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## 3. Ethiopia

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### I. Introduction and background

Ethiopia is the only country in Africa that did not suffer colonial domination, apart from a brief period of Italian occupation (1936–41). It has a long history of self-rule: the country's emperors were repeatedly successful in repulsing foreign invaders and zealously preserved the country's independence. Indeed, Ethiopia established military culture in Africa: Emperor Haile Selassie laid the foundation for a modern standing army in Ethiopia in the run-up to the Italo-Ethiopian War in 1935–36. By 1969 Ethiopia had four army divisions with combat support services and logistical support units. Between 1974 and 1990, with the assistance of the Soviet Union, the Dergue regime built a formidable armed force, nearly half a million strong.

The seemingly unending instability in the country's political life has undoubtedly affected how public services are ordered and how public finances are structured and managed. This includes the financing of state institutions such as the military. The different ideological orientations of the governments, from the monarchical regime of Emperor Haile Selassie via the Marxist-Leninist government of Mengistu Haile Miriam and the Dergue to the current capitalist neo-liberal ideology of Meles Zenawi, suggests that there have been different conceptions of the military—its role, mission, size and strategic importance to the state. The size of the country's military budget has been determined by these changes in ideology as much as by the perceived external and internal threats.

This chapter analyses the nature of the budgetary process for the armed forces in Ethiopia, the focus being on the practice since the fall of the Dergue regime in 1991. It highlights the roles of the various agencies and actors involved in the process, including the Ministry of National Defence (MOND), the Ministry of Finance and Economic Development (MOFED), Parliament and the Office of the Prime Minister. This section continues with an overview of the history, politics and economy of the country. Section II covers the political economy of military expenditure in Ethiopia, tracing the different phases in the development of the Ethiopian military, the factors and forces that affected it, and its implications for military expenditure. Section III described the federal budgetary process in Ethiopia, of which military budgeting is a major component, in order to facilitate an evaluation of underlying government policies (in relation to both structure and process) and the impact of that process on budgetary performance. In sections IV and V the formal budgetary process within the military estab-

ishment is outlined and then assessed. Section VI synthesizes the findings of the research and points out lessons to be drawn from the exercise as well as drawing attention to further areas of research. Section VII presents the conclusions of this chapter.

### **History, politics and economy**

Ethiopia is an ancient country and is the largest nation in the Horn of Africa. After the independence of Eritrea in 1993, Ethiopia became landlocked—the only such country in the sub-region.

Ethiopia has a rich political history; its evolution as a country with independent political structures dates back to the middle of the fifth century BC. In the 20th century its political structure went through three distinct phases. First was the period of monarchical rule, in particular the long reign of Emperor Haile Selassie, which came to an end in 1974. During Haile Selassie's reign there was an attempt to modernize the economic and political structures with a constitution and a burgeoning capitalist economy. However, political power remained entirely concentrated in the hands of the emperor, and the economy continued to be agrarian and feudal in nature.

The rise of the Dergue regime in 1974 after the collapse of Haile Selassie's rule saw the emergence of a socialist state in Ethiopia. Political power and the economy were restructured in line with socialist ideology. Supreme power was concentrated in the Workers' Party of Ethiopia, established in 1984, while a centrally planned and controlled economy was instituted. A policy of collectivization was implemented, under which peasants were reorganized for communal production. Public corporations and virtually every economic institution were controlled by the state—this also had implications for how the military was organized. The Dergue regime faced serious resistance from both domestic and external forces; it had to contend with ethnic-based rebellions and conflicts with neighbouring countries, in particular Somalia and Sudan. In 1977 Somalia, asserting a territorial claim, invaded Ethiopia. This was followed by a civil war in Ethiopia, which sapped the strength of the armed forces. The Dergue regime fell in 1991 to the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF), a coalition of rebel groups in which the Tigrayan People's Liberation Front (TPLF) was the dominant partner.

The new government, which is still in power, adopted a political ideology that it describes as 'revolutionary democracy' and a neo-liberal capitalist economy. A federal constitution and system of government are in place, and there is a high degree of decentralization of political power in the country. The main features of Ethiopia's political system include the notion of ethnic federalism, in which ethnicity and language form the basis of the federal units; considerable regional autonomy; the right of secession granted to the federating regions; political pluralism, which has allowed the formation of political parties; and the granting of civil and political rights. There are nine regional states in the feder-

**Table 3.1.** The distribution of power between the central and regional governments of Ethiopia

Central government	Regional governments
Formulate overall economic, social, financial and development policies	Exercise powers not given expressly to the federal government alone, or given concurrently to the federal government and the regions
Approve and administer the federal budget	
Levy taxes and collect duties on revenue sources reserved to the federal government	Enact and execute a state constitution and other laws
Print and borrow money, mint coins, regulate foreign exchange and money in circulation networks, and so on	Formulate and execute economic, social and development policies
Formulate and implement foreign policy	Approve and administer the regional budget
Build and administer major constructions, communications networks, and so on	Levy taxes and collect duties on revenue sources reserved to the regions
Regulate inter-regional and foreign commerce	Administer land and other natural resources in accordance with federal laws
Establish and administer national defence and public security forces, including a federal police force	Establish and administer a regional police force, and maintain public order and peace within the region
Declare states of emergency	
Deploy the armed forces in emergencies beyond the capacity and control of regional government	

