

ASSESSMENT OF BUDGET PREPARATION, UTILIZATION AND BUDGET
PERFORMANCE: THE CASE OF ADDIS ABABA MASS MEDIA AGENCY,
ETHIOPIA

A Senior Essay Submitted to the Department of Accounting,
ST. MARY'S UNIVERSITY COLLEGE

In Partial Fulfillment of the Requirements for the Degree of
BACHLOR OF ART IN ACCOUNTING

By
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May 2013

St. Mary's University College, Addis Ababa Center

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ST. MARY'S UNIVERSITY COLLEGE
COLLEGE OF OPEN AND DISTANCE LEARNING

As a member of examining board of the final senior essay presentation-defense, we certify that we have heard and evaluated this paper prepared by **Gebeyehu Tadesse** entitled the Assessment of Budget Preparation, Utilization, and Budget Performance of Addis Ababa Mass Media Agency and recommend that it be accepted as the Partial Fulfillment of the Requirements for the Degree of Accounting

Examiners

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TABLE OF CONTENTS

| | |
|-------------------------------|------------|
| APPROVAL SHEET ----- | i |
| ABBREVIATIONS ----- | ii |
| ACKNOWLEDGEMENTS ----- | iii |
| LIST OF TABELS ----- | iv |
| LIST OF FIGURES ----- | v |

| TOPIC | PAGE |
|---|-------------|
| 1. INTRODUCTION ----- | 1 |
| 1.1. BACKGROUND OF THE ORGANIZATION----- | 1 |
| 1.2. BACKGROUND OF THE STUDY----- | 2 |
| 1.3. STATEMENT OF THE PROBLEM----- | 3 |
| 1.4. OBJECTIVE OF THE STUDY----- | 4 |
| 1.5. SCOPE OF THE STUDY----- | 4 |
| 1.6. SIGNIFICANCE OF THE STUDY----- | 5 |
| 1.7. METHODOLOJY----- | 5 |
| 1.8. LIMITATION OF THE STUDY----- | 6 |
| 1.9. ORGANIZATION OF THE PAPER----- | 6 |
| 2. LITRATURE REVIEW ----- | 7 |
| 2.1. COCEPTUAL LITRATURE----- | 8 |
| 2.2. RELATED LITRATURE----- | 18 |
| 3. DATA ANALYSIS AND PRESENTATION ----- | 24 |
| 3.1. DESCRIPTION OF THE STUDY AREA----- | 24 |
| 3.2. ANALYSIS OF THE FINDINGS OF THE STUDY ----- | 24 |
| 4. SUMMARY, CNCLUSIONS AND RECOMMENDATIONS ----- | 37 |
| 4.1. SUMMARY----- | 37 |
| 4.2. CONCLUSION----- | 38 |
| 4.3. RECOMMENDATION----- | 40 |

APPENDICES

DECLARATION

I, the undersigned, declare that this senior essay is my original work, prepared under the guidance of-----
----- . All sources of materials used for the manuscript have been duly
acknowledged.

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LIST OF ABBREVIATIONS

| | |
|-------|---|
| BSC | Balanced Score Card |
| CUD | Coalition for Unity and Democracy |
| IDA | International Development Association |
| IFC | International Finance Corporation |
| MTEF | Middle Term Expenditure Frame work |
| MoFED | Ministry of finance and Economic development |
| SDPRP | Sustainable Development and Poverty Reduction Program |
| SNG | Sub-national Government |
| UNDP | United Nation Development Program |

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ACKNOWLEDGEMENTS

The author is highly indebted to those who orient me how to prepare my paper, my colleagues and my family. Without your encouragement this work would not have been possible. My special appreciation also goes to my wife for her assistant to my accomplishment.

LIST OF TABELS

| Table | Page |
|---|-------------|
| 1. Budget Cycle----- | 13 |
| 2. The Distribution and position of Respondents----- | 24 |
| 3. Level of education and sex of the respondents----- | 25 |
| 4. Budget allocation and utilization for the last three years (2003-2005)----- | 26 |
| 5. The amount of the budget which is allocated for the agency----- | 26 |
| 6. The allocation of the budget----- | 27 |
| 7. codes which the city administration uses for budget allocation are listed----- | 28 |
| 8. The budget allocation according to the budget code----- | 28 |
| 9. Concerned body that is responsible to administer the budget----- | 29 |
| 10. The amounts which are allocated for the capital and recurrent budget----- | 30 |
| 11. Transparency for the budget allocation----- | 31 |
| 12. The transparency of the budget utilization ----- | 32 |
| 13. Report delivered for the concerned body on timely basis----- | 33 |
| 14. The time the delivery of budget utilization report----- | 34 |

CHAPTER ONE

1. INTRODUCTION

1.1. BACKGROUND OF ADDIS ABABA MASS MEDIA AGENCY

Addis Ababa mass media agency, which is established under the proclamation number 20/2002, is accountable for the city council (Addis Ababa city administration proclamation no. 20/2002). Before its establishment as an agency it has been working under the communication affairs bureau of the city government under the main business process level. The agency is organized by two directors (main and vice), one core business process, which is also organized by two sub-business process and five support business process which is a total of 236 employees of all kind.

Though it is a media institute its main function is serving as the information source of the city administration and transmits various kinds of information and activities which are undertaken in the city through its three mediums mainly radio, television and news paper and metropolitan journal.

The role of the media is to insure national consensus on various issues which is undertaken in the city and at the federal level as well and disseminate various information for the urban dwellers, and serve as news and information center for the city.

It is based on media quality, accessibility, and participatory function. As mentioned above the agency is working through its three mediums. The radio medium (FM96.3) is working for 18 hours from 12:00 early in the morning to 6:00 pm midnight. The television program which is transmitted via Ethiopia radio and television agency through ETV2 channel consume 6:30 hours daily that is 0:30 hours from 6:30 to 7:00 at noon and from 7:30 to 10:00 in the after noon and from 3:00 to 6:00 pm in the evening program from Monday to Friday. The news paper Addis Lisan published bi-weekly on Wednesday and Saturday which has a copy of 3000 in each publication and the metropolitan journal also published quarterly a copy of 1000 and distributed throughout the city (Addis Ababa Mass Media Agency Booklet 2009).

The media as an institute which is under the control of the city council, administer its employee and the agency under the civil service rules and regulations. To undertake its overall activities the city government allocates annual budget under the supervision of finance and economic development bureau. Like other institutions the agency prepares its annual budget according to the ceiling which is disseminated for all sectors under the city government. Prior to the dissemination the finance and economic development bureau send MTEF format to fill all budgetary sectors their budget requirement for the coming fiscal year which embraces salary of

the employee, telephone and related service budget, fuel and capital project budgets. The finance bureau after ratifying the requested budget based on its capacity of revenue collection, it sends the budget ceiling which contains all recurrent budgets excluding the above mentioned under MTEF.

The budget ratification is announced at the end of the first week of July every year. After all these processes the agency is responsible to administer its budget accordingly. The entire budget is allocated is under each budget code and every transaction is undertake based on the budget which is cited on the code. The agency based on the allocated budget especially the capital project one has been undertaking various activities to upgrade the media capacity especially on FM 96.3 and to stand alone on its television medium which is now transmits its news and programs through ETV2 channel by erecting its own television transmitter antenna and purchasing Obvan(out side broadcasting van).

1.2. Background the study

There is a general consensus in developing countries that economic development is an urgent priority. But the task to bring about this development has remained an elusive and difficult one. This is so partly due to inadequate financial resources and low level of investment in these countries. The financial resources are in scarce supply to meet ever-increasing social needs and population growth. The availability of financial resource is constrained by difficulty of generating the required level of saving out of low level of per capita income and economic growth. Therefore, in view of limited resources and increasing demands, there is a need to improve resource allocation through proper economic policy and expenditure planning.

Addis Ababa city administration which is accountable to the council of ministers administered by its own revenue and never subsidized by the federal government unlike other regional governments. Its revenue is coming from direct and indirect tax which are collected from the city. The finance and economic development bureau which is the responsible body to undertake the collection and allocation as well as the controlling of the revenue and the budget of the city, submits annual budget request for the cabinet to ratification after all sectors are prepared their annual budget by referring the budget ceiling which is disseminated through the finance bureau. The ratified budget is then dispatched to the concerned sectors to undertake their capital and recurrent budget according to the rules and regulations.

Addis Ababa Mass Media agency is one of the sectors under the city administration .To undertake its various activities the agency uses its capital and recurrent budget for its capital project and administration activities accordingly. In due course even though the budget is prepared according to the finance and economic development bureau criterion, the utilization and administration of the budget has its Owen drawbacks. Among the reason are the professional

incompetencies of the employee, accidental procurement request of the capital project which is not supported by the budget, poor controlling mechanism of the budget, poor performance of the delivery of the service and reporting mechanism of the budget utilization are among the problem the agency faced. So to alleviate these problems from its grass root efficient administration and utilization of the budget and well equipped professional personnel are required. So to analyze the budget administration and to strengthen the overall budgetary activities undertaking this research is undeniable.

1.3. Statement of the Problem

In developing countries, it has become increasingly complex to manage public expenditure allocation because the roles of the government have been expanded and financial resources are in scarce supply to meet this ever-increasing social needs and population growth. Due to inadequate financial resources as opposed to an increasing demand for public service, there is a need to improve resource allocation through proper economic policy and expenditure planning (Getachew Neggera 2005).

These processes require a realistic medium term expenditure planning and annual budget allocation, which reflect policy objectives and priorities of the city government. It is a tool for improving public sector expenditure planning and management. Failures to link up these systems across the all levels of the city have been contributing to poor expenditure planning and budget management systems. In Addis Ababa city administration, the integration of annual budgeting with medium term planning is fragmented. Budget reform and public investment projects have been attempted to reduce the gap between expenditure planning and annual budget allocation in the city.

The expenditure planning project has attempted to implement efficient resource allocation by placing greater emphasis on the medium term expenditure planning. Its main focus was on the capital planning process to develop public investment program.

