall); ability to learn new things was second (18% overall). The share of officials who view technical know-how as a significant handicap is highest among those in M&E units and regional administrations. On-the-job training is one of the means to fill capacity gaps in technical know-how which two-thirds of the respondents said they received at least once a year. As would be expected from the dynamic nature of the field, over 71 percent of officials in M&E reported they received on-the-job training at least once a year. The share of officials who believe the training was well-targeted is also the highest in M&E. With respect to organisational categories, officials in CFAs are revealed to have the most access to on-the-job training, at 81 percent. The corresponding figure for regional administrations is 50 percent. However, less than half of officials in CFAs are of the opinion that the trainings are well-targeted.

Figure 5: Share of officials believing that skills mismatch has affected their unit's performance



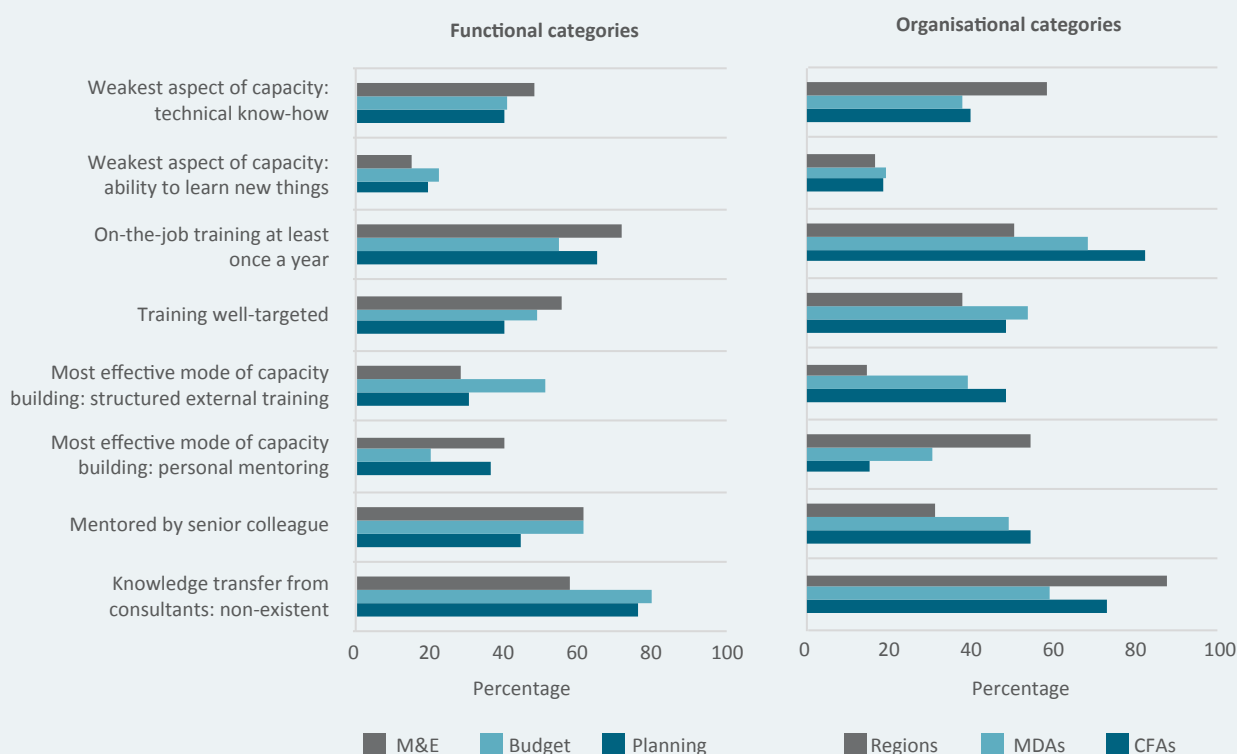
The highest share of surveyed officials (34.5%) identify structured external training, for instance by the Ethiopian Management Institute, as the most effective mode of capacity building in their area of work. Personal mentoring is a close second with 33.5 percent of officials choosing it as most effective for their field. However, there is significant heterogeneity in the preferences of officials from various categories in a way that is potentially reflective of the types of skills that are most relevant for each category. Accordingly, structured external training is deemed more effective in imparting skills required for budgeting whereas personal mentoring is considered more suitable in planning and M&E. Similarly, nearly half of officials in CFAs put structured external training as the most effective mode of capacity building whereas close to 55 percent of officials in regional administrations prefer personal mentoring. It is unfortunate, however, that less than a third of respondents from regional administrations reported having been mentored by a senior colleague on joining the organisation, while 55 percent of CFA officials had that opportunity.

Finally, the survey looked into the record of external consultants, who are often enlisted to fill gaps in internal capacity, in transferring knowledge and skills to planning, budgeting and M&E officials. This is important because the ability of public sector organisations to sustainably build internal capabilities and avoid perpetual dependence on

external expertise is conditional on attaining sufficient knowledge transfer between consultants and permanent staff. It is striking that 68 percent of respondents believe that such knowledge transfer is non-existent while another 20 percent said it was limited. Narrowing the domain of respondents down to a certain set of organisations and functions such as CFAs and M&E units where consultants are more commonly utilised, the results show that the share of officials who believe that there is no knowledge transfer from consultants is concerningly high at 72 percent and 57 percent, respectively.