*Source:* Constitution of the Federal Democratic Republic of Ethiopia, Proclamation no. 1/1995, *Negarit Gazeta*, 8 Dec. 1994, URL <<http://www.ethiopar.net/>>.

ation; the distribution of power between the central and regional governments is detailed in table 3.1. Since the federal government collects most taxes, including import and export taxes, it wields tremendous power over regions through its control of the revenue-sharing scheme.<sup>1</sup>

The Federal Democratic Republic of Ethiopia has a parliamentary form of government. The legislature is bicameral, consisting of the House of Peoples' Representatives (lower house) and the House of the Federation (upper house). The House of Peoples' Representatives is the highest authority of the federal government. It has 12 standing committees, which include the Budget and Financial Affairs Standing Committee and the Foreign, Security and Defence Standing Committee. The President has a purely ceremonial role: the Prime Minister is the chief executive, the chairman of the Council of Ministers and the commander-in-chief of the armed forces.

In terms of the economy, a market-driven capitalist ideology has been adopted. A structural adjustment programme provides the framework for the government's economic liberalization policies. The Ethiopian economy pre-

<sup>1</sup> Kelly, J. E., 'Ethnic federalism, fiscal reform, development and democracy in Ethiopia', *Africa Journal of Political Science*, vol. 7, no. 1 (June 2002), pp. 34–35.

sents one of the paradoxes of economic development in Africa. In spite of the fact that the country is rich in natural resources, it has an underdeveloped, agriculture-based economy that relies on the primary products of coffee, hides, livestock, oil seeds and pulses, and recently khat (a mild intoxicant) as its main export products. The country is one of the least economically developed in the world, with 44 per cent of the population living below the poverty line. Between 1993 and 2003 the economy grew at an average annual rate of 4.7 per cent.<sup>2</sup> The national debt was \$10.4 billion in 1998; the interest and principal arrears accumulated on the debt reached 84 per cent of gross national product (GNP) and 506 per cent of exports in 1997.<sup>3</sup> The huge debt burden of the country relative to its revenue base and productive capacity enabled the country to qualify for some debt relief under the Highly Indebted Poor Countries programme of the World Bank and the International Monetary Fund.<sup>4</sup> It also prompted the compassionate cancellation by Russia of \$4.8 billion of debt incurred during the 17-year civil war, mostly to procure weapons and machinery in support of the Dergue's military effort.<sup>5</sup>

The high level of militarization of Ethiopian society and the huge expenditure on the military sector have been major factors in the economic underdevelopment of Ethiopia. The cycle of conflicts and violence that has ravaged the country over the years did not provide a favourable investment climate; moreover, it led to the diversion of scarce resources to prosecute the civil war and the war with its neighbours. While the country currently enjoys relative peace, economic development and transformation are yet to follow from the adoption of the neo-liberal economic policies of the EPRDF, although some growth has been recorded. Levels of poverty, unemployment and social dislocation remain high in Ethiopia.

## II. The military sector and the political economy of military expenditure in Ethiopia

While Ethiopia has a long military history, the emergence of a modern military force in Ethiopia, through centralization and professionalization, is a 20th century phenomenon. Beginning in the 1920s efforts were made to establish infantry battalions with some level of professional training. Russian military experts were first engaged in the 1920s, and in the 1930s Ethiopian soldiers were sent for training to the French military academy in Saint Cyr. In 1934 a military training school was established in the country, at Holata, with the assistance of a Swedish military mission. The soldiers trained at this local military institution

<sup>2</sup> World Bank, 'Ethiopia at a glance', Fact sheet, 15 Oct. 2004, URL <<http://www.worldbank.org/eth/>>.

<sup>3</sup> Economic Commission for Africa (ECA), *Economic Report on Africa 2002: Tracking Performance and Progress* (ECA: Addis Ababa, 2002), URL <<http://www.uneca.org/era2002/>>, p. 95.

<sup>4</sup> International Monetary Fund, 'Debt relief under the Heavily Indebted Poor Countries (HIPC) initiative', Fact sheet, Sep. 2004, URL <<http://www.imf.org/external/np/exr/facts/hipc.htm>>.

<sup>5</sup> 'Russia writes off US\$4.8 bn debt', *Horn of Africa Bulletin*, vol. 13, no. 3 (May/June 2001), p. 12.

**Table 3.2.** Estimated strength of active military forces of countries in the Horn of Africa, 1997–2004<sup>a</sup>

Country	1997	1998	1999	2000	2001	2002	2003	2004
Djibouti	9 600	9 600	9 600	9 600	9 600	9 850	9 850	9 850
Eritrea	46 000	47 100	180 000– 200 000	200 000– 250 000	171 900	170 000	202 200	201 750
Ethiopia	120 000	120 000	325 500	352 500	252 500	250 000	162 500	182 500
Kenya	24 200	24 200	24 200	22 200	24 400	24 400	24 120	24 120
Sudan	79 700	94 700	94 700	104 500	117 000	117 000	104 500	104 800

<sup>a</sup> Somalia has lacked a centrally controlled military since 1991.