Every year the city administration finance and economic development bureau disseminate MTEF format which contains the needed budget for the coming two or three years which includes the capital and recurrent budget as well as the basic salary of the employee of the agency. According to the request the agency and other bureau and other institution send their budget request as required. What is the problem regarding this issue is that the budgetary institutions are not aware of what they have to do and for the coming budget year.

Addis Ababa mass media agency, one of the institutions which are administered by the city council is responsible to request the annual budget depending on what is going to do on both the capital and recurrent budget. The agency prepared the annual budget request every year according to the budget ceiling which is disseminated by the finance bureau every year.

What is the main problem in requesting the annual budget of the agency is that the concerned business process does not know efficiently what is going on in the agency for the coming budget year; the concerned other business processes are not interested to inform what will be done for the coming year and the other major problems arise in relation to the utilization of the allocated budget which is due to the fact that the budget is not specifically allocated for the specified item. That is even though the budget is allocated according to the identified budget code it is totally consumed by other items or urgent issues by transferring the budget to the required budget code. The other related problems are arise because of the bid related issue which is not announced timely basis or the bidders even do not want to deliver the required items on time which delayed the paying time and the end result become the reimbursement of the budget to finance bureau. All these factors or problems are the main limitations of the agency's budget performance.

1.4. Objective of the study

One of the major means of strategies to promote development is the establishment of realistic and well-prepared expenditure planning and annual budgeting. This involves the process of effective resource mobilization, proper allocation of resource and an efficient utilization of the available scarce resources. The main objectives of these processes are to introduce aggregate budget allocation, establish proper resource utilization in accordance with the agency priorities and objectives, and to bring about institutional efficiency.

The overall objective of the study is to assess the agency's budget process, integration of Medium term expenditure planning and budget allocations as well as pinpoint the key Problem areas that seek attention and improvement. The study has the following specific Objectives.

1. To review the over all effort made to reform expenditure planning and budgeting;
2. To examine the process and procedures of expenditure planning and budget allocation;
3. To improve the budget utilization of the agency;
4. To aware the concerned authority about the overall budgetary and related issues

1.5. Scope of the study

The scope of the study is limited to the analysis of budget preparation, utilization and performance of the Addis Ababa Mass Media Agency. It doesn't consider other institutions those which are administered by the city administration

1.6. Significance of the study

In developing countries, like Ethiopia, the allocation of scarce resources for the provision of Socio-economic development should be based on systematic synchronization of policies, Planning and resource and efficient utilization of resources for effective economic development. But, in practice there are several gaps to link up the needed requirement and the allocated budget. Objectives with available resources. The need to work on this missing link is essential in the agency where resources are extremely scarce. From this point, one can easily conclude that it becomes so important to study allocation of financial resources, In general, by analyzing some the city government procedures in budget allocation; the study is helpful to formulate sound expenditure planning and to improve the deficiencies of resource allocation and utilization in the agency.

1.7. Research Methodology

This research was designed and based on two main sources: the primary data and secondary data. The secondary data were collected from annual/ periodic report, budget document, research papers, finance and economic development bureau publications. These secondary sources of information were mainly used to support the primary data. The primary data collection was based on survey method. This survey method used structured questionnaires to collect information related to expenditure planning and budget allocation. The questions are open and closed ended. The selection of the concerned bodies is based on functional classification. Functional classification comprises administrative and general service. Based on this classification, from administrative service finance and procurement support process and research and budget preparation, evaluation and follow up support business process (Capacity building and Finance bureau BSC documents 2009). From the general service the main and sub business process who are the prime beneficiaries of the budget. These sample officers were extensively occupied with budget utilization and preparation as well as running the capital expenditure of the agency.

The next step was the determination of the number of respondents from each business process. Since they are limited numbers of qualified personnel under theses process, a total sample size of 20 respondents among a total of 37 was selected for the study. In order to collect primary data, the researcher distributed questionnaire to these respondents. The questions cover the following five basic areas:

1. the method of budget preparation process;
2. the mechanisms and systems of budget allocation in the agency;
3. the budget utilization process;
4. accountability and responsibilities in the budget process; and
5. The budget decision–making process.

As a matter of fact, the very nature of this survey is of descriptive and analytical type. It has also noted that the study is to some extent an explanatory type

1.8. Limitation of the study

Analysis of the expenditure planning and budget allocation and utilization in the agency is difficult. There is no well-established and planned expenditure management. The existing documents are mainly empirical, not fully reliable. In addition, some respondents were not willing to give relevant information related to the study. The other limitations are the absence of enough time to prepare the material and the absence of other research material which are conducted on the agency.

1.9. Organization of the study

Including the introductory part of the study, this research is organized into four chapters. The introductory part presents background, statement of the problem, objectives and research methodology, scope of the study, significance of the study, and limitations of the study. Chapter two review of the literature that is related to planning and budget allocation, expenditure planning, budget process and source of finance as well as utilization. Chapter three data analysis and presentation it identifies the strength and weakness of the budget allocation and utilization of the agency. Finally the paper presents summary and findings, conclusion and recommendation.

CHAPTER TWO

2. LITERATURE REVIEW

2.1. CONCEPTUAL LITERATURE

2.1.1. Planning Versus Resource Allocation

Development policies and plans usually coexisted with resource allocation. After government policies and plan are formulated, the resource allocation is made through budget process. According to Premchand (1983), there are two types of planning: - development planning and fiscal plan. Development planning involves the planning of societal goals and objectives and the mobilization of natural, human, and financial resources needed for their achievements. Fiscal planning is narrow in scope and is the instrument of development planning. It consists of future budget planning, source of finance, methods of obtaining the necessary resources and allocating them in accordance with overall national goals. As Premchand further explained, both plans and budgets are concerned with policy analysis and allocation of resource. The differences lie in the combination of economic and financial aspects. In planning, economic aspects dominate, while in budgeting, more attention is paid to financial aspects.

The main arguments for planning or government intervention are failure of competition, the existence of public goods and externalities, incomplete market, information failure, unemployment, inflation and poverty (Stiglitz, 1998; and Todaro, 1997). In fact, Fozzard (2001) argued that in perfect market, the forces of supply and demand would achieve an efficient resource allocation through price mechanism with out the need of public intervention. But in the real world, there are cases where economic activity is highly dominated by only one firm and this firm controls the whole market operation. This argument suggests that the absence of perfect market competition call for public intervention.

Public spending is very important to reduce inequality, poverty and unemployment. The fact that market has failed to produce full employment and equity implies that government intervention is mandatory. Government intervention helps to reduce inequality and poverty by improving distribution of income and means of employment. In most developing countries, government intervention or development planning was more practiced after the Second World War. The plans were formulated to set out government priorities, objectives, and target of development and help for the guidance of long-term public expenditure programs. However, after more than three decades, the result of development planning in these countries has been generally disappointing (Todaro, 1997). For instance, according to the study of Harrigan (1995), in Jamaica in 1950s and 1960s national development plans articulated the country's development priorities in the light of resource constraints, and were used to help for the guidance of the government's annual budget process. But since the 1980, the development plan was aborted due to change in political regime.

The lack of long-term public expenditure strategy has two negative accountabilities. First, it was hard to evaluate the outcomes of public expenditure policies against planned objectives; second, it was difficult for interested groups to make effective inputs to the planning process.

2.1.2. The Role and process of Medium Term Expenditure Planning

The MTEF is annual, rolling three year-expenditure planning. It sets out the medium-term expenditure priorities and hard budget constraints against which sector plans can be developed and refined. MTEF also contains outcome criteria for the purpose of performance monitoring. MTEF together with the annual Budget Framework Paper provides the basis for annual budget planning (Finance and economic development bureau annual budget frame work (2012).

2.1.2.1. The Objectives of MTEF

- ✚ Improved macroeconomic balance, especially fiscal discipline
- ✚ Better inter- and intra-sectoral resource allocation
- ✚ Greater budgetary predictability for line ministries
- ✚ More efficient use of public monies
- ✚ Greater political accountability for public expenditure outcomes through more legitimate decision making processes
- ✚ Greater credibility of budgetary decision making (political restraint)

Since 1991, in most African countries, medium and long-term socio-economic development were not driven by a national plan. The role of national plans in guiding public expenditure allocation has declined and been substituted by Medium Term Expenditure Framework (MTEF). The MTEF approach is essentially an effective budget process and is similar with program budgeting. If properly implemented, the MTEF can improve medium term resource allocation and creates the link between policies and programs, and the resources allocated to their implementation (Kiringai and West, 2002) According to the World Bank, failure to link policy, planning and budgeting may be the most important factor that contributes to poor budgeting outcomes at macro, strategic and operational level.

MTEF model is employed to estimate the total resource envelope and expenditure, by taking into account the variables including GDP growth rate, inflation rate, money supply etc. It consists of top down aggregate resource envelope available for public expenditure; a bottom up estimation of the current and medium-term expenditure, and reconciles these costs with resources. The main objectives of the model are to improve macro economic balance, especially fiscal discipline, improve the sectoral allocation of resources, promote budgetary predictability for line ministries, employ more efficient use of public monies, exercise greater political accountability for public

expenditure outcomes through more legitimate decision making process (Le Houerou and Taliercio, 2002; and World Bank, 1998 b)

Therefore, the six stages of a comprehensive MTEF are:

1. Development of Macroeconomic /Fiscal framework that projects revenue and expenditure;
2. Development of sectoral program and agreement on sector objective, output and activities;
3. Development of sectoral expenditure frame work;
4. Definition of sector resource allocation (setting medium term sector budget ceilings);
5. Preparation of sectoral budget; and
6. Presentation of budget estimate to cabinet and parliament for approval (World Bank, 1998

The development and implementation of MTEF is highly supported by international financial institutions and donor organizations. These institutions are increasingly initiating developing countries to accept and develop MTEF. This is basically to solve persistent problems of resource allocation in developing countries. The trend is particularly pronounced in Africa, which accounts for over 52 percent of the existing MTEFs in the developing world (Le Houerou and Taliercio, 2002).