In summary, the results of the personnel survey show that, although reported levels of motivation among planning, budget and M&E personnel in sample institutions is relatively high, there is little evidence that the public sector is competitive enough to attract employees as a preferred option and retain those with outside alternatives for a long time. The lack of professional growth opportunities and low salary are found to be two of the strongest predictors of potential turnover of staff across planning, budget and M&E units. A sizeable portion of the units in areas such as planning that require specialised technical expertise suffer from significant skills mismatch. However, a great majority of interviewed officials reported that their units/organisations offered on-the-job training.

Figure 6: Capacity-building needs and practices



The lack of professional growth opportunities and low salary are found to be two of the strongest predictors of potential turnover of staff across planning, budget and M&E units

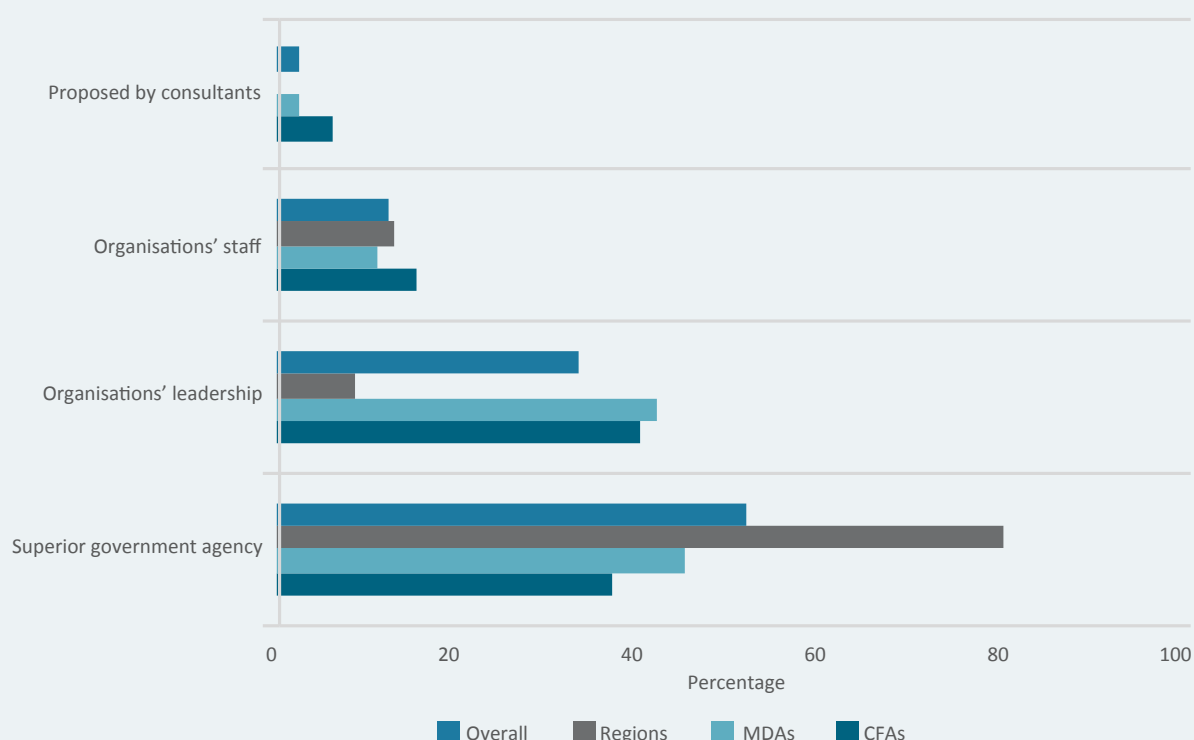
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7 Reform ecosystem

Budget planning and monitoring capabilities are both an input and output of various reform processes occurring across CFAs and MDAs. The effectiveness of these reforms in terms of building capabilities is likely to depend on various components of the reform ecosystem. Our survey presented a series of questions to officials in planning, budget and M&E units in the 18 sample organisations regarding the reform ecosystem their organisations operate in. One of the factors that may influence the effectiveness of reform efforts is ownership. An important aspect of ownership is identity of the originator of the reform idea. Figure 7 shows that superior

government agency is generally considered the main source of ideas/practices. This is particularly the case in MDAs and regional administrations. In CFAs, organisation's leadership has a slight edge over superior government agency in terms of generating reform ideas. The role of organisation's staff, on the other hand, is limited across all types of organisations. The very small share of officials who identified consultants and development partners as the primary originator of ideas signifies the relative autonomy of PFM institutions in setting the reform agenda.

Figure 7: Origins of new ideas/practices



The most critical reform components are often more about overhauling existing systems that are deemed inefficient or ineffective than introducing completely new practices or processes. In this regard, Figure 8 shows that structured internal reviews are the most commonly used process to drive reform, particularly in CFAs and federal MDAs. Regional administrations, on the contrary, appear to rely more on less structured team discussions to diagnose problems and devise reform strategies. External recommendations are not as prominent as internal processes in setting the reform agenda.

As far as internal reform processes are concerned, two of the most common instruments used by public sector organisations to handle reform assignments are committees and consultants. Figure 9 shows that more than half of sample respondents reported that reform assignments in their organisations were handled by a committee most of the time. However, there is significant discrepancy between various types of organisations, with 85 percent of regional administration officials claiming reforms are mostly handled by committees while less than 45 percent of CFA officials report the same. But it is interesting that only a quarter of regional administration officials believe committees are effective in carrying out reform assignments.

