



DREAM – Learning Event IV

Financial Management Capacity at Woreda Level – Processes and Challenges

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Budget Types and Sources

Budget types

Ethiopia has a dual budget system with **capital** and **recurrent** budgets at all government levels

Capital budgets are prepared by planning institutions while recurrent budgets are prepared by finance institution

Sources

Government subsidy budgets

allocated by the Federal government to regions and regional states to woredas

The allocation is based upon their infrastructure need and internal revenue

Internal revenue generated by woredas themselves: while woredas generate a certain amount of internal revenue (mostly <20%), the remaining is covered by subsidy budget

Development Partners: One Wash, Productive Safety Net Program (PSNP), General Education Quality Improvement Program (GEQIP), Lowland Livelihood Resilience Project (LLRP), Strengthening Drought Resilience Project (SDR), etc...

Off-budget development programs are few and mostly implemented or administered by the financiers

Procedures and process of budget allocation, execution and reporting

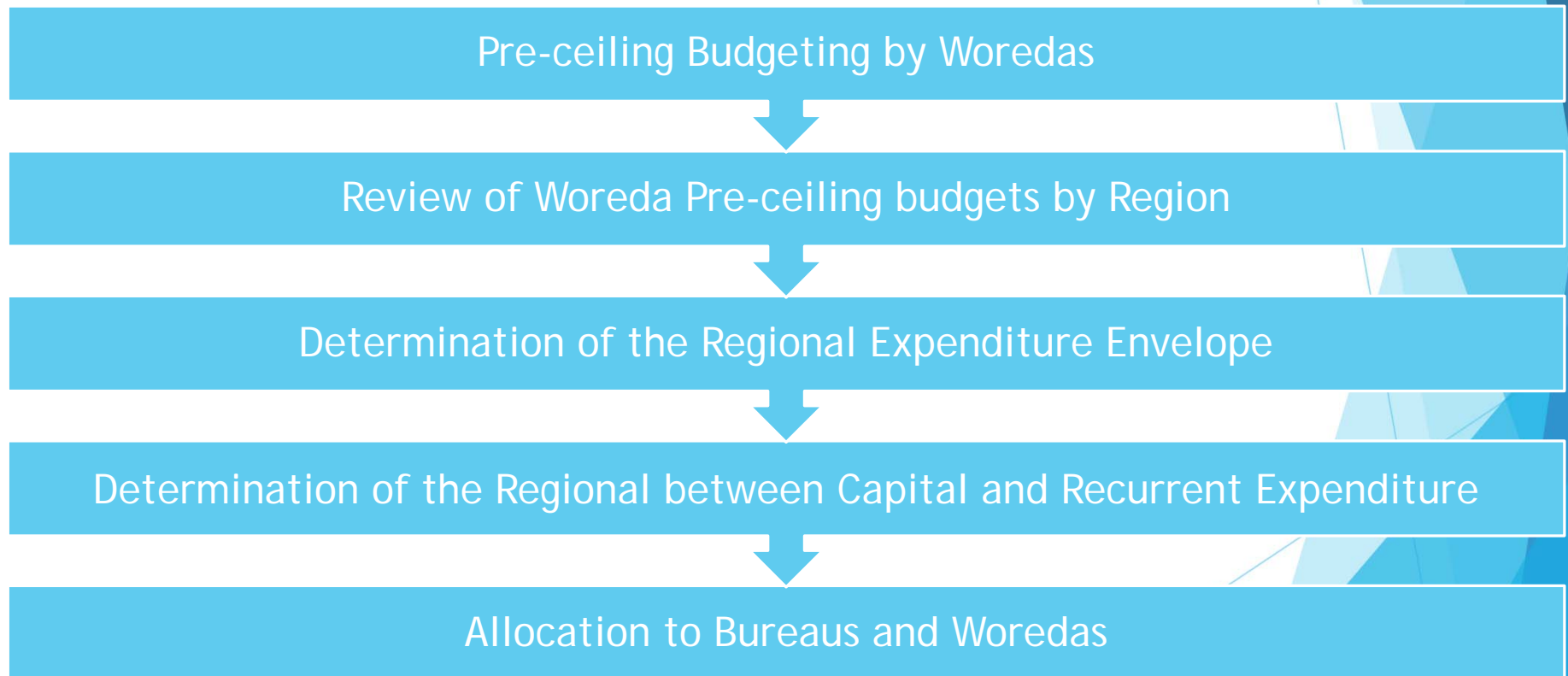
Ethiopia's budget process has four stages