Currently, MTEF has been introduced in some African countries such as Ghana, Guinea, Kenya, Malawi, Mozambique, Rwanda, South Africa, Tanzania, and Uganda. Because of their differences in institutional capacity and political circumstances of these countries, there are variations in the design of MTEF reforms at the implementation and operational levels (Le Houerou and Taliercio, 2002). For instance, in Ghana, Guinea and Uganda, MTEF is the integral part of the budget process, while in South Africa and Kenya; it is published before beginning of the budget preparation. In some countries, the scope of MTEF is only limited to priority areas. For example, in Guinea, Rwanda, Tanzania and Uganda only priority sectors are included into MTEF.

In terms of government level, most countries focus exclusively on the central level. Only South Africa and Uganda have introduced MTEF in central, provisional and local government levels. They have established standards and unit cost systems to improve sectoral resource allocation in the public sector. In other words, in these two countries both comprehensive development programs and government aggregate expenditures are incorporated in MTEF. The implementation of these procedures clearly indicated that South Africa and Uganda are relatively close to having fully operational MTEFs. Therefore, most African countries can draw preliminary lessons from the experiences of South Africa and Ghana in resource allocation in the public sector.

2.1.3. The Role and Types of Budget

2.1.3.1. The Role of Budget

The term budget is used to mean a plan for financing an enterprise or government during a definite period, which is prepared and submitted by a responsible executive to a representative body whose approval and authorization are necessary before the plan may be, executed (Hyde, 11 1992). The government budget represents a plan/forecast by the government of its expenditures and revenues for a specified period.

Budgeting could be conceived as a process for systematically relating expenditure of funds to accomplish planned objectives (Schick, 1992). Budgeting is not solely a matter of finance in the narrow sense. Rather it is an important part of government's general economic policy. It is a strong instrument in implementing the long term, medium term, and annual administrative and development programs (MoFED, 1993).

Budgeting involves different tasks on the expenditures and revenue sides of government finance. On the side of expenditure, it deals with the determination of the total size of the budget (i.e. total amount of money for the year), the size of outlays on different functions, and the magnitude of outlays on various activities. On the revenue side, it involves the determination of the size of the overall revenue and foreign aid. Furthermore, budgeting also addresses the issue of the budget deficit (i.e. the excess of outlays over domestic revenues), and its financing (Premchand, 1983). Premchand more substantiated the purposes of budget in terms of three aspects-as a tool of accountability and management, as an instrument of economic policy and as a type of legislation and political exercise. Especially, budgeting as an instrument of economic policy has more important function. It indicates the direction of the economy and national growth, allocation and utilization of resources. The other function of budget is to promote macro economic balance of the country through fiscal policy. This means, government has used taxation, government expenditure and borrowing to achieve economic growth, full employment, price stabilization and fair income distribution. In short, modern budgeting system has three functions – allocation, stabilization and distribution function.

2.1.4. Budget Types and Reforms

The budget reforms have started in the late of 19th and early 20th centuries to promote accountability and efficiency. The reforms have generally fallen into one of the two categories: (1) innovation designed to improve the budget type (2) innovation designed to improve the budget preparation process. This division may be overlapped each other, since change in the process inevitably affects the information (Bland and Rubbin, 1997).

Gianakis and McCue (1999) have classified budget types into four parts. They are line item budgeting, performance budgeting, program budgeting and zero-base budgeting. These four basic types of budgets have evolved from controlling expenditure to improving financial management. Line item budgeting is input- oriented budget system that optimizes the control function. The system is often associated with a financial plan of estimated expenditure, expressed in terms of the kind and quantities of objects to be purchased which estimated revenue needs to finance during a specified period, usually one year. Its function is expenditure control and safeguarding of funds based on assigned budgets and the focus is on the attainment of balanced budget (Babunkis, 1976). In addition, line item budgeting usually follows a system of incremental budgeting and is effective in controlling and monitoring expenditure management.

Although line item budgets are simple and effective in controlling funds, they still have a number of drawbacks. The system does not provide information about why money was spent, and no attention is given to the efficiency and effectiveness of the program (World Bank, 1998 b). Furthermore, line item budgeting does not usually consider planning and policy option in the budget process. These deficiencies encourage governments to develop and implement the performance budgeting that is based on enhancing efficiency and output. Performance budgeting is basically based on defined programs, goals and objectives. It measures the amount of work to be accomplished, the efficiency with which the work will be completed and the effectiveness of the program (Bland and Rubin, 1997).

Performance budgeting needs clear and measurable objective statement, pre-determined standards or performance measurement in comparison with similar other organization, decentralization of responsibilities and accountabilities, and institutional financial autonomy. However, Bland and Rubin have argued that performance budgeting does not address the fundamental questions; such as whether a program is necessary at all, or how best to allocate limited resources among competing ends. In other words, it gives more attention for efficiency and effectiveness of resources rather than resource allocations among competing policies.

Although, performance budgeting is difficult to design and implement, it has many advantages. It improves productivity; linking performance to budget allocation, improves accountability, allows

more decentralized decision-making and more creative management. The other alternative approach to determine spending priority is zero- base budgeting. In this approach, decision-makers conduct annual evaluation of each program and give priority against available resources. The budget is entirely remade every year; there are no commitments that are carried forward to the next fiscal year.

The application of this budget system is highly limited in developing countries. This is because some of the budget items such as contractual and legal payments of loans interest payments; contractual payments for salaries are carried forward to the next fiscal year. As Bland and Rubin have further explained, program budgeting organizes government activities into program, identifies alternative for achieving each goal, determines the costs and benefit of each alternative, and selects the alternative that maximizes net benefit. It is a system that links long range planning with yearly budgeting and evaluation.

The main objective of performance and program budgeting is to improve linkage between policies, planning and budgeting. Currently, public sector resource allocation needs such effective synchronization of budget process with planning. This in turn requires sustainable political commitment, sound budgetary and accounting systems, skilled and knowledgeable personnel, sufficient and flexible resource allocations (Caiden, 1996). However, in practice, program budgeting has not been very successful in both developing and developed nations (World Bank, 1998 b). This is due to:

- (1) The attempt to create program that is independent of organization affiliation proved impossible;
- (2) It is difficult to compare on the basis of effectiveness and choose among them, since there is no common index of worth for public program;
- (3) Adequate information about program is not available in many countries; and
- (4) Lack of stability and political commitment to fully implement the program.

Budget reform is undertaken in order to design the best system of budgeting that will ensure the effective attainment of objectives, the efficient allocation of resources and better estimation of budgets. Budget reforms have often focused on changing budget roles between the executive and legislative branch of governments, or shifting the location of decision making power and on budget formats and the kind of information needed for decision makin (Rubin, 2000). Often, the reforms tend to bring those changes by tilting the balance between the central components of budgeting process, i.e., planning, management and control, and emphasize one or another of those components (Schick, 1969). This is almost always accompanied by a change in the form of budget expenditure classification for the purpose of expenditure control, budget allocation and expenditure appraisal (Robinson, 1992).

2.1.5. Budget process

Development policies and plans usually coexisted with budgeting process. After government policies and plan has been formulated, the resource is allocated through budget process. The budget process is not just about collection of revenue and spending money to public bodies. But it is also an ongoing complex procedure involving important policy statement, planning, and socio-economic priorities, monitoring and reporting processes. It reflects government's view of socio-economic development of the country, the declaration of the fiscal, financial and economic development objectives of the country. The budget and its process is also important document in ensuring transparency, accountability and good governance.

The budget process shapes decision through the budget cycle. The budget cycle has four main stages: preparation of budget request, legislative approval, executive budget implementation, and summary of reporting on actual budget transaction (Bland and Rubin, 1997). Bland and Rubin have further substantiated the end product of each phase of budget cycle.

Table 1: Budget Cycle

| Phases of the Budget Cycle | End Product of Each Phase |
|-----------------------------------|----------------------------------|
| Preparation of request | Proposed Budget |
| Legislative adoption | Appropriation |
| Implementation | Disbursement of funds |
| Summary of transaction | Audited financial report |

Source: Bland and Rubin, 1997:p.23

In governments where executive budget making is not well developed, legislative review dominates the whole of the budget cycle. On the contrary, if the legislature's role is inadequate, then executive preparation dominates all phases (Burkhead, 1965). The executive preparation stage starts with the call for estimates by ministry of finance or/and plan minister. These institutions give instruction to public bodies in order to prepare their requests. The call for estimates notifies government priority areas, critical problems, the date for submission and supported material documents.

The public bodies or agencies conduct intensive examination of their budget in line with ceilings, policy directives and priorities. After the public bodies or agencies have prepared their estimates, they will submit to the respective institutions. These institutions review, consolidate, recommend

and if necessary modify formal national budget and submitted it to the cabinet. After review and adoption by the cabinet, it will be passed to parliaments for final approval. The parliament's approval of the national budget is based on specific government goals, policies, priorities, and resource generating capacity and over all socio- economic development.

In the budget process, one of the principal issues is the degree of participation by interested parties. The chief executive bodies, policy-makers, budget analyst, department heads, citizens, and interested group representatives should all participate in the budget decision-making process (Bland and Rubin, 1997)

2.1.6. Source of Finance and Budget Deficit

In developing countries, the domestic sources of government finances are tax revenue, nontax revenue and domestic loans. External financial resources come from external loan, aid and different kinds of grants. From domestic sources, taxation is the major and most effective way of reducing consumption and transferring resources to finance government expenditure. Foreign finances could appear in the country in the form of public and/or private capital.

Public foreign financial resources may be classified into bilateral and multilateral loans and grants. Under the multilateral loans, there are various agencies of the United Nations' Organization like the World Bank, International Finance Corporation (IFC), International Development Association (IDA), United Nations Development Program (UNDP), etc. The transfer of resources from these organizations to low-income economies can be in the form of loans on concessional terms, technical assistance and grants (Berhanu, 1999). The financial needs of developing countries, especially expenditure needs for social provision such as education; public health, technical training and research can be financed with the help of these multilateral and bilateral loans and aid (Jhingan, 2002).