Figure 8: Most common process to reform existing systems and practices

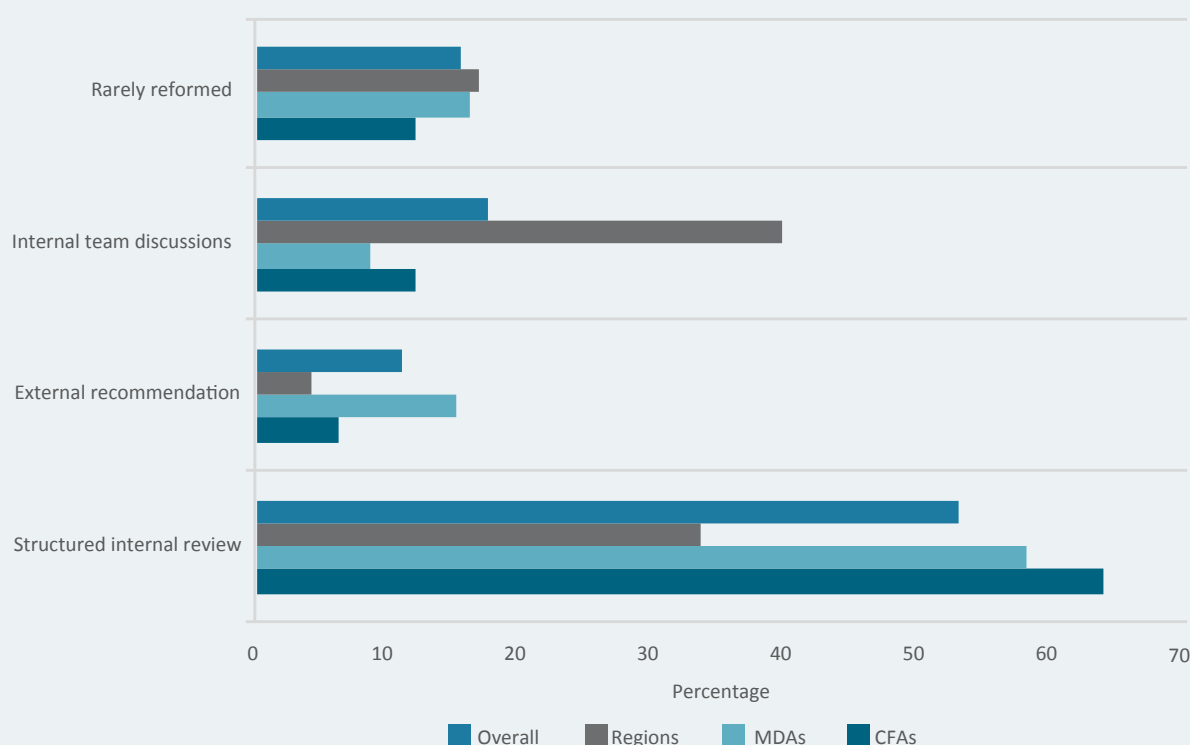
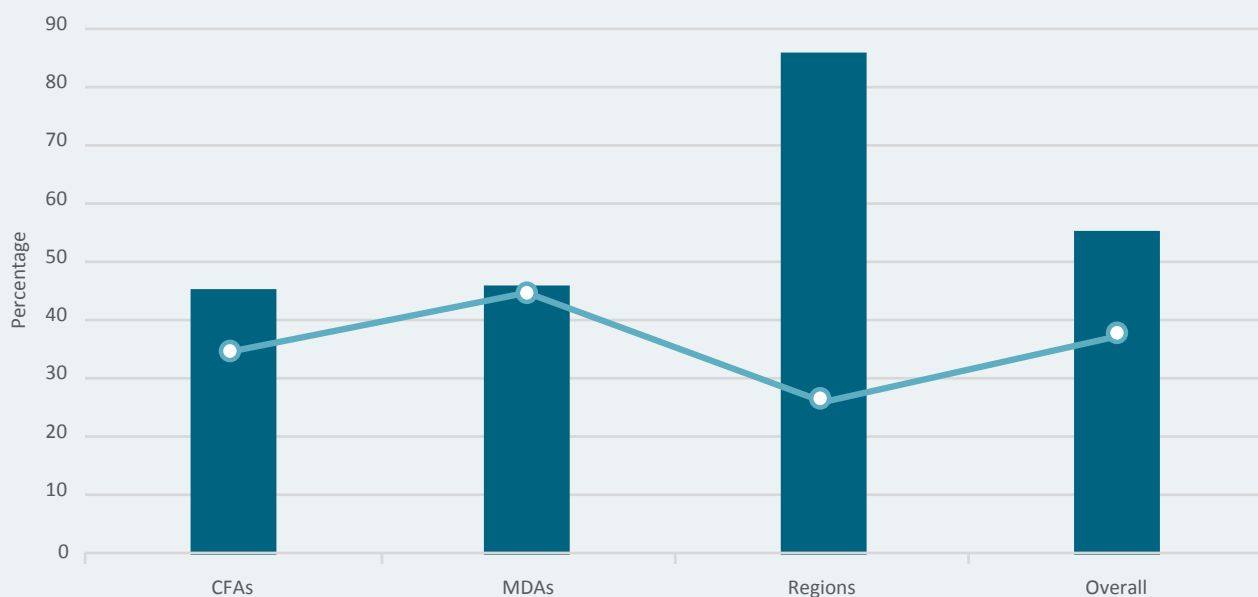