Sources: International Institute for Strategic Studies, *The Military Balance 1997/1998; 1998/1999; 1999/2000; 2000/2001; 2001/2002; 2002/2003; 2003/2004; and 2004/2005* (Oxford University Press: Oxford, 1997–2004).

provided the leadership core of a group called the Black Lion Organization, which led the resistance to Italian occupation of the country.

The efforts to modernize the Ethiopian military received a boost after World War II. First, the air force and the navy were established with the help of Sweden and Norway, respectively. The British played a key role in the modernization of the army in terms of training and equipment, while a new military academy was established in Harar, modelled on the British Royal Military Academy, Sandhurst, and commanded by Indian officers.<sup>6</sup> In spite of these foreign connections and in contrast to other African countries, Ethiopia did not inherit its armed forces from a period of colonial rule; they were indigenous. The size of the military at the time of the collapse of Haile Selassie's rule in 1974 was estimated to be about 40 000, while the military budget was estimated to be \$50 million in 1973.<sup>7</sup>

Dramatic shifts occurred in the nature and size, and consequent cost, of the Ethiopian military from the 1970s onwards, coinciding with the establishment of the socialist regime of Mengistu in 1974. Various factors accounted for this. The first was the political ideology of Marxism-Leninism adopted by the government in which the economy and polity were centrally controlled and public expenditure rose significantly. Public expenditure as a percentage of gross domestic product was 13 per cent in the 1960s but rose to 34 per cent by the 1980s.<sup>8</sup> The second factor was the culture of militarism that accompanied that ideology. In an effort to build a 'people's army', massive military recruitment was undertaken. As well as the usual channels of recruitment, such as the introduction of national military service from 1983, less orthodox methods were

<sup>6</sup> Zewde, B., 'The military and militarism in Africa: the case of Ethiopia', eds E. Hutchful and A. Bathily, *The Military and Militarism in Africa* (Codesria: Dakar, 1998), p. 262.

<sup>7</sup> Zewde (note 6), p. 275.

<sup>8</sup> Taye, H. K., 'Military expenditure and economic performance: the case of Ethiopia', *Ethiopian Journal of Economics*, vol. 5, no. 2 (Oct. 1996), p. 2.

also adopted, such as the recruitment of peasant militias. The third factor that inflated the size and cost of the military under the Dergue regime was incessant conflict, domestic and external. Armed domestic opposition groups which waged war against the regime included the Eritrean Liberation Front and the Eritrean People's Liberation Front, both fighting for self-determination for Eritrea, the TPLF, the Oromo People's Liberation Front and the Ethiopian Democratic Union. On the external front, Ethiopia was confronted with a conflict with Somalia over the Ogaden region. Ethiopia's relationship with Sudan was also fraught with tension and conflict.

At the height of its strength, the Dergue army was nearly 500 000 strong (including militia), consisting of infantry and mountain divisions, motorized divisions and a large number of tank battalions. It also had an air defence system, which deployed Russian anti-aircraft guns and surface-to-air missiles (SA-2, SA-3 and SA-7). The air force had 85 combat aircraft consisting of MiG-23 and MiG-21 fighters, bombers, and armed and transport helicopters. The navy had 32 craft in total, including 2 Russian-made frigates, 4 torpedo boats, 4 missile boats, 3 minesweepers (one of which was ocean-going) as well as 3 auxiliary ships for transport, 12 fast patrol boats and 2 minesweepers.<sup>9</sup>

The EPRDF, which took over power from the Dergue in 1991, disbanded the old army and grounded the air force. With the independence of Eritrea, the Ethiopian navy ceased to exist. The EPRDF converted its own force into a new army and started to rehabilitate the air force. By 1998 Ethiopia found itself engaged in a massive war with Eritrea and was forced to hurriedly mobilize a large army and acquire new and sophisticated equipment. The size of the Ethiopian armed forces in 2001 was 252 500, the largest in sub-Saharan Africa at the time. Table 3.2 presents the estimated strength of the armed forces in Ethiopia and its neighbouring states. It shows that, before the demobilization that followed their border war, Ethiopia's military far outnumbered Eritrea's. These two countries continue to have the two largest armed forces in sub-Saharan Africa; indeed, in 2004 Ethiopia's military was 74 per cent larger than that of Sudan.

The inevitable result of the events of the past three decades was that military expenditure in Ethiopia skyrocketed. As table 3.3 shows, military expenditure increased from 1625 million birr (\$413 million in constant dollars) in 1990 to peak at 5589 million birr (\$719 million) in 1999 at the height of the war with Eritrea. As can be seen from the table, military expenditure fell for only a few years after the collapse of the Dergue in 1991; it started to rise again from 1993. Two immediate factors account for this. The first was the border war with Eritrea. The war occasioned massive recruitment and deployment of troops and the diversion of resources for military purposes. The unstable nature of Ethiopia's relationship with Eritrea persists even after the signing of a peace agreement in

<sup>9</sup> Personal communication with the authors, Addis Ababa, June 2002.