Economic expansion is playing a significant role to increase government revenue and expenditure. As experience reveals, in most developing countries, the total domestic revenues grow at a lower rate in comparison to expenditure. As expenditure grows rapidly, in comprising to revenue, the amount of budget deficit increases at significant rate. A budget deficit is simply the amount by which government expenditure exceeds receipts. Government budget deficit can be financed through issuing of government bonds, treasury bills, printing money or borrowing from external sources. But all of these systems have their own negative consequence on the economic development. Borrowing from foreign sources can be the main cause of increasing real exchange rate and external indebtedness. The main cost associated with the accumulation of a large external debt is debt service. The important point about external debt is that it poses no danger if it is used wisely and in ways that would lead to high rates of growth (Befekadu Degefe and Berhanu Nega, 2000).

Domestic borrowing also brings about excessive real interest rate and crowded out private investment. In general, large budget deficit creates real threat to the stability and growth of the economy. Excessive budget deficit lead to the problems of inflation, exchange rate crises, external debt crises and high real interest rate (World Bank, 2001).

2.1.7. Government Budget and Fiscal Decentralization in Ethiopia

In developing countries, the adoption of planning as an instrument of economic development, the influence of donors through loans and technical assistance and the existence of different shocks have influenced the importance of budgeting system.

The Ethiopian experiences with respect to the budget system have not been significantly different from experiences of other developing countries. During 1950s and 1960s, the country has engaged in detailed planning exercise, which was the main instrument for resource allocation. It has under-gone significant change in the area of policy and planning, revenue collection and expenditure allocation, and over all financial management. As Ghirmai (1990) noted, for the first time government budget was published in Ethiopia in 1945.

The budget format that was established during the time was used for a long period of time. The 1955 constitution specified the definition of powers of Ministries, Council of Ministers, and Legislative body with regard to budget preparation and execution. The specified powers and responsibilities for executive and legislative bodies were the starting point for effective budget allocation. Ghirmai has further substantiated and evaluated the determinants of the growth and allocation of government expenditure in Ethiopia. By using regression model, he has identified factors responsible for the growth of government expenditure. According to him, the growth of government expenditure was greater than GNP growth rate. In other words, per capita GNP appeared to be a weak determinant of government expenditure. Government expenditure for recurrent budget and particularly that of administrative service has been significantly increased as compared to total government expenditure for the period of 1958-1977 (EFY).

None-economic factors such as planning, allocation techniques, war, and droughts have influenced the administrative expenditure. For example, the defence expenditure of the country was extremely growing faster than other sectors due to the existence of continuous civil war. On the other hand, as the ratios of dependent variables show some growth, no increment in the ratio of education was identified. Therefore, the resources that are available for expansion of public goods such as education, health and rural water supply were significantly limited.

According to Demirew (1998), in Ethiopia, the scale of public finance has increased to finance socio-economic development during the last three decades. The increase of expenditure in different government activities is resulted in large and growing government budget deficit. The ratio of revenue to expenditure that was 115 percent during 1950-1960, declined to 88, 68 and 61 percent for the period 1961-1974, 1975-1991, and 1991-1997 respectively. In pre 1974, the role of Ethiopian government had been mostly limited to the allocation of resources and creating policy environment to enhance private sector investment. For instance, to grow and expand manufacturing industry, the government provided several incentives such as tax holiday, tariff protection, remittance of profit, repatriation of invested capital, tax exemption on imported capital goods and concessions in the form of land leases or land grants\ (Asrat, 2003). As a result, the contribution of industrial sector to GDP had grown from 5.2 to 13.6 and the average growth rate of GDP was 4 percent per annum for the period 1960/61- 1973/74.

In 1978 Central Planning Supreme Council was established and Ten-Year perspective plan prepared to transform the Ethiopian economy. The cumulative gross investment required for ten years was estimated to reach Birr 32 billion in 1980/81. But because of shortage of capital and other related political problems, it failed to realize the expected objectives of development (Mekonen, 1992). In general, excessive capital consumption of public enterprises, over centralization of the economic activities and the existence of continuous war, conflicts, drought and change of international situation made the country one of the poorest countries in the world. By the of the 1990s, the country's economic growth was stagnant, agricultural production declined, physical infrastructure had virtually disintegrated (World Bank, 1994). These problems forced the government to announce the mixed economic policy in 1990.

After the fall of the Derg regime in 1991, the Government of Ethiopia initiated a broad spectrum of economic reforms. The reform programs among others include reorienting the economy from command to market economy, creating policy environment to promote private sector investment, reallocation of expenditure towards to poverty oriented sectors, process of structural adjustment, introduction of Civil service reform, and policy of fiscal decentralization (MoFED, 2002).

The SAP (structural Adjustment Program) was prepared in collaboration with the World Bank and International Monetary Fund (IMF). Major reforms of SAP include currency devaluation, removal of fertilizer subsidy, labor market liberalization, reduction in trade and export tax. The main focus of the reform was a reorientation of public expenditure towards the poverty-oriented sectors such as primary education, health care, water supply and rural roads (MoFED, 2002). This pro-poor budgeting orientation is envisaged to play prominent role in Ethiopia's poverty reduction strategies.

On the basis of envisaged development program, the source of finances to these sectors were expected to come from external finance, cut backs from inefficient expenditure, from retrenchment policy, increase efficiency in government revenue and introduction of new forms of tax systems. In other words, SAP was expected to increase government revenue to finance expenditure. However, according to Alem(1996), trade liberalization affects the fiscal balance from both the revenue and expenditure sides. From revenue side, tariff reduction and the removal of export taxes reduce revenue. On the expenditure side, the provision of export incentives leads to rise in expenditure.

Absence of sufficient foreign resource inflows may be the main causes for decline of resources of the country. In other words, a loss of revenue from tariff and exports tax reduction was not compensated by devaluation and widening of export bases. For instance, in the 1980s the total government revenue was 24 percent of GDP where as after implementation of SAP (1992) it declined to 16 per cent of GDP (World Bank, 1994). To this end, financial policies that have been employed to increase resource mobilization and allocations have not been fully effective. Therefore, such difficulties have been the major reasons for failure of adjustment programs. Poverty reduction strategy is the other latest development paradigms for poor countries like Ethiopia.

Currently, Ethiopia has relied on the policy of poverty reduction strategy and programs. The final full Poverty Reduction Strategy Paper (PRSP) entitled the Sustainable development and Poverty Reduction Program (SDPRP) was issued in July 2002. The design and implementation of SDPRP is due to the failure of the adjustment and liberalization efforts to reduce poverty in the country.

The SDPRP implementation strategy was built on four pillars:

1. Agriculture Development Led Industrialization (ADLI);
2. Reforms of Justice Systems and the Civil Service;
3. Decentralization and empowerment; and
4. Capacity building in public and private sectors (MOFED, 2002).

The main policy instruments to reduce poverty are increasing resource allocation towards poverty-oriented programs. This pro-poor budgeting orientation is envisaged to play prominent role in Ethiopia's poverty reduction strategies. The policy is based on the ADLI strategy and the Sector Development Programs. In other words, the policy relied on investment on agriculture and food security, education, health, road, water and sanitation to reduce poverty, and at the same time to bring long- run growth and development.

Therefore, public finance management in Ethiopia gets into more complex process because of a radical program of decentralization to regions and lower tiers of the government, civil service reform, including a variety of measures to strengthen expenditure management and control, and sector development programs. (World Bank, 1999): Regionalization is perhaps the most prominent feature of government in Ethiopia's immediate and long-term policy; which will have a direct bearing upon both expenditure policy and implementation (World Bank, 1994).

The Ethiopian constitution, adopted in 1994, established decentralized regional states. Currently, Ethiopia has a four – tier systems of government arrangements. Below the Federal Government there are nine Regional States. These Regional States are divided into zones, which interns divided into *woredas*. Below *woreda* levels, \communities is divided into *kebeles*. This regional administration hierarchy is very important for resource allocation and self-governance.

The constitutions recognize the right of the regions to formulate and executes their economic and social development policies and strategies, and administer their expenditure planning and certain types of taxes. In order to administer and manage economic and social development, different proclamations issued in 1992. Proclamation No. 7/1992 provided the basis for the establishment of regional governments and the right to prepare approves and implements their own budget. The proclamation provided the basis for the sharing of revenue between the Federal and Regional Governments. These provisions enabled budget preparation, administration and control to be undertaken along the lines of fiscal federalism since 1993/94 (MEDaC, 1999).

In general, fiscal decentralization, sector development program and poverty reduction Program are more complex processes and they require effective government expenditure planning and budget reforms.

2.2. RELATED LITRATURE

2.2.1. Expenditure Responsibilities of Addis Ababa City Government

A unique feature of the expenditure assignments in Ethiopia is the distinction between the so called “state” and “municipal” functions (Werner and Nguyen-Thanh, 2007). Powers and functions of the city government are defined by the Revised Charter Proclamation No. 361/2003 Article 11(1) of the Proclamation states that the city has powers and functions over matters that have not specifically been included in the details of the powers and functions of the executive organs of the federal government. This provision of functions and powers is found similar to the way functions and powers have been given to the regional governments.

The main difference is that Addis Ababa receives it from the government legislation while a regional governments share the powers and functions with the federal government in the Federal Constitution. Accordingly, Article 52 of the 1995 FDRE Constitution provides that what is not defined as federal powers and responsibilities or as concurrent to the federal government and the states are reserved to the states. Accordingly, the city has almost as wide expenditure responsibilities as regional governments, ignoring, and the statutory and constitutional differences in mandates.