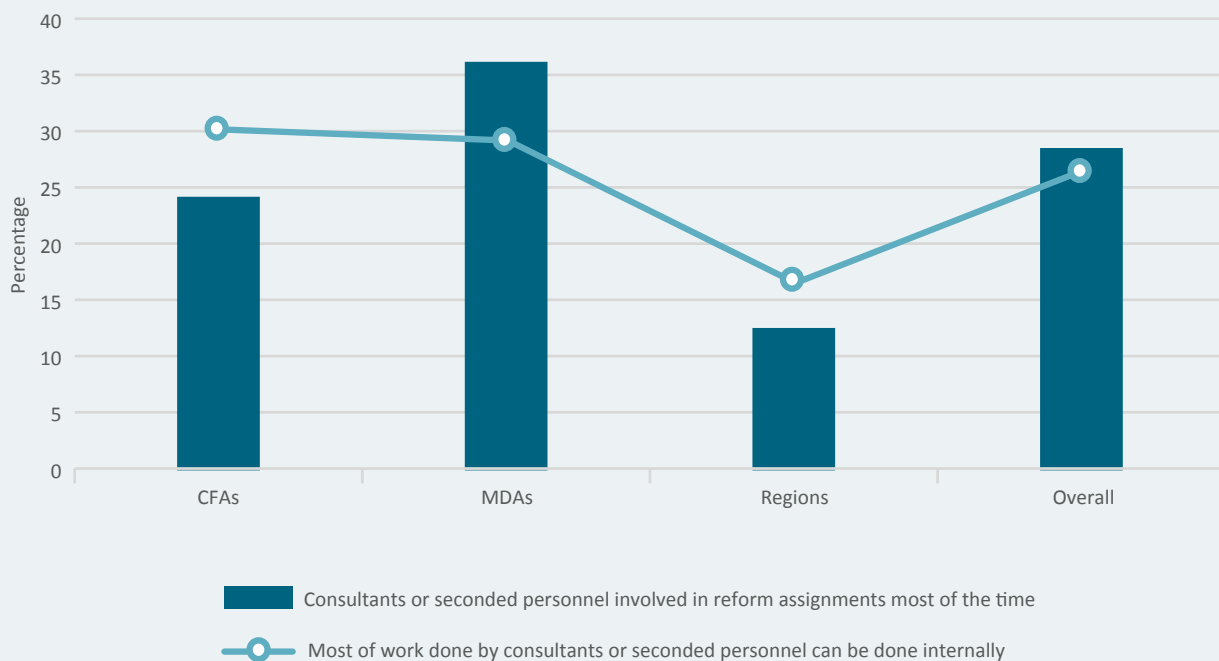
Figure 9: The role and effectiveness of committees in reform activities



When it comes to consultants and seconded personnel, Figure 10 shows that 28 percent of respondents reported external experts were involved in reform assignments in their organisations most of the time, with the highest share being from federal MDAs at 36 percent. The relatively small percentage of regional administration officials who claimed

external experts were involved in reform assignments suggests that committees could sometimes be used as a substitute for consultants. Overall, only 26 percent of respondents said a significant portion of the work done by external experts could be handled internally.

Figure 10: The role of consultants in reform activities



One of the key factors inhibiting reform and improving public sector performance is the presence of entrenched silos within and across organisations, preventing collaboration and the flow of information (Tett 2016). Close to half of sample respondents reported a significant proportion of work in their organisations was done in cross-department teams. But there is substantial heterogeneity between different types of organisations, with nearly 70 percent of CFA officials reporting cross-departmental collaboration whereas the corresponding number for regional administration is just 29 percent. Considering the relatively far-reaching consequences of work undertaken by CFAs, it is encouraging that there do not seem to be entrenched silos, at least as far as planning, budget and M&E functions are concerned.

Finally, sample respondents were asked to identify the most common driver of improved performance in their unit. As presented in Figure 12, overall, mutual exchange and learning between teams as well as successful application of best

practices were identified as the two most common drivers of improved performance in planning, budget and M&E units. Best practices are credited for improved performance by more than 45 percent of CFA officials whereas only 14 percent of regional administration officials consider them the main driver of performance improvement in their units. In contrast, mutual exchange and learning between teams is the most prominent source of improved performance in regional administration units, at 43 percent. Experimentation, on the other hand, appears more common in federal MDAs than in other types of organisations. The prominence of best practices in CFAs is congruent with their role as upstream actors in the budget process where best practices have greater chance of success than in downstream organisations. On the contrary, mutual learning and exchange appear more potent in driving improvement in regional administrations where idiosyncrasies may abound.

