



DREAM II Learning Events

Financial Management Capacity at Woreda Level
29-July-2021

Learning Note



The DREAM learning event number IV was organized on 29 July 2021 as one in a series of run up events for the Development of Resilience Empowering Alternative Measures in Arid and Semi-arid Lowlands of Ethiopia Conference (DREAM II). The DREAM Learning Events are meant to create connections between different organizations working on lowland development, to share experience and discuss the scaling of the good practices. For further details on the learning events, presentations and full proceedings, kindly visit the DREAM SDR website <https://sdr-africa.com/>

The Learning Event zoom in on the capacity at Woreda level to manage and handle development finance, looking at capacity to plan and disburse, follow own plans, the relation with kebele and other levels (zone, region) , procedures and process of budget allocation and dealing with off-budget activities. This briefing note summarizes main findings.

The speakers at the Learning Event were:

Dr. Elisabeth van den Akker - GIZ-SDR Programme

Mr. Abdurahaman Abdulahi, representing Ms. Zahra Sheik Ahmed - Woreda Finance Office Head

Mr. Assefa Kumssa - former State Minister of Mines

Key messages

- Financial management at Woreda level is pivotal to optimize available resources for development, as well as for taking opportunities coming from the multiple financial sources that can be channeled to the Woredas.
- Financial management goes hand in hand with technical and operational aspects of development and management activities. The capacity to effectively acquire, plan, allocate and monitor finance largely determines the Woreda's development performance. Attention should therefore be paid to financial management, alongside technical considerations of development activities.
- There are several bottlenecks in the ways finance is being allocated and managed at the Woreda level, the most prominent ones include:
 - o Bottlenecks stemming from the procedural aspects of financial management: Time-consuming budgeting procedures, mis-match between budget disbursement to Woredas versus actual time available for implementing development activities, etc.
 - o Bottlenecks stemming from limited capacity: The human resource capacity to tender, procure, request, allocate and reporting on finance is limited. Additionally development plans are often not detailed enough for budget disbursement.
 - o Bottlenecks stemming from the overall limited budget: Finance available to most Woredas largely is limited to the government allocated budget (around 80% versus 20% internally generated budget). Internally generated budget and funds from development agents are often very limited. This budget portfolio should be diversified.
- Experts and participants highlighted a number of solutions to further improve financial capacity at Woredas level. These include:
 - o Optimize the procedure for budget requesting, planning and disbursement. Here it is important to have more detailed development plan, well-aligned to the government's long-term strategies and prioritized areas (Agriculture, WASH). Woredas should be active with timely request in the critical moment of the first financial quarter where delays are common.
 - o Develop capacity through trainings to prevent delayed disbursement or failed procurement. There are strict requirements and procedures to follow in terms of tendering and reporting. Hands-on trainings for financial staffs at the Woredas would be beneficial.
 - o Actively monitoring the work progress and supporting contractors with implementing contracts, as well as proper reporting will help avoiding delays or refused disbursement. Here it is important to focus on timely reporting by each financial quarter, to allow for

smooth disbursement in the following quarter. Budget monitoring and balancing should be in place since there are high over- and underspending at Woreda level.

1. Woreda financial management – procedures and challenges

Finances powering development activities at the Woredas consists of three main sources, namely the government allocated budget, the internally generated budget, and additional budget lines from development agents e.g. the GIZ, and other special programs such as the Lowlands Livelihood Resilience Project LLRP, the Productive Safety Net Program (PSNP), the General Education Quality Improvement Program (GEQIP). In most cases, the government budget is the primary source for covering development needs. Ethiopia has namely a dual budget system with capital and recurrent budgets at all government levels. Capital budgets are prepared by planning institutions and decided upon at federal and regional level, while recurrent budgets are prepared by finance institution. However, the exact setup differs per region. This represents a challenge as well as an opportunity. The central budget from the government is limited, and is reportedly insufficient to cover all needs and requests from the Woredas. Another challenge relating to governmental budget is that this fund is taking up largely by salaries, therefore the actual spending capacity on development investment is limited. The opportunity lies in diversifying the budget portfolio, and building capacity to increase the contribution of development budget from non-governmental sources.

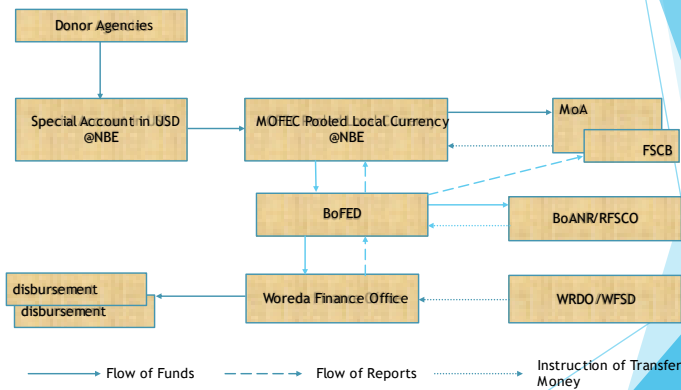
The financial flow follows a typical procedure and consists of five steps, summarized in the below scheme. Note that the financial year ranges between June and July next year.