Within this general framework, Article 12(2) of the Revised Charter provides the specific areas of powers and functions of the city. Some of these include powers and functions of the city government to:

Issue and implement polices and plans concerning the development of the city;

- ✚ Constitute the executive bodies and organize lower tiers;
- ✚ Identify, determine and organize municipal services to be delivered;
- ✚ Administer, according to the law, the land and the natural resources;
- ✚ Prepare, approve and administer the budget of the city;
- ✚ Issue the master plan of the city; and so on.

Generally, the city has functional responsibilities to provide state and municipal services to its residents, and the power to incur expenditures to finance them. According to Article 14 of the Revised Charter, the City Council has the power to approve budget of the city government. Sub National Governments (SNGs) with full budget making power naturally will have better spending autonomy as a budget reveals the type and amount of public goods and services to be provided to its residents. So, budget making power usually reflects the spending autonomy of the city. Budget of the city does not require an approval from the federal government. However, there are some guidelines required to be followed. For example, Article 59(1) of the Revised

Charter indicates that the city's budgetary administration should follow the budgetary principles of the federal government.

Furthermore, Article 61(6) of the Proclamation requires the city government to submit annual and periodic performance reports on its plans, budget and the overall state of affairs of the city. But, the law is mute about the corrective measures taken by the government if the budget reports were found problematic. In historical perspective, unlike other urban centers in the country, Addis Ababa has been enjoying better budgetary power even in those highly centralized Imperial and Dreg eras.

Comparative empirical studies take "budget making" power of capital cities as one of the comparative elements to examine IGFRs of capital cities with their national governments. As it is indicated earlier, this is prominent issue particularly in federal districts. Those of some federal districts' budget, such as Washington D, C. and Mexico- City, is expected to be approved by their national governments. And, in others the national government has the power to oversee the budget and revise if it finds necessary. Therefore, having budget making power, Addis Ababa can determine the services and functions to be provided.

In capital cities, there are usually joint responsibilities in provision of some services. Among these, police and security functional responsibilities are the prominent concerns. The analysis framework on local policing usually focuses on questions like how is local police organized? Who pays for them? Who does appoint them? In most cases local policing is either a state or a national function so it does not register on local budgets and the police chief officer is not appointed locally or subject to local authority. Canberra does not have a police force and contracts with the national government to perform policing duties; the Canada government police protect national buildings and Ottawa's local policing is a provincial government function; and in Brussels, the federal government provides compensation to the local government for the additional costs incurred by the local police force.

In Ethiopian context, the Federal police and Addis Ababa police take joint responsibility for policing services. The city police commission is accountable primarily to the federal government and to the city government only by delegation. Accordingly, the city police commissioner and deputy commissioner are appointed by the federal government. However, the city government is expected to incur full costs of the city police force. The federal police is mainly responsible to protect the federal and international institutions. Before the 2005 election, the City police had been under the city administration on delegation. But, following the victory of the Coalition for Unity and Democracy (CUD), the main opposition party, Addis Ababa police was made under direct supervision of the Prime Minister.

The proclamations of Chartered cities by the federal government, that is Addis Ababa and Dire Dawa, provide these cities in general with strong authority in respect of executive power to establish municipal line departments and agencies. The Transport Authorities of these cities have recently been made subordinate to the federal Transport Authority, but funding for transport-related activities is also mostly the responsibilities of these cities. For instance, Anbassa City Bus Service, mostly serving Addis Ababa, is a public enterprise under the Privatization and Public Enterprises Supervisory Authority. The city government has been subsidizing 21 percent of the ticket cost of Anbassa city bus service enterprise and it has been losing 50 million Birr every year due to the ever increasing costs of transport.

2.2.2. Trend and Composition of Actual Expenditure of Addis Ababa City Administration

Capital cities usually experience higher expenditure due to their multiple functional responsibilities. Within the aforementioned functional responsibilities of Addis Ababa city administration, the actual expenditure performance of the city to discharge its responsibilities needs to be analyzed.

The financial data of the city as well as the Senior Officers in the Budget Department of Bureau of Finance and Economic Development related the recent huge projects in socio-economic infrastructures such as road, housing and water supply with the substantial amount and composition of the city's capital expenditure. Furthermore, the establishment of new administration in 2003/04 had resulted a widespread change in the overall governance of the city. It is to be remembered the fact that the new administration, led by Mayor Arkebe, introduced new urban development projects particularly in housing and micro and small scale enterprise development areas that required huge financial outlays. The overall trend in the expenditure of the city has witnessed the increasing spending behavior of the city. The city's actual expenditure had been increasing on average by 23.70 percent annually. This is much higher than the 3.4 percent annual population growth of the city.

Addis Ababa city is the only sub-national government that devoted higher proportion of its expenditures to capital expenditure. The capital of expenditure of the city amounted 0.29 billion Birr, constituting 59.39 percent of its total expenditure which is an increasing trend annually. The capital oriented expenditure of the city differs from recurrent-oriented expenditure at sub-national, federal and national levels.

The recurrent expenditure also dominated at federal and national level having 55.46 and 61.08 percent share of their total expenditure respectively. Addis Ababa city has therefore relatively an expenditure responsibility that is the highest among regions, except Oromia. The city consists of

less than 4 percent of the total population of the country. But, it incurred 7.15 and 19.48 percent expenditure of the total national and all SNGs expenditures respectively.

As a capital city, Addis Ababa is expected to provide public goods and services with standard qualities. Furthermore, as a seat of African Union, the city should cope up with modern and global standards in its socio-economic infrastructures and services. For instance, unlike the experience of any of the regional governments, Addis Ababa devoted higher portion of its budget into capital accounts. The city financed projects for huge infrastructures such as the ring-roads and public housing construction.

2.2.3. Revenue Sources and Collection Performance of Addis Ababa City Administration

The ability of sub-national authorities to act independently of the central government depends on whether they have access to independent tax bases. In Ethiopian case, the 1995 FDRE Constitution defines the revenue power and sources of regional governments and the federal government. Even though the regional tax revenues which are mentioned in the Constitution appear to be comprehensive, the main tax yield of around 75 percent of the total tax revenues belongs to the federal government. The economic base of early 20 century Addis Ababa was typical of a consumer city where taxes, tributes and tithes were the principal source of income. But, Addis Ababa today has a diversified economy, being the main centre of public administration, commerce, manufacturing, finance, real estate and insurance.

This diversified economy has provided a fairly broad and dynamic tax base to Addis Ababa city government (Tolon, 2008; pp: 16). Currently, it is the Revised Charter of the City Government Proclamation No.361/2003 that defines the revenue powers and sources of Addis Ababa. According to Article 52 of the Revised Charter, Addis Ababa has the following revenue powers and sources, to:

- ✚ Assess and collect tax on income from employees with in the city, excluding employees of Oromia region, of the federal government and of federal public enterprises;
- ✚ Fix and collect land use fee with in the city;
- ✚ Tax on income from agricultural activities within the city;
- ✚ Assess and collect profit, excise and turnover taxes from individual business men trading in the city;
- ✚ Receive Value Added Tax (VAT) collected by the federal government from individual business men trading in the city, and public enterprises owned by the city;
- ✚ Fix and collect urban land rent and level urban house tax in the city;
- ✚ Assess and collect on income from rented houses and to her properties in the city;
- ✚ Levy municipal taxes and duties as well as fix and collect service charger thereof;
- ✚ Assess and collect capital gains tax on property situate in the city;

- ✚ Fix and collect fees on license issued, and services delivered, by itself; and
- ✚ Assess and collect profit, excise and turnover taxes from its public enterprises.

The aforementioned revenue sources of the city go with the regional governments. The striking difference comes with taxes on the profits of companies and on dividends on shareholders. These taxes are jointly owned by the federal government and regional governments (Article 98, FDRE Constitution). But, Addis Ababa where quite large majority of companies reside at has not been given the access to share profits and dividends taxes. The city government has also the legal base, according to Article 53 of the Revised Charter, to obtain revenue from juridical bodies under its charges, income generating activities, joint investment, fund investment, rentals and from donations; and can undertake diverse activities for gain.

CHAPTER THREE

3. EMPIRICAL DATA ANALYSIS AND DISCUSSION

3.1. Description of the study area

This chapter focuses on the finding of an opinion survey made within the agency related with expenditure planning and budget allocation. The survey employed structured questionnaires with open and close-ended types of questions. The analysis is also supported by secondary data collected from the agency and finance bureau. The selection of employees is based on functional classification. According to functional classification, the Addis Ababa mass media agency is divided into core and supportive business process. According to their significance to the research, from core business process media transmission main and sub business process leader and team leader of the three medium that is radio, television and press as well as marketing and promotion service team, from supportive business process, procurement, payment and finance leaders and officers, were selected.

3.2. Analysis of the findings of the study

3.2.1. Characteristics of Respondents

The next step was the determination of the number of respondents from each business process. Accordingly, a total sample size of 20 respondents was considered for the study. Because some respondents were filled partially or not willing to be filled the questionnaire, the study focused effectively on 13 respondents of which 5 females and 8 males. The distribution and status of respondents is shown in the following table.

Table 2:- The Distribution and position of Respondents

| Name of the business process | Position Core business process | | | Position supportive business process | | total | percentage |
|------------------------------|---------------------------------|--------------------------------|-------------|--------------------------------------|---------|-------|------------|
| | Leader on core business process | Leader on sub business process | Team leader | leader | officer | | |
| Core business process | 1 | | | | | 1 | 7.7 |
| sub business process | | 1 | | | | 1 | 7.7 |
| Team leader | | | 4 | | | 4 | 30.8 |
| Supportive business process | | | | 3 | 4 | 7 | 53.8 |
| total | 1 | 1 | 1 | 3 | 4 | 13 | 100 |

The education level of the respondents' response on the allocation and utilization of the budget as we can see from the table, those who possess diploma are 2 among the rest of the respondents and those who have degree are constitute the rest 11. The status and responsibility of respondents are 2 core and sub core business process leaders, 4 team leaders, 4 are supportive business process leader and the rest 3 are officers.