Figure 11: Share of officials reporting significant cross-department collaboration

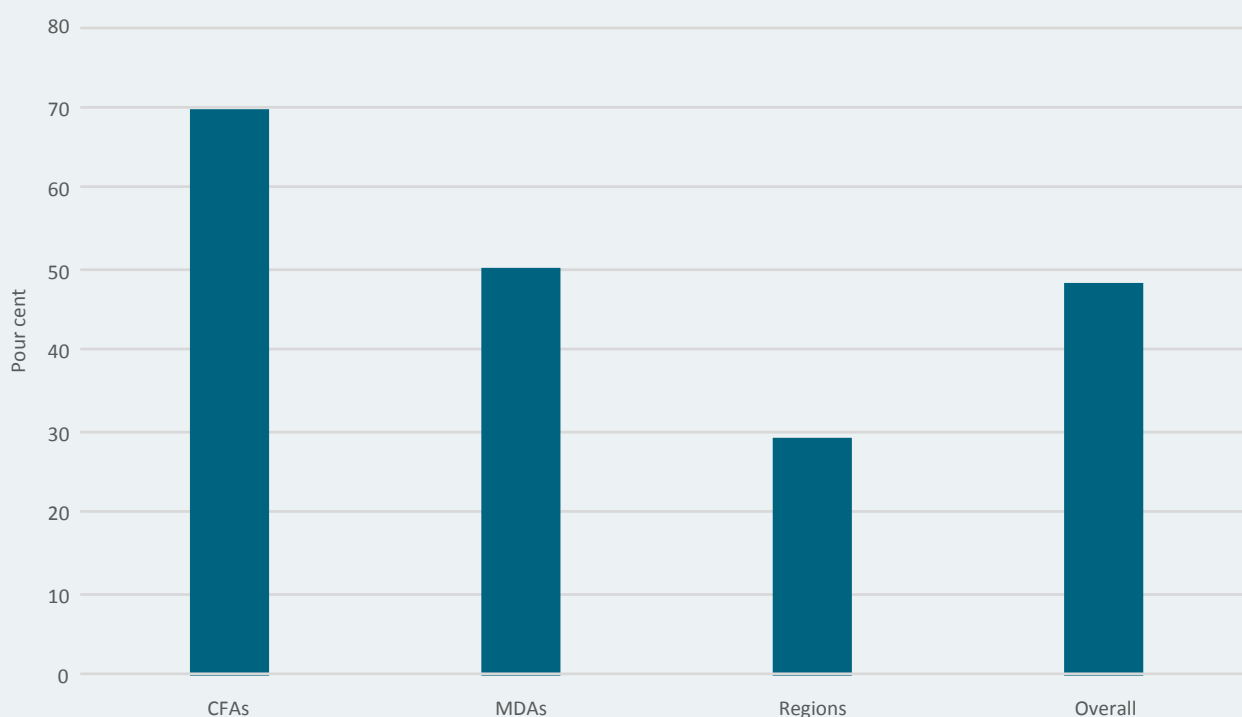
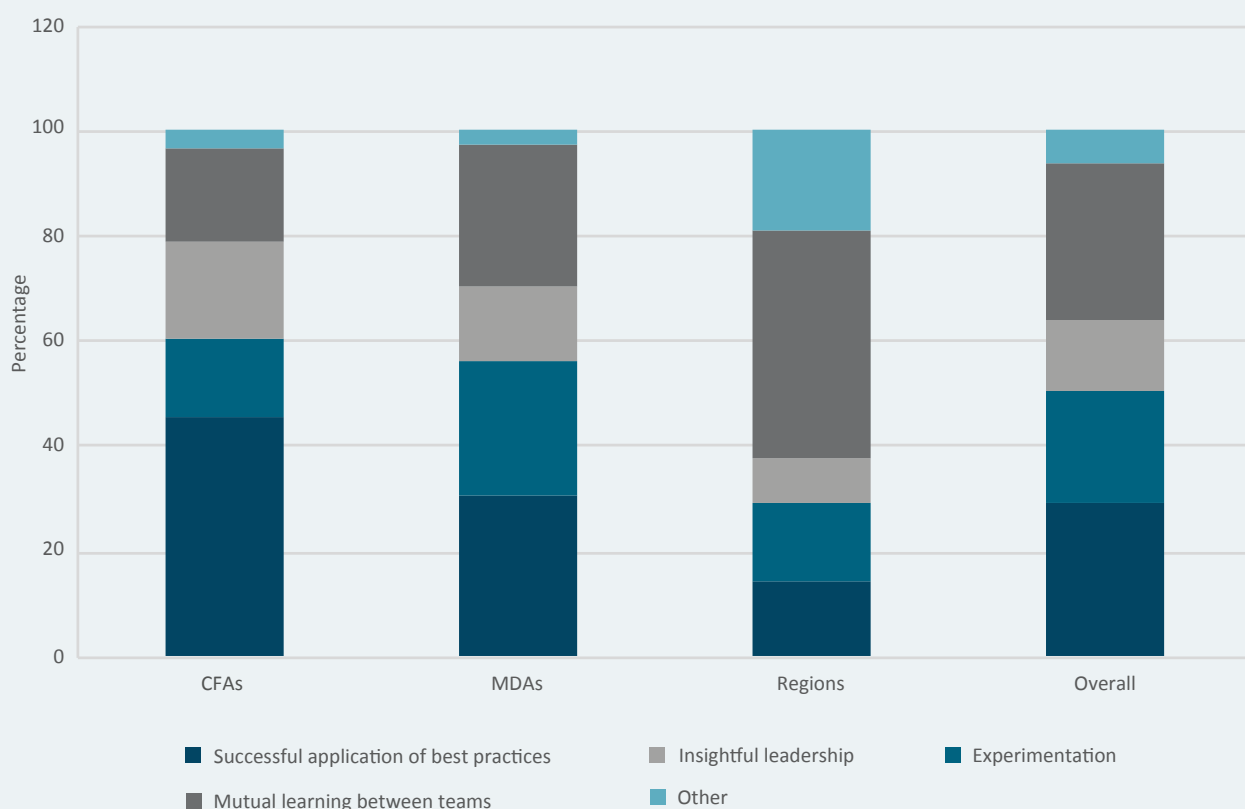