- budget preparation and submission
- budget approval
- budget implementation, and
- budget control

This is true at all level of jurisdiction

- Federal,
- Regional, and
- Woreda government.

Woreda budget preparation and Submission Process



Woreda budget preparation and Submission Process

The woredas prepares a budget with no indicative or final ceiling from the region, because the federal government has not yet notified them of their grant.

The woreda sector offices prepare a budget.

The woreda executive committee forms a budget committee to review the budget submission

The woreda budgets are sent to Regional sectoral bureaus

The sectoral bureaus then prepare a budget submission to the region plan bureau.

The submission is the combined budget of the sectoral bureaus, departments and offices.

The region is notified of the federal grant between March and May

Approval Process

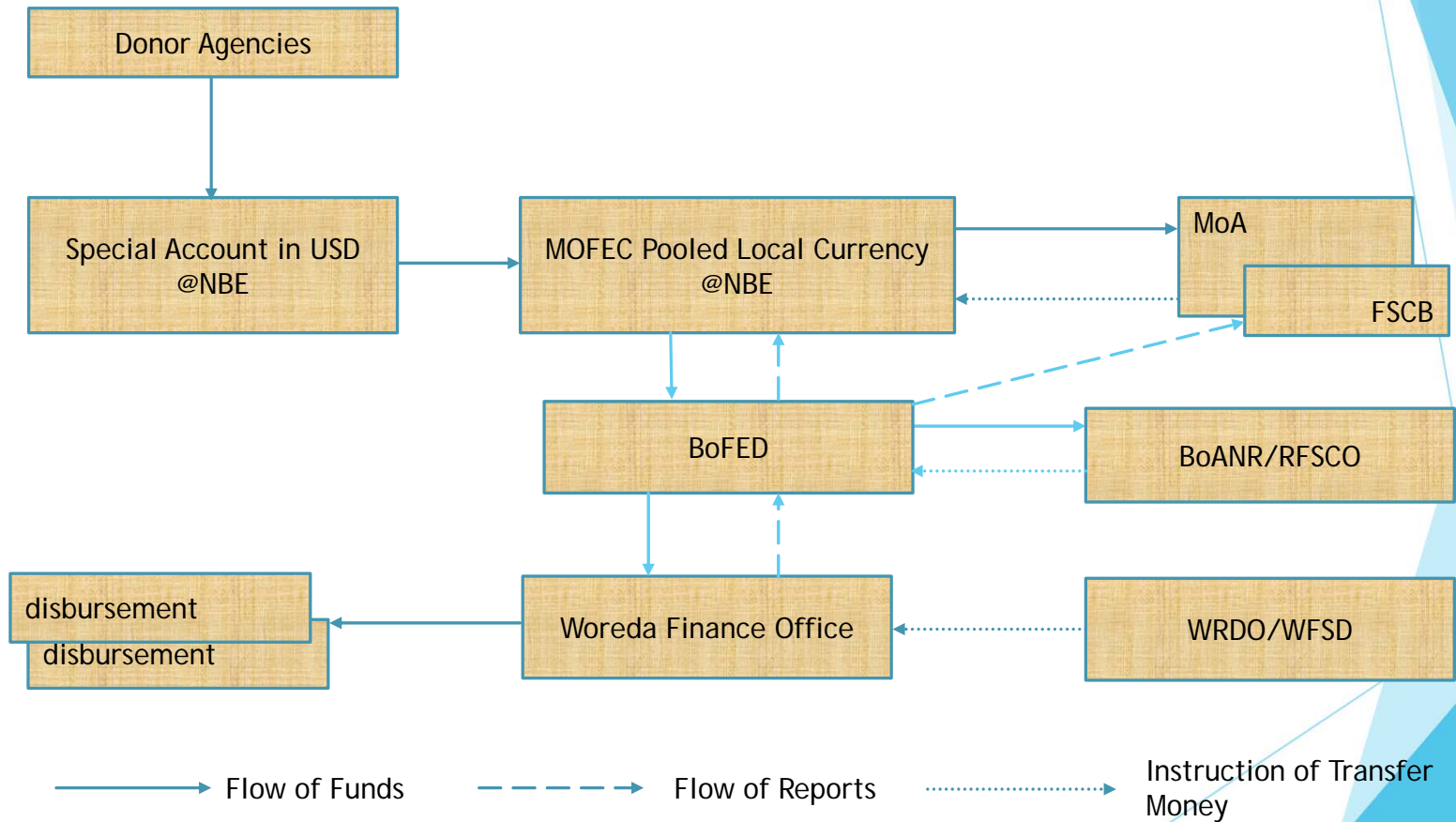
Regional BoFED evaluates the request and allocates/approves budgets for the execution of activities based on