**Table 3.3.** Military expenditure of Ethiopia, 1990–2004

Figures in US\$ are in constant 2003 prices and exchange rates.

Year <sup>a</sup>	Military expenditure		
	\$ m.	m. birr	as a % of GDP
1990	413	1 625	8.5
1991	205	1 095	5.3
1992	121	716	2.7
1993	134	819	2.9
1994	124	813	2.4
1995	104	754	2.0
1996	117	803	1.8
1997	215	1 512	3.4
1998	453	3 263	6.7
1999	719	5 589	10.7
2000	648	5 075	9.6
2001	438	3 154	6.1
2002	411	3 000	5.3
2003	349	3 000	4.3
2004	339	3 000	..

GDP = Gross domestic product.

<sup>a</sup> Years are calendar years, not financial years.

Source: SIPRI military expenditure database.

December 2000.<sup>10</sup> Second, in the post-Mengistu era the country still has to contend with internal civil strife in the south, the south-east and the south-west, where the Ogaden National Liberation Front and the Oromo Liberation Front are active. The military, therefore, still occupies a central position in the public profile and expenditure plans of the government, and so continues to consume enormous resources.

These two factors notwithstanding, the missions and roles of the armed forces have hardly changed under the last three regimes, except perhaps for some shifts in ideological emphasis. The army's role has always been to protect the territory of the country from external threat, to enforce security measures against internal insurgency, and to plan and organize civil defence, participate in civic construction projects and provide emergency relief during national disasters in peacetime. The air force's role has been to maintain air superiority within the country's airspace, defend the country from external aggression by air, provide air support for the army (and the navy before Eritrean independence) and during peacetime provide aviation services as required. During the imperial and Dergue regimes, the armed forces had overtly or covertly assumed

<sup>10</sup> Agreement between the Government of the Federal Democratic Republic of Ethiopia and the Government of the State of Eritrea, Algiers, 12 Dec. 2000, available at URL <[http://www.usip.org/library/pa/eritrea\\_ethiopia/pa\\_eritrea\\_ethiopia.html](http://www.usip.org/library/pa/eritrea_ethiopia/pa_eritrea_ethiopia.html)>.

the role of agents of social and political change. Partly as a result of Emperor Haile Selassie's belief in collective security (first through the League of Nations, then the United Nations), a belief shared by subsequent governments, Ethiopia participated in international missions in Korea, the Congo (Leopoldville), Rwanda and Burundi.<sup>11</sup>

The past decade has been a period of transformation for the Ethiopian armed forces: one of its major tasks has been to build capacity.

### III. The national budgetary process

Ethiopia has a dual budgeting system in which recurrent and capital expenditure are considered separately. Until recently these two budgets were prepared separately by the Ministry of Finance and the Ministry of Economic Development and Cooperation, respectively. In October 2001 these two ministries were merged to form the Ministry of Finance and Economic Development.<sup>12</sup> The new ministry determines budget ceilings for federal ministries and agencies and for the regions. In doing so, it takes stock of the performance of the economy for the previous year and makes economic projections for the following year in terms of growth, revenue, and so on. The MOFED does this in consultation with other state agencies, such as the National Bank of Ethiopia and the Central Statistical Authority. It is this macroeconomic framework that, when approved by the Council of Ministers and the Office of the Prime Minister, forms the background to the budgetary process in Ethiopia.

At the federal level the amount to be allocated to recurrent and capital expenditure is determined by government priorities, ongoing projects, non-discriminatory expenditure and institutional capacity.

#### The formulation phase

The MOFED is the major clearing house for the preparation of the federal budget in Ethiopia, although this is done in consultation with the various ministries that are the beneficiaries of the budget. The responsibilities of the Minister of Finance and Economic Development, as stipulated in the Council of Ministers Financial Regulations, consist of formulating and issuing directives that detail government financial policies in all areas of government finances; developing and maintaining appropriate standards of work and conduct for application throughout all public bodies; internal auditing functions; and pre-

<sup>11</sup> Ethiopia contributed troops to the United Nations (UN) Command in Korea, 1951–54; the UN Operation in the Congo, 1960–64; the UN Assistance Mission for Rwanda, 1993–96; and the African Union's African Mission in Burundi, 2003–2004. It currently contributes troops to the UN Mission in Liberia, since Sep. 2003, and the UN Operation in Burundi, since June 2004, URL <<http://www.un.org/Depts/dpko/>>.

<sup>12</sup> Federal Democratic Republic of Ethiopia, 'Reorganization of the executive organs of the Federal Democratic Republic of Ethiopia', Proclamation no. 256/2001, *Federal Negarit Gazeta*, 12 Oct. 2001, URL <<http://www.ethiobar.net/>>.

paring a financial plan for the country.<sup>13</sup> In addition, the minister now has the duty to initiate policy proposals that help to define the country's long-term development perspective; prepare and follow up implementation of long-, medium- and short-term development plans; and prepare the annual development programme.