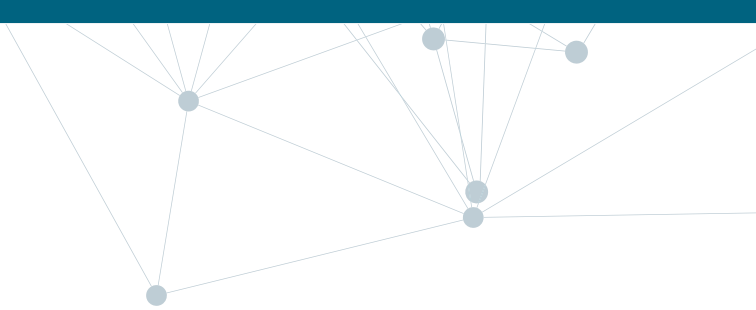
Figure 12: Main drivers of improved performance



In conclusion, the results show that superior government agencies provide significant guidance in the budget, programme and M&E reform while the role of external stakeholders in originating ideas is limited. It appears that there is a culture of conducting structured internal reviews to drive reform processes, particularly in CFAs and federal

MDAs. The prominence of mutual exchange between teams as a driver of improved performance as well as the absence of entrenched silos indicate that there is a potential to use a collaborative approach to reform programme planning, budgeting and M&E in federal and regional organisations.

8 Discussion of key findings



This section synthesises the key findings presented in previous sections and attempts to interpret the core insights using a capabilities lens, partially drawn from Lodge and Wegrich (2014). It focuses on the analytical, coordinative and regulatory dimensions of the programme planning and monitoring capabilities that are often the key ingredients in the implementation of PBB. It also touches on the political economy considerations that are complementary to organisational and personnel capabilities. To a certain extent, it also tries to weave together the organisational and personnel dimensions of the review.

Analytical capabilities

The top-down budget planning process at the macro institutions requires significant analytical and data capabilities which are proving to be deficient, particularly as the state of the economy continues to evolve. The attendant capabilities of staff to perform analytical work at CFAs might also be on shaky ground as two-fifths of interviewed respondents identified technical know-how as a key capacity constraint. In areas where technical know-how is lacking in-house, CFAs and MDAs often hire external experts in the form of consultancy or secondment. Although interviewed officials admit only a small fraction of the work done by external experts could be done internally, the kind of knowledge transfer that would eventually wean off public sector organisations from dependence on consultants is largely absent.

Some of the analytical capabilities that are necessary to improve plan quality and budget credibility at the MDA level may be beyond the scope of individual organisations and could require the support of specialised institutions such as the National Bank of Ethiopia and the Central Statistics Agency. One prominent example, in this context, is the capabilities of MDAs to account for the potential impacts of macroeconomic factors such as inflation and foreign currency supply. On top of the work that is needed to reduce volatility in the underlying macroeconomic factors, the analytical capabilities to forecast the magnitude of the volatility itself are important to improve programme planning.

In regard to MDAs, they often require extensive analytical and data capabilities to carry out their M&E function that has become a key component of the budget implementation process with the adoption of PBB at the federal level.

Collecting and analysing results monitoring data can be a resource-intensive exercise, particularly if programmes involve a diverse set of beneficiaries. That is part of the reason donor-funded projects appear to be better monitored and evaluated than government-funded ones. From the point of view of macro-level institutions, the lack of resources and analytical capabilities in MDAs has rendered the provision of KPIs inadequate. Much of the inefficiency in collocating and synthesising monitoring information stems from the lack of suitable technology or sustainability of efforts to implement such technology. However, the experience of the FMOH demonstrates that when organisations are able to access a suite of customised technologies such as the ones provided by the global health informatics community, they can potentially leapfrog their data deficiencies.

Coordinative capabilities

For both macro-level institutions and supervising MDAs at the federal level, their responsibilities for programme planning and M&E entail coordinating a series of stakeholders at the federal and subnational levels. As far as macro-level coordination is concerned, some MDA officials are of the view that the fragmentation of the budget and planning functions between the MoF and PDC seems to have undermined checks and balances in some instances. The multiplicity of planning and reporting templates and requirements also creates significant pressure on the already fragile personnel capabilities of MDAs. In this regard, recent reforms aimed at improving and harmonising the monitoring and reporting frameworks at a national level hold promise, provided that they are carefully implemented and complied with.

At the sector level, the FMOH offers an example of good practice in using a consultative and iterative approach to build decent coordinative capabilities to maintain a nationally cohesive health sector planning and monitoring framework. However, the experience of Addis Ababa University shows that coordination is not an easy feat even between various units of the same organisation (such as planning and budget departments) if there is no conscious effort to attain that. But, generally, it is good news that the survey of officials shows that interdepartmental silos are not entrenched in many organisations, particularly in CFAs.