- requests from woredas
- Internal revenue generated
- Population
- Existing projects and new development needs
- Other non-budgetary interventions

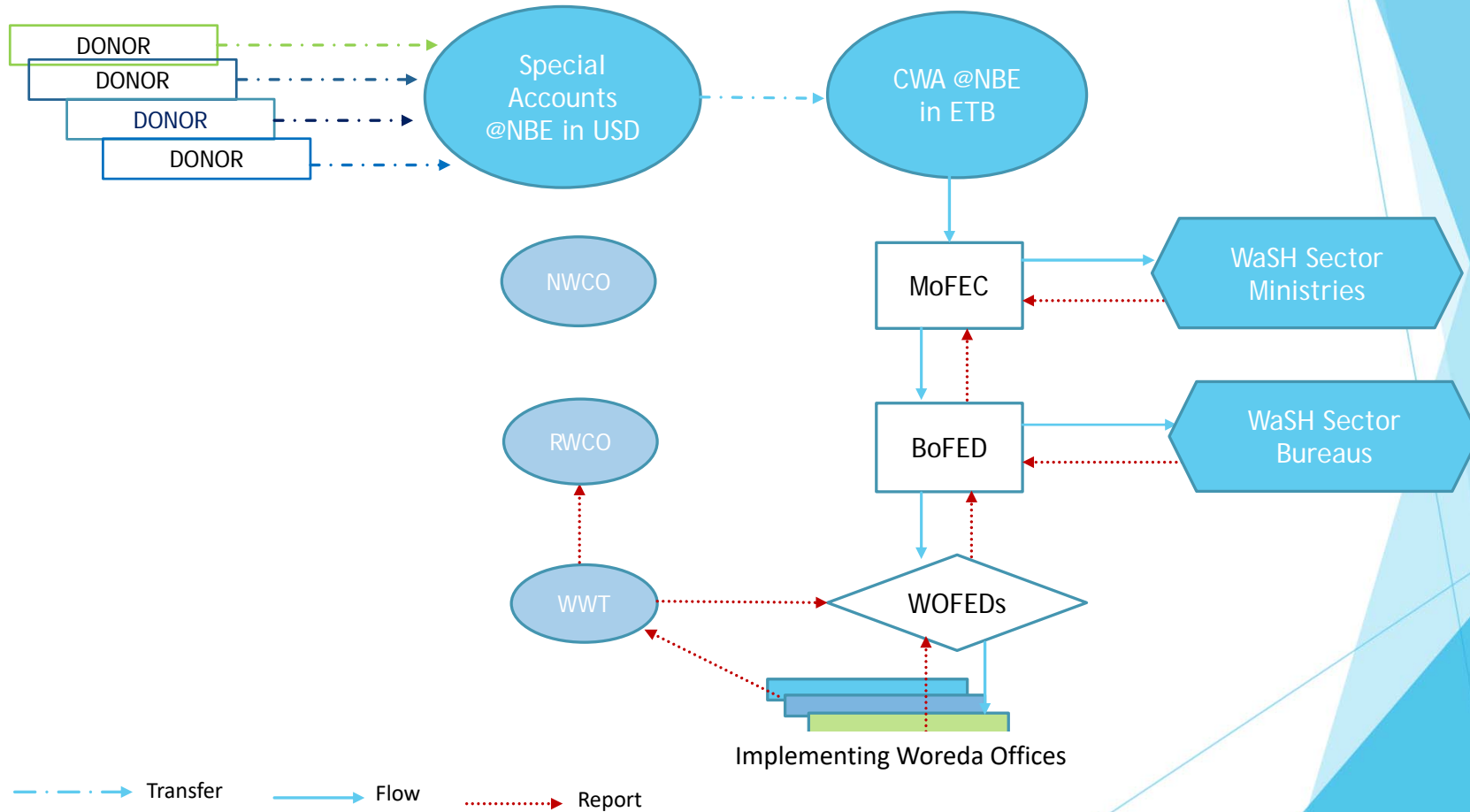
Execution and Reporting

- Once the budget has been allocated to and released for woredas, the woreda finance office releases and disburses for sectors and projects based on their activity plans
- the budget is released every month or quarter depending on the type of budget
- Recurrent budget is requested and released every month while capital budget is requested and released every quarter.
- Similarly monthly reporting is made for recurrent budget while quarterly reporting is made for capital budgets
- The budget process for government subsidies and other programs (PSNP, One WaSH, etc...) follow existing government regulation

Budget Flow of PSNP



One WaSH Budget Flow



Financial Management at Woreda Level: What are the Challenges?

- The woreda is the key level of government that determines needs, undertakes planning and implementation
- the woreda cabinet and the council are responsible for guiding and overseeing the integration of the planning and implementation
- Must ensure that proper accounting systems and competent accounting staff are established and maintained

Preparation and submission: What are the challenges?

This usually takes place towards the end of quarter three and beginning of quarter four, which is a busy time for current year budget implementation

Budget preparation deals with the annual translation of strategic plans into the budget

Short timeline for the budget formulation process