The various steps involved in the process of budgeting in Ethiopia are described below.<sup>14</sup>

The first step in the process is the sending of Budget Calls and ceiling notifications to line ministries by the MOFED. The Recurrent Budget Call provides basic information such as the macroeconomic environment, aggregate recurrent budget ceiling and priorities for which the ministry must budget. The MOFED then prepares a proposed total recurrent budget, which is reviewed and vetted by the Office of the Prime Minister and on which the line ministries' budget proposals are based. For the capital budget, the process for a particular budget cycle begins with an assessment of the economic situation and by determining the financial balance. At this stage, the macroeconomic framework is reviewed, economic priorities in terms of capital expenditure are set and national goals are defined with respect to economic development. This is followed by the issuance of the Capital Budget Call, which provides detailed guidelines to line ministries regarding the capital budget ceiling and how to prepare their budget proposals.

The next step in the process is the submission of budgetary requests by the various ministries to the MOFED's Budget Department following established regulations and ensuring appropriate budget sub-heading classification. A line ministry may have formal pre-budget discussions with MOFED officials in order to clarify some issues or to justify certain budget claims that the line ministry may wish to make. Line ministries may overshoot their budget ceiling when they prepare their budgets; however, such an action has to be justified for it to be considered by the MOFED.

The budget hearing at the MOFED follows the submission of budgetary requests. This is the component of the process that reflects the democratic nature of the budgetary process. The minister or vice-minister of the line ministry or the head or director of a department or agency is called to defend its budget before the MOFED. The budgetary request of the line ministry is prepared in an issue paper, which is normally the subject of discussion at the budget hearing. The basic issues that are raised in the budget hearing include policies, programmes and cost issues. When necessary the budget request presented by a line ministry is discussed in detail. In addition, for the capital budget the MOFED, through its Capital Budget Steering Committee, holds budget hearings at which the line ministries defend their proposals. The key issues that form the core of the capital budget hearing and defence process include a focus on the status of projects; the implementation capacity of the

<sup>13</sup> Federal Democratic Republic of Ethiopia, 'Council of Ministers Financial Regulations', Proclamation no. 17/1997, *Federal Negarit Gazeta*, 1 July 1997, URL <<http://www.ethiobar.net/>>.

<sup>14</sup> For further details see Tizaau, T., *Budget Preparation and Finance Administration in Ethiopia* (Meskerem: Addis Ababa, 2001).

country's development strategy and the projects' compatibility with the strategy; the cost structure of the projects; and the regional distribution of the projects. In other words, the development potential and cost implications of the projects are put under scrutiny.

After the budgetary hearing, the MOFED's Budget Committee reviews the exercise and prepares its recommendations, including the proposed sources of finance. Funds are allocated from internally generated revenue, from foreign assistance and from the central Treasury. The total amount to be disbursed to the line ministry in the recurrent budget is the sum of these three sources of finance. Should the MOFED recommend a rise in the ceiling, this has to be approved by the Office of the Prime Minister first.

After the MOFED has reviewed the budget proposal, it is submitted to the Deputy Prime Minister for Economic Affairs. The Deputy Prime Minister then calls on line ministry representatives to further discuss the recommended budget before it is submitted to the Prime Minister. The Prime Minister may or may not authorize changes. From the Office of the Prime Minister, the draft recurrent budget is sent to the Council of Ministers for deliberations. The draft capital budget is also submitted to the Council of Ministers after a review and recommendations have been made by the Capital Budget Steering Committee.

### **The approval phase**

Supreme authority for budget appropriation is vested in the House of Peoples' Representatives. The Prime Minister presents the budget recommended by the Council of Ministers to the House. After deliberation in a parliamentary session, it is sent to the Budget and Financial Affairs Standing Committee for review and recommendation. This committee reviews the budget in the presence of members of various other committees, receives written explanations from experts from the MOFED and makes its recommendation to the House. The entire House thereafter deliberates on the recommendations of the budget standing committee before the appropriation bill is approved. The House of Peoples' Representatives considers both the current and capital expenditure budgets as well as subsidies to the regions.

After the House of Peoples' Representatives approves the budget, it is signed by the President and is then made public through publication in the *Federal Negarit Gazeta*, the Ethiopian national gazette. Following this, the line ministries receive formal notification from the MOFED of their budget allocation for the next financial year. The MOFED then directs the Treasury to release the funds to the line ministries.

### The implementation phase

The implementation phase of the budgetary process covers not only measures for disbursing funds already allocated but also the monitoring of how funds are spent to ensure that they are used judiciously and for the intended purposes.

Following the notification and publication of the budget the various ministries are required to prepare a fund disbursement chart that specifies salary allotment, a work plan and a cash flow and to submit the chart to the MOFED. These charts are verified by the MOFED, which then authorizes the Treasury to release the funds (both recurrent and capital) to the line ministries.