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

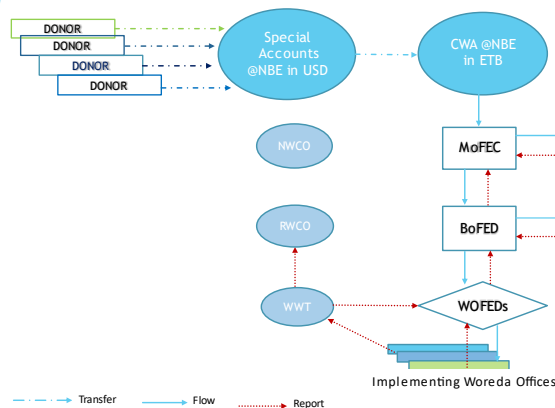
Credit: Assefa Kumssa

While the financial flow is can be depicted rather clearly as a step-by-step procedures, there are remarkable variations and much more details are relevant to consider its optimization. The below two schemes illustrates the level of details and variations between two important development programs for Woredas.

Budget Flow of PSNP



One WaSH Budget Flow



Credit: Assefa Kumssa

Several challenges exist in governing the financial flows into, and within the Woredas for fulfilling development needs. Some challenges are specific to a node in the financial flows, while several are cross-cutting in the whole chain. The most important challenges are described in the flow table.

Table 1. Common challenges in governing financial flows for development needs at Woredas.
Credit Assefa Kumssa.

Phase	Main challenges
Preparation and submission	<ul style="list-style-type: none"> Budget plans are typically prepared and submitted in end of Q III and early Q IV, coinciding with a hectic time to wrap up the financial year. Budget preparation are not always well-aligned to 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 & Disbursement	<ul style="list-style-type: none"> Mostly capital budgets are released towards the end of quarter 1. This is rather late approval and disbursement, causing delays in execution.
Execution	<ul style="list-style-type: none"> Delaying or failing tendering and procurement process (poor procurement management) Limited capacity of contractors and timely disbursement to contractors Approved budget is a law and fund diverting requires reapproval resulting in delay of budget utilization

Reporting	<ul style="list-style-type: none"> Reporting of the previous quarter implementation is not timely, causing delays in the next quarter budget
Cross-cutting	<ul style="list-style-type: none"> 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

2. Towards improving financial management capacities at Woredas

To improve the financial management capacities, staffs at Woredas, ministries and development agents can work on different fronts. Below the different solutions are organized into three main fronts, concerning (1) better control over the development planning and budgeting; (2) optimizing the financial procedures; and (3) overall improvements in the administration, logistics and capacity aspects. While the solutions are structured separately, it is recommended that they are considered and implemented in combination, to aim for the optimal results.

Increase Woredas control and power over development planning and budgeting

Empowering the Woredas to have better control over plans and budget for development needs is essential to optimize finance for development. In order to achieve this aim, the follow actions are recommended:

- The center of development planning should shift from the regional level to the Kebele and Woreda levels. This means that planning team and key decision-makers should be established or strengthened at these level, alongside activities at the regional level. All in all, development planning needs to find a balance and working combination of both bottom up, i.e, request from the woredas and top down modalities, which considers the availability of resource and equity among other woredas.
- Development planning should acknowledge and address needs at the community level. In this regard, use of bottom-up approach and involvement of local stakeholders are key. Woredas should embrace need-based planning combined with a wider community participation system. Community involvement and contributions should be included at the planning stage to create a sense of ownership and sustainability.
- Woredas need a strategic plan in order to take a longer-term perspective in development planning. The annual plans can then be informed by that strategic plan, based on the long-term prioritization strategy. The strategic plan will also be a good collaborating space to develop joint vision, that include the vision and strategies of development partners. It is also important to create cohesion in the strategic and annual plan, amongst sectors and amongst the regional plans.

Optimize the financial procedures

Financial procedures for requesting, approving, disbursing and monitoring finance for development activities show important shortfall (see Section 1). These procedures can be adjusted and optimized to ease access to development finance at the Woredas.

- Standard Operating Procedures SOPs should be established, and existing one could be improved.
- Build strong relationship among regional planning team and Woreda planning team should be built to reduce the information and skill gaps.
- Avoid over- and underspending at the Woreda level, by closely monitor budget and balance out the budget as soon as issues emerge.
- For all these solutions to work, it is important to build capacities for local staffs, aiming at having financial experts at Woreda levels.

Improving the administration, logistics and capacity aspects

The third group of solutions address a wide range of aspects that sometimes creates hinderance to the financial flows at the Woredas.

- Administratively, woredas should attract more highly-skilled financial planner, controller and managers, to lift up the capacity to attract and manage development resources.
- Avoid delays in the budget disbursement. There are two common factors causing late disbursement, namely late budget request, and late or non-confirming financial reporting by contractors. Woredas should pay particular attention to these two shortfalls, to ensure timely budget disbursement.
- Increase the overall financial resources for Woredas, by diversifying from the major dependency on government funding.
- Improve tendering capacity through different training activities.

All in all, a smooth and healthy financial flow at the Woredas calls for systemic improvement on different fronts. While budget is generally limited, this can be increased by a having a long-term strategic planning in place. This helps to ensure stable financial flow from the government, as well as providing space for engagement and reinforcement with development agents and donors. An essential part of the financial improvement is with optimizing the financial flow, covering budget planning, requesting, disbursement, implementation and reporting. In this whole chain, the main focus is on improving the capacity of financial staffs through trainings, to help avoid delays in the financial flows, especially in some critical moments in the financial year.