Results in non- exhaustive and weak planning

Also may result in weak integration of plans

Approval and disbursement: What are the challenges?

- Mostly capital budgets are released towards the end of quarter 1.
- Delay in disbursement results in delay of execution

Execution and Reporting: what are the challenges?

- Delaying or failing tendering and procurement process (poor procurement management)
- Capacity of contractors and timely disbursement to contractors
- Timely reporting of the previous quarter implementation in order to timely secure the next quarter budget
- Approved budget is a law and fund diverting requires reapproval resulting in delay of budget utilization
- Effective budget preparation and submission?

Timeline and Steps in Budget processes

Budget Process	Time (qr/mon)	Remarks
Preparation and Submission	Q4/April and May	Peak time for current year budget implementation
Approval	Q1/July	Most regional states conduct council meetings during the beginning of quarter 1, in July
Disbursement	End of Q1/Sep to Beginning of Q2/Oct	Federal to Region to Woreda to beneficiaries
Execution	Mostly from quarter 3 onwards	Tendering and procurement processes
Reporting	Delay	Causes delay on the next quarter disbursement, then problem becomes cyclic

- Coordination and capacity gaps play key role at each step

Overall challenges

- Staff capacity: lack of adequate and experienced manpower, eg. budget experts, contract administrators, etc
- Well established system (institutional) and integration: lack of coordination between other budget holders with finance sections