Table 3:- Level of education and sex of the respondents

| Name of the business process | Level of education | | | percentage | sex | | percentage |
|------------------------------|--------------------|--------|--------------|------------|------|--------|------------|
| | diploma | degree | Above degree | | male | female | |
| Core business process | | 1 | | 7.7 | 1 | | 7.7 |
| sub business process | | 1 | | 7.7 | 1 | | 7.7 |
| Team leader | | 4 | | 30.8 | 4 | | 30.8 |
| Supportive business process | 2 | 5 | | 53.8 | 2 | 5 | 53.8 |
| total | 2 | 11 | | 100 | 8 | 5 | 100 |

According to their level of education and sex ratio the respondents are almost well aware of the fact that what they replied. When we see their education among the respondents 11 or 84.6% are possessed their first degree and the rest 2 or 15.4% have got their diploma which is an indication of almost all respondents are from the educated category. On the other hand when we take their sex ratio among the respondents 8 or 61.5% are male and the remaining 5 or 38.5% are females. Which indicates the sex distribution among the respondents are not that much varied.

3.2.2. The amount of the budget which is allocated for the agency

The allocation of the annual budget is depend on the amount of the revenue that the finance bureau is expect to collect for the coming fiscal year and the previous year budge utilization capacity of the agency. The two budget type, the capital and recurrent budget utilization also depends on the capacity of the agency to execute its budget in time which is expected to end before the end of May.

Table 4:-The Addis Ababa Mass Media Agency budget allocation and utilization for the last three years (2003-2005)

| Years | Type of budget | | Total amount of allocated budget | Percentage utilization of the two budget type | |
|-------|----------------|---------------|----------------------------------|---|---------|
| | Recurrent | Capital | | Recurrent | Capital |
| 2003 | 14,322,019.00 | 21,500,000.00 | 35,822,019.00 | 97 | 76 |
| 2004 | 19,015,587.00 | 29,280,000.00 | 48,295,587.00 | 73.6 | 21.3 |
| 2005 | 20,521,454.00 | 4,200,000.00 | 24,721,454.00 | 65.90* | 65.70* |

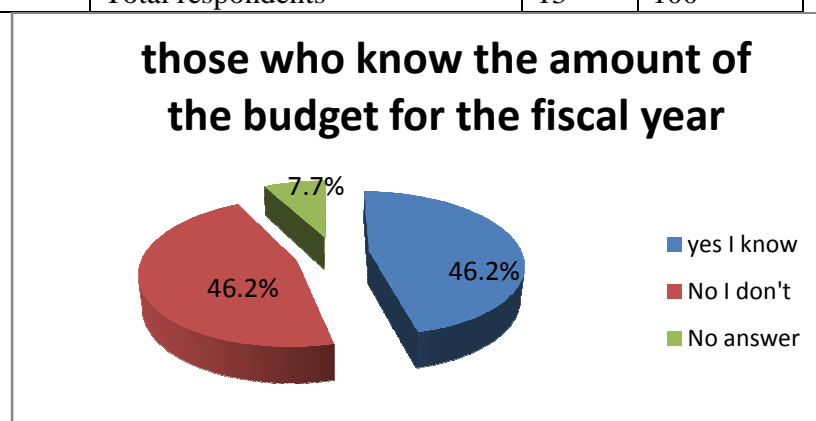
Source: - Addis Ababa finance bureau annual budget approval letter

* The amount of the budget utilization is cover only the last nine months

Most of the time almost all sectors in the administration are not aware of the proper utilization and even those who are accomplished before the predefined time their utilization is not based on the required basis which is exposed to loss.

Table 5:-The amount of the budget which is allocated for the agency

| No | Type of responses | Total | Percentage |
|----|------------------------------|-------|------------|
| 1. | Yes I know | 6 | 46.2 |
| 2. | No I don't know | 6 | 46.2 |
| 3. | Those who didn't give answer | 1 | 7.7 |
| | Total respondents | 13 | 100 |



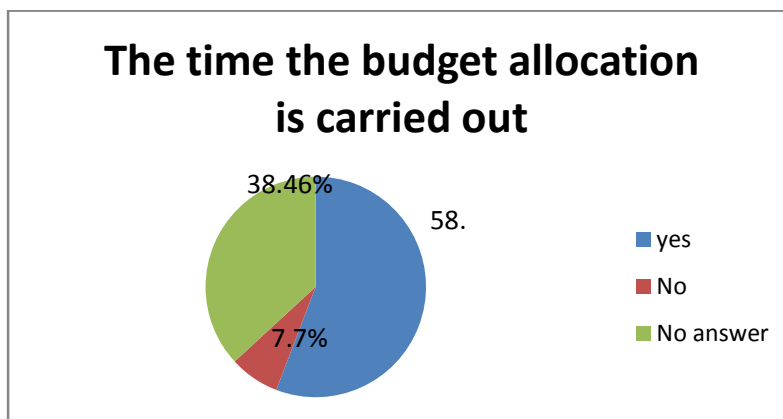
So among the respondents those who are aware of the budget amount are only 6 or 46.2% , those they don not know the amount of the allocated budget are again 6 or 46.2% and the rest 1 or 7.7% is not willing to give the his answer. According to the responses gathered almost half of respondents are well known. But attention should be given for all the employees to get idea which is relevant concerning the budget.

3.2.3. The time the budget allocation is carried out

It is a well known fact that the entire budget allocation through out the country is taking place before the entrance of the coming fiscal year. Every concerned body of the administration sent their budget acquisition for the finance bureau every year from April to May and the ratification process is undertaken in June and the approved budget confirmation letter is sent to every sector within the administration during the first week of July. Then the utilization will start after a month except the monthly salary of the civil servant.

Table 6:- the allocation of the budget

| No | Type of responses | total | percentage |
|----|-----------------------------|-------|------------|
| 1. | Yes | 7 | 58.3 |
| 2. | No | 1 | 7.7 |
| 3. | No answer | 5 | 38.46 |
| | Total number of respondents | 13 | 100 |



Even though the allocation is taking place like as I have mentioned most of the employee have no any idea when the allocation is taking place and in what circumstances. So to indentify to what extent the employee is aware of the issue among the respondent according to the table 4 who are willing to fill the questionnaire 7 or 58.3% are well aware of the time the allocation is taking place, 1 or 7.7% is responds that the allocation is taking place after the coming fiscal year and the remaining 5 or 38.46% have no any idea when the allocation I staking place. From these respondents I can suggest that the agency has to be concerned for the information on when and how the budget is allocated.

3.2.4. The budget allocation to the budget code

There are a number of budget codes which are used for various purposes. These budget codes are well identified and the overall budget is distributed according to the importance of the budget which is allocated on each code and there are---codes which are in use through out the city administration.

Table 7:- Some of the codes which the city administration uses for budget allocation are listed

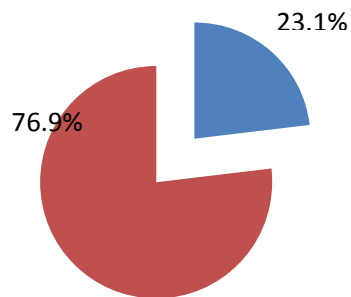
| Code | Clarification |
|------|---|
| 6111 | Salary of permanent employee |
| 6116 | Different kinds of payments of the employee |
| 6121 | Per dime |
| 6131 | Pension contribution |
| 6211 | For the purchase of uniforms |
| 6212 | Office supplies |
| 6213 | Printing materials expenditure |
| 6217 | For fuel consumption |
| 6218 | For various office supplies |
| 6219 | For different materials |
| 6232 | Transport |
| 6254 | For insurance payment |
| 6257 | For electric consumption |
| 6258 | For telecommunication consumption |
| 6313 | For the purchase of permanent office supplies |

Source: - Addis Ababa Finance bureau

Table8:- The budget allocation according to the budget code

| No | Type of responses | total | percentage |
|----|-----------------------------|-------|------------|
| 1. | Yes I know | 3 | 23.1 |
| 2. | No I don't | 10 | 76.9 |
| 3. | No answer | -- | -- |
| | Total number of respondents | 13 | 100 |

The budget allocation according to the budget code



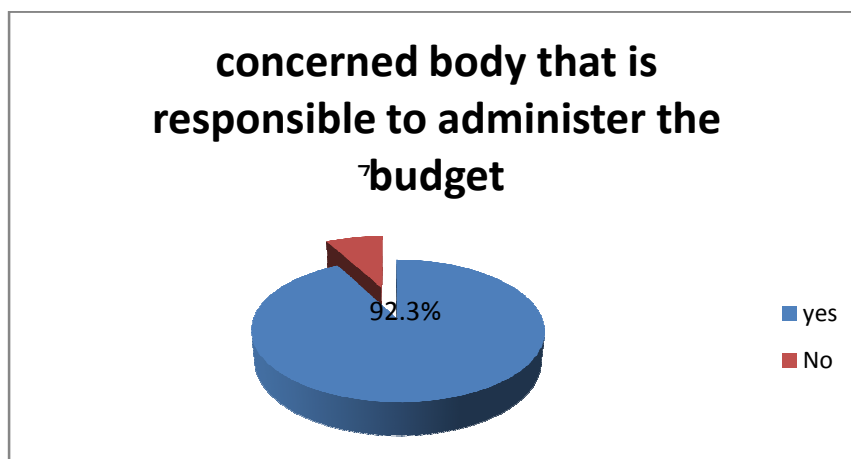
According to table 6 the respondents those who know the amount of the budget for each budget code among 13 total respondents are 3 or 23.1% and the rest 10 or 76.9% replied that they do not know the allocated budget for each budgetary code. So attention should be given for the concerned bodies especially for the employees to make clear that total amount of the budget in each code in particular and the whole budget in general as pointed out earlier.

3.2.5. The concerned body that is responsible to administer the budget

In any organization there is a concerned body for each activity undertaken. So in the Addis Ababa city administration sectors in particular and the whole country in general there are a number of responsible bodies for each activity in each sector. Addis Ababa mass media agency one of the sectors in the administration has its Owen supportive business process which is responsible for the preparation and execution of the entire budget of the agency.