Funds are dispersed to ministries each month on the basis of the allotted budget. Every ministry is required to submit a 'monthly disbursement request' in which it reports the previous month's expenditure, detailing what was spent and how it was used, and makes a request for the next month's allocation through a work plan. The requests for fund disbursement by line ministries usually contain three main components: the payment of salaries, a request for operational expenditure (according to the cash flow plan) and a request for payment of capital grants. The MOFED's Fund Disbursement Department handles the process of fund disbursement for the ministries and keeps records of all transactions. The budget registrar in the Disbursement Authorization Department of the MOFED records the original budget, all transfers and supplementary budgets, the disbursements made and any undisbursed allocation.

Fund disbursement is cumulative and undisbursed funds for a particular month can be used in another month in the same financial year. Funds unused by ministries at the end of the financial year have to be transferred to the Treasury, although transfer to other activities is also allowed. With regard to capital projects, ministries are expected to prepare a schedule of advance payments compatible with the amount of work to be carried out on the various projects. This schedule is consolidated and approved by the MOFED and passed to the Disbursement Authorization Department for further action.

During implementation of the budget, new or unforeseen requirements may necessitate a request for a supplementary budget; this is permitted by regulations on the financial administration of the federal government. The Council of Ministers establishes a committee that includes representatives of the Office of the Prime Minister, the MOFED and the line ministry. This committee first assesses the new or unforeseen requirements, based on policy decisions at the highest executive level. Once approved at this level, it is submitted to the House of Peoples' Representatives for approval, after which it is passed back to the MOFED for authorization of disbursement.<sup>15</sup>

The MOFED coordinates the management and control of public funds in Ethiopia. It is this ministry that keeps the accounts of the federal budget and

<sup>15</sup> Federal Democratic Republic of Ethiopia, 'Financial administration proclamation of the Federal Government of Ethiopia', Proclamation no. 57/1996, *Federal Negarit Gazette*, 19 Dec. 1996, URL <<http://www.ethiobar.net/>>.

prescribes regulations on financial management and control for ministries and government agencies. In addition, ministries are required to manage and control funds allotted to them following the central regulations and directives on financial management set out by the MOFED. The regulatory mechanisms of the budget include requirements that: (a) budgetary receipts be recorded in the appropriate budgetary account as prescribed in the financial regulations and in a timely manner; (b) collected revenue be recorded under the appropriate revenue account; (c) expenditure only be made in compliance with the financial regulations; (d) all books of accounts be closed each month and a monthly receipt and disbursement be prepared and submitted to the MOFED at the centre and regional finance bureaux in the regions; (e) periodic financial statements be prepared and submitted to the Council of Ministers and regional executive committees by the MOFED at the centre and regional finance bureaux in the regions; (f) a consolidated annual report be prepared and sent to the Council of Ministers and regional executive committees by the MOFED and regional finance bureaux.

The MOFED can be seen to play a central role in the budgetary process of the country. It controls the formulation and implementation of the budget of line ministries at various levels. During the writing of the Budget Calls it is instrumental in the setting of budget ceilings. It can make changes in the budget allocation of line ministries after review and analysis of the budget estimate submitted by the ministries. It decides the level of the budget to be recommended to the Council of Ministers. During implementation, it has the power to disburse funds. Through the monthly accounting reports, it scrutinizes the performance of the ministries in budget implementation, and it can decide on the level of funding to be authorized for disbursement. It can also approve transfers and recommend supplementary allocations.

### **Reporting and auditing**

According to the proclamation establishing the post,<sup>16</sup> the Office of the Federal Auditor-General is tasked with the responsibility of undertaking financial and performance audits of the offices and organizations of the federal government. It does this by auditing the accounts of all federal ministries and agencies. The proclamation stipulates the penalties for anyone who obstructs the work of the Auditor-General through deliberate presentation of false documents or denial of access to required information. The annual report of the Auditor-General details his or her findings on the accounts audited. Unfortunately, the reports are usually late in arriving, sometimes by as many as three years. For instance, the report for financial year (FY) 1999/2000 was not presented to Parliament until June 2003. This delay diminishes the significance of the report since any

<sup>16</sup> Federal Democratic Republic of Ethiopia, 'A proclamation to establish the Office of Federal Auditor-General', Proclamation no. 68/1997, *Federal Negarit Gazeta*, 6 Mar. 1997, URL <<http://www.ethiopar.net/>>.

recommendation for remedial action to rectify an error arrives too late to avoid repetition of that error in intervening years. A lack of adequate staffing has been given as the main reason for this major lapse in the auditing process.

#### IV. The military budgetary process

The military budgetary process in Ethiopia is an integral part of the annual national budgetary system of the country. The line ministry for the military is the Ministry of National Defence.

According to the MOFED budget classification, the MOND is classified as a programme and the whole military budget is classified as recurrent expenditure, following the United Nations's classification. The MOND is divided into sub-programmes. In FY 1991/92 these sub-programmes were: (a) administrative and general services (MOND headquarters); (b) the ground force; (c) the air force; (d) the navy; and (e) defence construction. Essentially, this reflected the classification that existed during the Dergue regime.