Regulatory/oversight capabilities

Much of the oversight function in the programme budget planning and implementation process rests with legislatures and Supreme Audit Institutions, whereas MoF and regional bureaus of finance play a regulatory role by setting up and refining the framework in which the MDAs are expected to operate. At the federal level, OFAG appears to have continued to build its capabilities to carry out the external control function despite significant challenges in attracting and retaining suitably qualified auditors. At the regional level, the experience of the Oromia Regional State Council demonstrates that better recognition of the role of the regional legislature by the executive has empowered the Budget and Finance Standing Committee to carry out its oversight function more effectively. However, the shortage of expert staffers risks undermining the efforts of the council to improve oversight capabilities. The effect of technical know-how as a significant constraint on budget planning and M&E capabilities in subnational administrations was also borne out by the results of the personnel survey.

The MoF and regional bureaus of finance exercise a regulatory function by ensuring that MDAs comply with existing regulations in preparing their budgets and reporting on execution. The MoF's ability to carry out its oversight role appears to be compromised by the failure of MDAs to provide comprehensive performance reports and the scantiness of the details on complex budgetary programmes. It has proven difficult to tackle this problem due to the absence of credible enforcement mechanisms. More recently, restoring macroeconomic balances, including curbing the budget deficit, has risen to the top of the MoF's priorities. However, frequent project delays and the consequent overcommitment in subsequent budget cycles make it challenging to control spending. In this context, the oversight capabilities of the MoF need to be sharp enough to address more chronic issues related to project implementation delays in order to effectively contribute to the objective of reducing macroeconomic imbalances.

The programme monitoring and internal control functions of MDAs constitute the internal oversight dimension of the budget execution process. In organisations such as FMOH where monitoring information is actively sought by management and external stakeholders for decision making, there will be more incentive to use M&E tools to strengthen internal oversight capabilities. However, the routine disregard of monitoring feedback in subsequent planning and budgeting cycles, as evidenced in some of the case studies, reduces the incentive to improve M&E capabilities. When it comes to internal control, the Oromia Regional Council has empowered internal audit units to exercise their oversight function more effectively by offering them more autonomy.

Political economy considerations

Given the character of budgets as fundamentally political documents, it is virtually impossible to have a full understanding of the planning and M&E capabilities of macro-level and sectoral organisations without considering the political economy parameters that govern the process. In this context, programme planning at the federal level may have to take into account matters of equity and political imperatives beyond the merely technical aspects of feasibility and value-for-money. Particularly, in the case of Ethiopia's federal arrangement, the urge to equally distribute capital projects across regions may create significant tension with technical considerations.

The other key political parameter governing the budgetary process is the federal arrangement which grants regional states significant autonomy in budget planning, execution and evaluation. In some instances, this may create policy fragmentation and incoherence in the planning and monitoring frameworks between federal and state governments. However, the experience of the FMOH shows that, with effective coordination between the leaderships of federal and state bodies, it is possible to maintain a nationally cohesive policy and programme planning and monitoring framework.

In many cases, the bureaucratic incentive to improve planning capabilities, utilise monitoring information and comply with audit recommendation ultimately depends on political enforcement. For instance, improving the management of capital projects to effectively reduce the impact of cost overruns on the budget deficit requires credible commitment from leadership of organisations with significant political bargaining powers. Another area where political commitment appears to be pivotal is the enforcement of audit recommendations by OFAG.

Skills and motivation

Although reported levels of motivation among planning, budget and M&E personnel in sample institutions is relatively high, there is little evidence that the public sector is competitive enough to attract employees as a preferred option and retain those with outside alternatives for a long time. The lack of professional growth opportunities and low salary are found to be two of the strongest predictors of potential turnover of staff across planning, budget and M&E units.

A sizeable portion of functions, such as planning that requires specialised technical expertise, suffer from significant skills mismatch. However, a great majority of interviewed officials reported that their units/organisations offered on-the-job training. As might be expected, the personnel capabilities of regional administrations are generally weaker than those of federal CFAs or MDAs.

9 Conclusion

As Ethiopia approaches a second decade into the implementation of PBB across the federal government, programme planning and monitoring remain two of the most critical, but precarious, capabilities determining the success of the reform effort. The deterioration in audit outcomes across the federal government over the past several years has been a cause for concern among public finance officials who have raised questions about the potential contribution of weak planning and monitoring capabilities to the worsening audit performance.

This report has reviewed the organisational and personnel dimensions of programme planning and monitoring capabilities in a selected set of federal and subnational institutions in Ethiopia. The main findings of the review reveal that planning capabilities at the macro level suffer from a lack of robust economic models and insufficient information provided by MDAs. Part of this can be attributed to the inadequate training offered to MDAs on programme planning. As far as spending entities are concerned, the experience of the FMoH in programme planning and monitoring demonstrates how an institution can leverage external support and resources to institutionalise improved practices.

However, no matter how robust internal planning capabilities are, capital project planning in MDAs is largely subject to the vagaries of the macroeconomic environment in general and inflation and foreign currency supply in particular. Often, the interaction of exogenous factors such as inflation and endogenous problems such as persistent project delays creates a vicious cycle, disrupting multi-year programme plans. On the monitoring front, one of the biggest handicaps appears to be the inability of MDAs to develop a coherent and reliable performance measurement framework as well as collecting data consistently once a framework is in place.