Table 9:- concerned body that is responsible to administer the budget

| No | Type of responses | total | percentage |
|----|-----------------------------|-------|------------|
| 1. | Yes | 12 | 92.3 |
| 2. | No | 1 | 7.7 |
| 3. | No answer | -- | -- |
| | Total number of respondents | 13 | 100 |



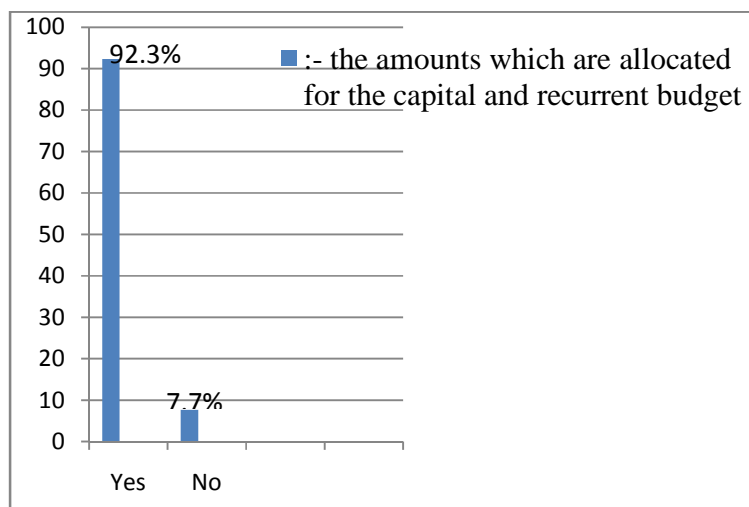
To understand the situation that whether the agency has its own responsible body for the preparation and execution of the budget and how the employees are aware of the issue according to table 7, off all the respondents 12 or 92.3% of the total respondents are well known that there is a responsible body in the agency that administers and manages the budget. The rest 1 or 6.7% has no any idea whether there is a concerned body for the budget or not.

3.2.6. The amounts which are allocated for the capital and recurrent budget

The Addis Ababa city administration finance bureau make the allocation every year for the capital and recurrent budget which depends on as I have mentioned on the revenue which is expected to collect for the coming year and execution capacity of the capital project and the recurrent budget of the sectors in the previous year.

Table 10:- the amounts which are allocated for the capital and recurrent budget

| No | Type of responses | total | percentage |
|----|-----------------------------|-------|------------|
| 1. | Yes | 12 | 92.3 |
| 2. | No | 1 | 7.7 |
| 3. | No answer | -- | -- |
| | Total number of respondents | 13 | 100 |



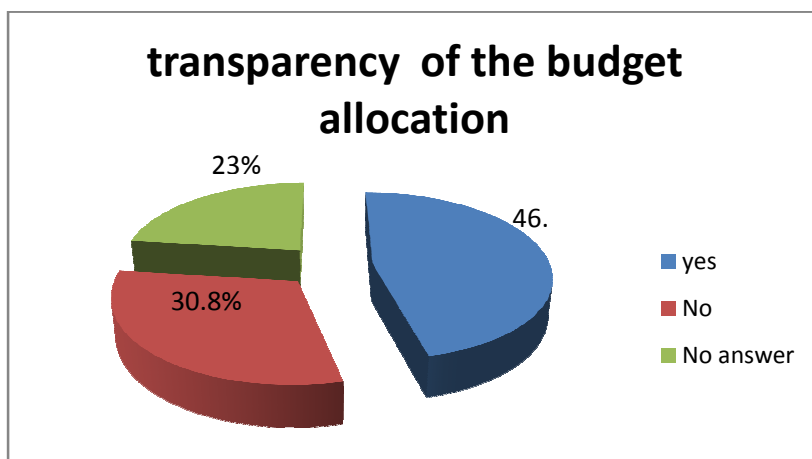
And there should be clarity on the amount of the annual budget allocated for the agency. So to identify whether the employee knows the amount or not among the respondents those who give their answer that they are aware of the amount are 12 or 92.3% and the rest 1 or 7.7% has no any idea otherwise.

3.2.7. The transparency of the budget allocation and expenditure

Clarity which is one of the values which has to be followed in each and every sector in the governmental and non governmental organizations should also be applicable in the agency. According to research among the respondents 6 or 46.2% answered it has clarity, 4 or 30.8% responds it lacks clarity and the remaining 3 or 23% do not want to give the answer for the question.

Table 11:- transparency for the budget allocation

| No | Type of responses | total | percentage |
|----|-----------------------------|-------|------------|
| 1. | Yes it has clarity | 6 | 46.2 |
| 2. | No it does not have clarity | 4 | 30.8 |
| 3. | No answer | 3 | 23 |
| | Total number of respondents | 13 | 100 |



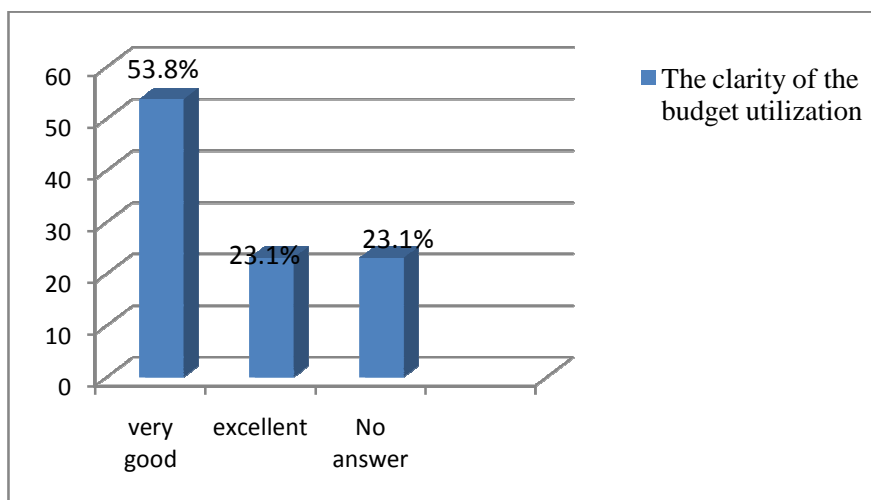
According to the analysis efforts has to be made to clear the way the budget is allocated and how the expenditure is taking place which assist for the accountability and fair use of the resource in the agency.

3.2.8. The transparency of the budget utilization

Budget utilization is the overall execution of the resources for the benefit of the agency and the employee as well. Every activity should be taken place under specified rules and regulations of the government and the agency. This helps to make sure that the allocated resource is used according to recommended or not. The clarity also helpful for minimizing the depletion of the resources.

Table 12:- The transparency of the budget utilization

| No | Type of responses | total | percentage |
|----|-----------------------------|-------|------------|
| 1. | Good | -- | -- |
| 2. | Very good | 7 | 53.8 |
| 3. | Excellent | 3 | 23.1 |
| 4. | No answer | 3 | 23.1 |
| | Total number of respondents | 13 | 100 |



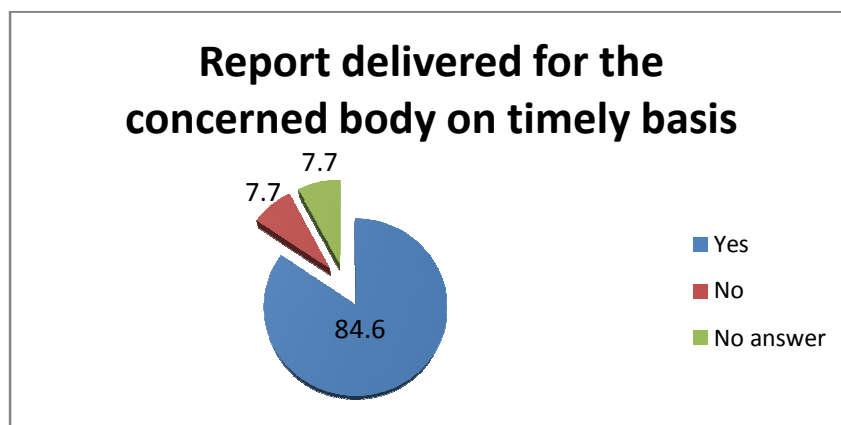
To understand how exposed the employees for these issues among the respondents 7 or 53.8% are sure that there is excellent clarity in the agency, those who answered there is very good f clarity are 3 or 23.1% and the remaining 3 or 23.1% are not willing to give their answer.

3.2.9. The delivery of budget utilization report for the concerned body

Every sector is responsible to report its overall execution performance on time basis which may be depend on the sector or the party which needs the report. The report is mainly containing two types one is the activity which is undertaken in specified time and the other is the amount of the budget which is used during the execution.

Table13:- Report delivered for the concerned body on timely basis

| No | Type of responses | total | percentage |
|----|-----------------------------|-------|------------|
| 1. | Yes | 11 | 84.6 |
| 2. | No | 1 | 7.7 |
| 3. | No answer | 1 | 7.7 |
| | Total number of respondents | 13 | 100 |



The report is not only delivered for the concerned body as I have mentioned but for the internal party or the employee too. So on determining whether the report is made on timely basis among the respondents 11 or 84.6% give their answer that they are aware of the budget report delivery time, 1 or 7.7% is answered he/she does not now whether the report is delivered or not and the rest 1 or 7.7% is does not want to give answer for the question.