In FY 1992/93 a new sub-programme was introduced for the Political Organization Army Department, which was established to carry out the demobilization and resettlement of the EPRDF troops who left the army. When this department had accomplished its task, it ceased to be a component part of the military budget after FY 1995/96. In FY 1994/95 when the Navy Department had been closed and the navy disbanded, it also ceased to be part of the MOND budget. Defence construction was also withdrawn from the MOND and now operates independently, along business lines, under the supervision of a government department responsible for nationalized enterprises. However, a new sub-programme was added in FY 1994/95: Project 40720, a vast repair and maintenance complex for heavy armaments, tanks and military vehicles built by the Soviet Union during the Dergue regime which also includes some other unfinished projects. In FY 2001/2002 three new sub-programmes were added: the Defence Engineering College, the Health College and the Dejen Defence Project Coordination Office. The last of these oversees the management of a number of factories established to provide the military sector with material and equipment, such as quartermaster items and mechanical tools. In FY 2002/2003 more radical changes were made in the programme classifications, leaving eight sub-programmes: (a) administration and general services; (b) the office of the minister; (c) defence procurement; (d) the ground force; (e) the air force; (f) the Defence University; (g) Project 40720; and (h) the Dejen Defence Project Coordination Office. The components of each sub-programme consist of item expenditures which include personnel services (emoluments, allowances and pension contributions), goods and services (materials and supplies, travel, maintenance and contracted services), fixed assets and construction, and other payments (subsidies, investments, grants and miscellaneous payments).

In terms of administration, the Minister of National Defence is the political head of the ministry, although in reality the Prime Minister exercises consider-

able influence. The federal constitution requires that the Minister of National Defence be a civilian.<sup>17</sup> At present the Budget Department, the Finance Department, the Procurement Agency, and the Administration and General Services Section of the MOND are all the responsibility of a minister of state, a civilian who is responsible directly to the Minister of National Defence. A civilian vice-minister heads the Defence Project Coordination Office. The head of the Budget Department, who is responsible for the formulation and administration of the budget, is also a civilian. In terms of the budgetary process, at least in the formal sense, civilian control appears to predominate.

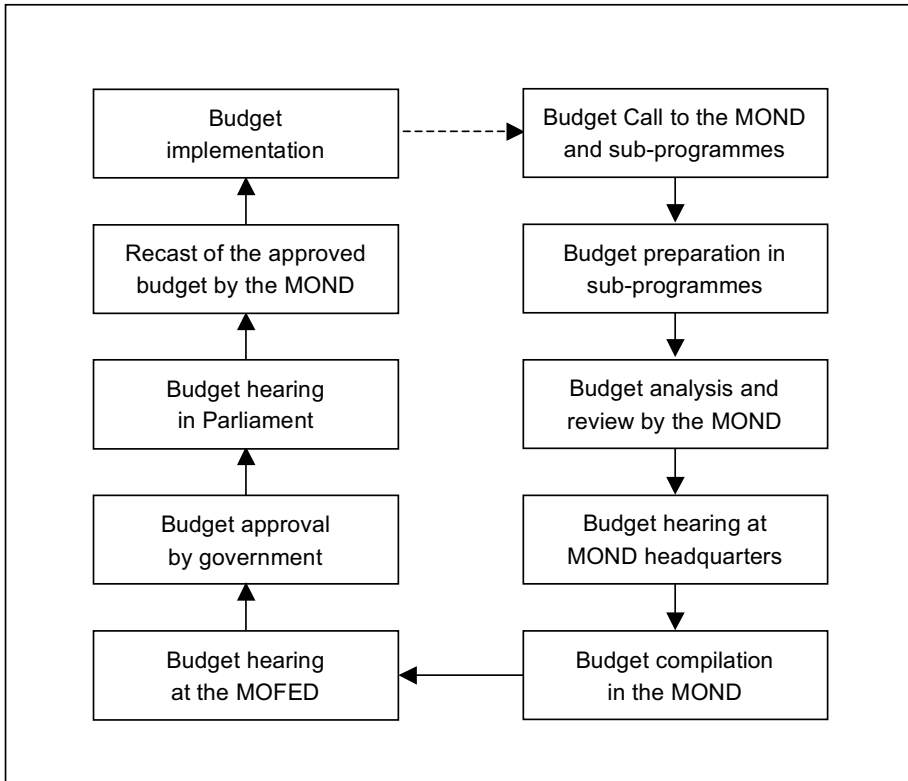
### **Budget formulation**

There is little or no difference between the budgetary process for the military and those of the other ministries. The military budget begins at zero every year; in other words, the sector undertakes only annual budgeting. There is no medium-term perspective to military budgeting. The budgetary procedure is described in this and the following subsections; a diagram of the process is presented in figure 3.1 and the calendar of the process is given in table 3.4.