Both the qualitative and quantitative dimensions of the review underscore the fundamental challenges planning, budget and M&E units face in attracting and retaining a sufficiently skilled and motivated workforce. Factors such as low pay and inadequate professional growth opportunities keep officials inclined to look for alternative employment opportunities in places such as IOs or NGOs. Regardless of the desire to leave, even those officials who stay might not be appropriately qualified for the work they are supposed to do. However, there is a significant effort, particularly in CFAs, to provide on-the-job training, even though the level of mentoring in functions such as planning leaves a lot to be desired.

Factors such as low pay and inadequate professional growth opportunities keep officials inclined to look for alternative employment opportunities

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Appendix 1: Methodology

The data-collection work conducted for this report proceeded in four stages: scoping, desk research, instrument design and fieldwork.

Scoping

The scoping exercise started with consultations with a team of public finance and planning officials participating in an action-learning programme organised by CABRI, with the specific objective of identifying gaps in the implementation of PBB and proposing potential solutions. The purpose of the consultation was to identify priority areas in which officials need more evidence to bolster existing or planned reforms. Accordingly, the officials identified programme planning and monitoring as two of the areas that need further investigation to understand capability gaps for effective implementation of the reform. They also offered suggestions on the criteria to select MDAs for the organisational review, namely considering the size of budget and complexity of programmes in picking a diverse enough set of case study organisations.

The second part of the scoping exercise involved the identification of key informants for the qualitative interview on institutional capabilities as well as sampling of officials from selected federal and subnational entities for the quantitative survey on personnel capabilities and reform experience.

Desk research

The preliminary research consisted of document analysis. The document review was used to extract relevant qualitative and quantitative data from a variety of publications, such as legislative documents, constitutional documents, academic articles and reports, including other assessments (such as PEFA). This was aimed at providing information on the de jure PFM system as well as setting a point of departure for the analysis of de facto practices, which was expected to be conducted through primary data collection.

Instrument design

Both the qualitative and quantitative questionnaires for data collection were built upon parts of the generic instruments developed by CABRI for the PFM capability review programme. The main instruments had been pretested for relevance and clarity with a number of public finance officials in four countries. Moreover, a tailored version of the instruments was deployed for a similar review in the Central African Republic and Benin. The questionnaires were customised for the Ethiopia capability review using the information provided by the teams of officials as part of the scoping exercise. In general, the focus was shifted towards capabilities for planning and monitoring away from budgeting and finance.

Fieldwork

The fieldwork, consisting of both qualitative and quantitative interviews, was conducted in Addis Ababa over a four-week period in February 2020. The qualitative interviews were conducted with 10 CFAs, federal MDAs and subnational organisations. The CFAs include the MoF, PDC and OFAG. The case study organisations representing federal MDAs were selected according to four criteria: large budget (ERA), moderate budget (ARCCH), complex programmes (FMoH and Ministry of Agriculture), frontline service delivery (Addis Ababa University).⁶ The category of subnational organisations selected for the institutional review include AABoFED and the Oromia Regional Council Budget and Finance Standing Committee.

The personnel survey covers a purposive sample of 18 federal and subnational organisations including most of the entities in the organisational review plus more MDAs representing a broad selection of sectors. Once the clusters of organisations were selected, the second-stage sampling of individual officials covered all planning, budget and M&E officials in sample organisations that could be interviewed within the survey period. A total of 200 officials were interviewed with a bulk of the sample drawn from experts and senior experts (Table A1).

6 The case study of the Ministry of Agriculture was eventually dropped due to quality problems in the interviews and the transcripts.

Table A1: Distribution of positions of sample respondents

| Position of respondent | Number of officials | Percentage |
|------------------------|---------------------|------------|
| Director | 17 | 8.5 |
| Deputy director | 4 | 2 |
| Team leader | 35 | 17.5 |
| Senior expert | 72 | 36 |
| Expert | 59 | 29.5 |
| Junior expert | 4 | 2 |
| Advisor | 3 | 1.5 |
| Other | 6 | 3 |
| Total | 200 | 100 |

Appendix 2: Institutions covered by the personnel survey

| | Name of the institution | Sample officials | Classification |
|----|--|------------------|-------------------------|
| 1 | Ministry of Finance | 10 | CFA |
| 2 | Planning and Development Commission | 12 | CFA |
| 3 | Ministry of Health | 26 | Federal MDA |
| 4 | Ministry of Agriculture | 13 | Federal MDA |
| 5 | Ministry of Science and Higher Education | 2 | Federal MDA |
| 6 | Ministry of Revenue and Customs Authority | 11 | CFA |
| 7 | Ethiopia Roads Authority | 18 | Federal MDA |
| 8 | Irrigation Development Commission | 2 | Federal MDA |
| 9 | Textile Industry Development Institute | 5 | Federal MDA |
| 10 | Addis Ababa University | 13 | Federal MDA |
| 11 | Oromia Regional Health Bureau | 8 | Regional administration |
| 12 | Oromia Regional Agriculture Bureau | 10 | Regional administration |
| 13 | Addis Ababa Bureau of Finance and Economic Development | 30 | Regional administration |
| 14 | Attorney General | 10 | Federal MDA |
| 15 | Ministry of Transport | 3 | Federal MDA |
| 16 | Ministry of Water, Irrigation and Energy | 12 | Federal MDA |
| 17 | National Disaster and Risk Management Commission | 9 | Federal MDA |
| 18 | St Paul Hospital and Millennium Medical College | 6 | Federal MDA |





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