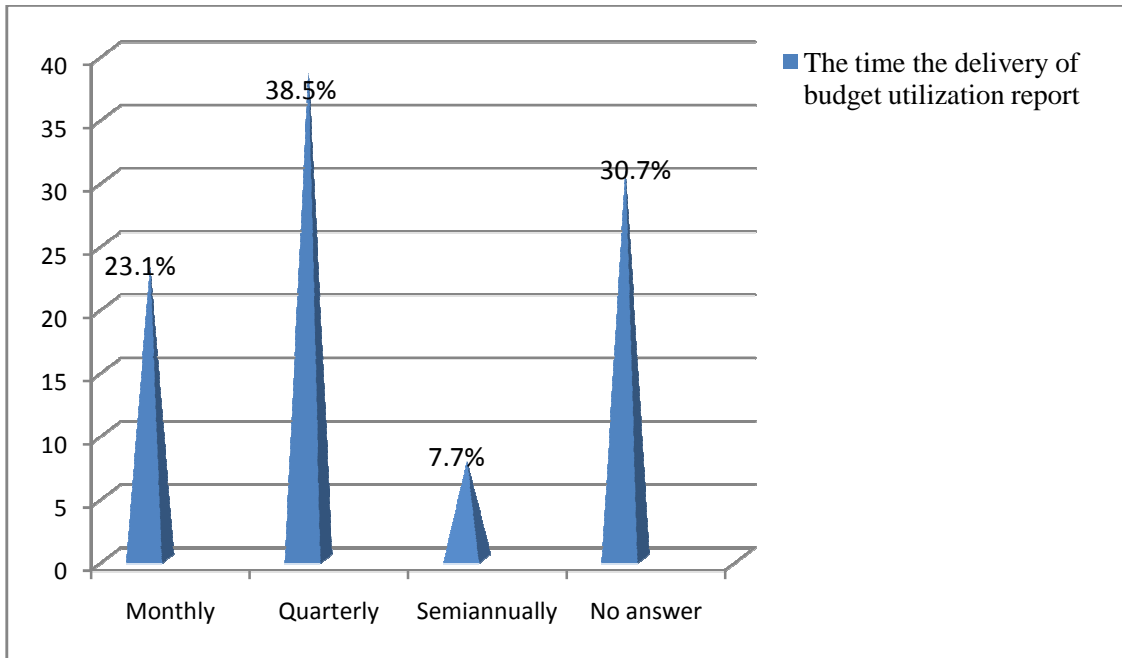
This is an indication that almost all respondents are aware of the fact that the agency’s report delivery for the concerned body.

3.2.10. The time the delivery of budget utilization report for the concerned body

There is a known time frame for the every sector in the city administration on what time basis they should make the report for the concerned body. The time is mostly divided in to four throughout the year. These are quarterly, semiannually, nine month, and annually. But to understand and to take measures whether the employee are know the exact time frame that the agency make report among the respondents whose answer is well known about the delivery time of the report is on monthly basis are 3 or 23.1%, those who answered the report is delivered on quarterly basis are 5 or 38.5%, 1 or 7.7% gave his/her answer that the delivery date is on semiannually and the remaining 4 or 30.8% do not give their answer.

Table 14:- The time the delivery of budget utilization report

| No | Type of responses | total | percentage |
|----|-----------------------------|-------|------------|
| 1. | Monthly | 3 | 23.1 |
| 2. | Quarterly | 5 | 38.5 |
| 3. | Semiannually | 1 | 7.7 |
| 4. | On nine month | -- | -- |
| 5. | Annually | -- | -- |
| 6. | No answer | 4 | 30.7 |
| | Total number of respondents | 13 | 100 |



3.2.11. The need for the improvement of the budget from the allocation to administration

No matter how strong the overall execution of the resource any institution should take favorable measures to improve the degree to which how the budget is allocated and administered which is the basis for accountability. So there should be a wise use of resources in every sector of the economy. Because resource is in scarce. In due course every sector and every body should be accountable for the resource he/she uses. The Addis Ababa mass media agency as one of the responsible sector in the city administration, should take measures to improve its budget from the allocation, utilization to administration. To do all these things effort is needed from all the leadership and from the employee. Among the measures that should be taken are the agency should clarify the amount of the budget and the away how it is allocated for the employee and for the concerned body. The other is to use wisely the resource the officers those who are in the budget administration have to be well concerned and professional.

To identify that how the respondent's belief looks like for the improvement of the budget allocation and administration in the agency the respondents those who are included in the questionnaire or all 13 or 100% are answered that there should be improvement on the utilization, management and administration of the agency budget.

Finally the researcher asked the respondents that are there any applicable measure that should be suggested for the improvement of the budget within the agency. And the respondents gave some possible suggestion for the improvement:

- ✚ The execution of the procurement should be undertaken on the provided time
- ✚ The amount of the budget allocated is so small in amount and it is not much the demand, so there may not be that much improvement
- ✚ Due to the presence of the budget shortage priority should be given for those which are most important for the agency to undertake its duty
- ✚ There is a problem on allocation of enough budget
- ✚ The allocation and administration of the budget should be based on equity among all business process in the agency
- ✚ There should be clarity and accountability throughout the utilization of the budget and make the employee of the agency aware of the fact.

CHAPTER FOUR

4. SUMMARY, CONCLUSION AND RECOMMENDATION

4.1. Summary

The Addis Ababa Mass Media agency as other sectors which are accountable for the city administration, has entertain many problems arising from planning to execution in various activities within the agency. One of the main which is also a problem for others are the budget administration and management issue. The main problem starts with preparation and utilization of the budget according to the priority of the agency and the budget code. This is due to the lack of understanding what will be done for the coming fiscal year and what is needed for the agency particularly.

To find out what are the main problems which results in poor budget management system the research should be conducted. So this research which is conducted based on the agency main budgeting and related problems used primary data and secondary data. The primary data is based on questionnaire which has open and closed end types. The sample which is selected among those who are proximate for the budget are filled the questionnaire. The analysis is conducted based on the responses and find out the main problems which are persist in the agency. The findings are the poor budgetary utilization; the annual budget allocation mechanism according to the budget code; the professional incompetency of the concerned bodies are the major ones.

4.2. Conclusion

In almost all sectors either at federal or regional and city administration levels the wise use of resources is a difficult task. To alleviate these problems the government has taken various kinds of measures to capacitate the concerned officials those who are working on budget and relative issues. But such kind of endeavors which is undertaken by the government by itself can not be the only remedy for the problem.

Of course the utilization and management system is improving; still how the budget is wisely utilized is the main problem which leads to improper use of the budget especially during the end of every fiscal year of the country. Which is a well known fact that and every body agree on the matter that there is a huge amount of the budget misuse and fraud connecting with the procurement process which is also a problem of accountability even on the higher officials of the governing body.

Addis Ababa city administration which has given to administer itself by collecting revenue of various kinds according to the improved charter, it has various socio-economic problems in the town which needs urgent attention and priority. Unless the serious problem on the budgetary issue is solved the city administration could not have the capacity to fulfill the demand of the city residents on accessible potable water, reducing the housing problem, accessible health care and so forth.

Each and every sector under the city administration is responsible for the better utilization of the allocated budget only for the intended purpose and should take the accountability in this regards. Addis Ababa Mass Media agency one among the sectors, has prime responsibility not only to utilize its own budget properly but also as a media institution it is also responsible to teach other sector how to use resources as wisely as possible through its mediums.

The various problems regarding the proper utilization and administration of the agency budget and the non systematic and unplanned procurement results in the shortage of the budget before the end of the fiscal year and even at the middle of the fiscal year especially on the capital project which results in requested additional budget from the reserves which indicate how worse the budget management is in the agency.

To identify the causes and extents of these problems, survey has been undertaken within the agency different business processes related with the budget expenditure planning and budget allocation as well as utilization. The survey employed structured questionnaire with open and close-ended types of questions. The analysis is also supported by secondary data collected from the agency and finance bureau of the city administration.

The budget expenditure planning and budget management and utilization are unable to solve the problem which arises by the poor performance of the management. The MTEF, which is sent by the finance bureau every year to allocate especially the capital project of the coming fiscal year

for every sector in the city administration alone, can not reduce the problem. This is because of the fact that no one sectors are properly fills the required information on the format. This problem by itself is a cause for the shortage of the budget in the middle of the fiscal year.

The research finding and results have been identified several problems related to the implementation of expenditure planning and budget allocation. Among others, the absence of articulated budget utilization, unplanned procurement and the budget shortage are basic problems. In addition, every expenditure planning and budget utilization is not submitted properly on time based system to the management council which held its meeting every week on Wednesday.

In general, the survey result obtained from respondents and the secondary data depicted that the recurrent and capital budget allocation is not well known specifically and the utilization is based on arbitrary mechanism. It lacks management guidelines, and performance to estimate current and project cost. The level of spending mainly determines the performance of the activities. Currently, effective budget expenditure planning does not support capital budget allocation. This is due to lack of capacity problems and political commitments for improving budgetary management systems of the agency.

4.3. Recommendation

Although some progresses have been achieved in the area of budgetary expenditure management compare to the previous years, more remains to be done to improve budgetary expenditure planning and budget management in the agency. The process of budget utilization planning should be integrated in a meaningful way into the agency priorities and financial rules and regulations, planning, and budget management process. In general, the following measures are recommended as key ingredient to promote effective budget utilization, planning and budget allocation in the agency for the coming fiscal year:

- a) The improvement of the budget management systems and expenditure planning should be seen as a part of an integrated strategy of better use of the resources of the agency. This creates a conducive environment for budget allocation, utilization performance and provides greater transparency, accountability and flexibility.
- b) The professional competency of the concerned bodies fosters the better utilization and wise use of the resources of the agency for the intended use.
- c) The agency should be transparent on the allocated budget annually for the agency which enhances the sense of ownership among the employee on the utilization of the overall resources of the agency.
- d) The proper delivery of the performance based report for the concerned body including the inside stakeholders (employees) enables to create conducive environment for the transparency and accountability of the agency overall activities.
- e) Enhance the budget utilization of the agency by properly managed its budget and time based procurement system which enables to improve its efficiency and alleviate the budget deficit which is the cause of lower budget allocation from the finance bureau.
- f) Priority should be given for those which are most important for the agency to undertake its duty.
- g) To increase the chance of success and credibility of the budget allocation and utilization e planning, it should be submitted to management council for discussion and approval.

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