The MOFED sends a Recurrent Budget Call, which includes a budget ceiling, to all ministries, including the MOND. The MOND headquarters, in turn, issues a Budget Call to the heads of the various sub-programmes, with a ceiling for each sub-programme, calling their attention to various directives. In the Budget Calls it is stressed that the budget preparation process should strictly follow existing budget preparation regulations, take account of policy decisions, meet budget standards, take account of the current price of goods and services, and so on. The budget proposals from sub-programmes include not only expenditure but also revenue. The Budget Calls also specify a deadline for the submission of budget proposals from sub-programmes. The prepared budget estimate is submitted for a budget hearing at the sub-programme level to determine the final estimate that will be sent to MOND headquarters.

Following the submission to MOND headquarters of the budget proposals by the sub-programmes, budget review and analysis are carried out by experts in the Budget Department of the MOND. This involves detailed analysis to establish that the budget estimates have been prepared in accordance with the Budget Calls. It also involves an assessment of whether the activities proposed in each sub-programme can be accomplished during the financial year, whether old and new projects have been clearly identified, and whether the budget estimate has been prepared by comparison with the previous year's performance and takes account of inventories. The objective of the exercise is also to enable the budget experts to prepare an accurate, realistic and credible consolidated budget estimate.

<sup>17</sup> Constitution of the Federal Democratic Republic of Ethiopia, Proclamation no. 1/1995, *Negarit Gazeta*, 8 Dec. 1994, URL <<http://www.ethiobar.net/>>, Article 87(2).



**Figure 3.1.** The military budgetary process in Ethiopia

MOFED = Ministry of Finance and Economic Development; MOND = Ministry of National Defence.

After review and analysis of the budget, a budget hearing is held at MOND headquarters, at which the sub-programmes are represented and the Minister of National Defence and the Chief of Staff are present, to decide on the budget level to be recommended for each sub-programme and for the military sector as a whole. Immediately after the budget hearing and on the basis of the decisions taken during that hearing, the MOND Budget Department prepares a consolidated military budget, which also includes revenue estimates—services may collect revenue from the sale of surplus property, medical services, aviation services and items from welfare stores or canteens.

**Approval**

The Foreign, Security and Defence Standing Committee of the House of Peoples’ Representatives scrutinizes the defence component of the national budget submitted by the Prime Minister before passing it on to the whole House

**Table 3.4.** The financial calendar of the Ethiopian Ministry of National Defence

Activity	Calendar	
	Ethiopian	Gregorian
Budget Call from the MOND to sub-programmes	15 Meskerem–15 Tikimt	15 Sep.–15 Oct.
Budget preparation in sub-programmes	16 Tikimt–30 Tahsas	16 Oct.–8 Jan.
Budget analysis and review by the MOND	1 Tir–15 Tir	9 Jan.–23 Jan.
Budget hearing at MOND headquarters	20 Tir–30 Tir	28 Jan.–7 Feb.
Budget compilation in the MOND	1 Yekatit–30 Yekatit	8 Feb.–9 Mar.
Budget hearing at the MOFED	23 Megabit–29 Genbot	1 Apr.–6 June
Start of the financial year	1 Hamle	8 July
Budget approval by government	1 Hamle–8 Hamle	8 July–15 July
Recast of approved budget	1 Hamle–9 Nehassie	8 July–15 Aug.
Budget implementation	9 Hamle–30 Hamle	16 July–6 Aug.

*Note:* The Ethiopian financial year (which should be distinguished from the Ethiopian trade year) runs from 8 July to 7 July (1 Hamle to 30 Sene in the Ethiopian calendar).

MOFED = Ministry of Finance and Economic Development; MOND = Ministry of National Defence.

for approval. After the budget appropriated by the House of Peoples' Representatives has been passed on to the MOND by the MOFED, the final exercise in the budget formulation process is the budget distribution (or recast), which allows each sub-programme to adjust the approved budget according to their actual revised requirements.

### Implementation

Once the budget recast is approved by the MOFED, the process of budget implementation starts with the monthly requisition by the MOND for its allotted funds. At this stage all the control mechanisms that apply to other ministries and agencies of the federal government also apply to the MOND. This includes the monitoring of the execution of the budget on a monthly basis. It is doubtful, however, whether this applies to the procurement of major military weapons.

### Reporting and auditing

The role of the Office of the Federal Auditor-General in the budgetary process of the military sector is to audit its financial accounts annually and at other times when it deems it necessary. The auditing, as in other ministries, is performed at three levels: internal audit by the ministry, auditing by the MOFED and auditing at the federal level by the Auditor-General's office. By law, all persons appointed as auditors (including internal auditors) should be approved by the Federal Auditor-General.

## V. Assessing the military budgetary process

The Ethiopian military budgetary system suffers from a number of deficiencies that hamper efficient allocation and use of resources. Among these are: a lack of continuity in the process; the lack of a well-articulated defence policy and strategic plan; inefficient implementation of the budget; emphasis on input rather than output; over-centralization of authority; and relatively strong yet opposing influences on the level of military spending.

The first thing to note about the Ethiopian armed forces is that, when the Dergue regime collapsed, the army was not simply disbanded. The EPRDF also discarded well-established doctrine on military operations, logistics and training along with the organizational structure and all the rules, regulations and standing operating procedures, and it closed training and other facilities. It was as though Ethiopia had never had an armed force. Moreover, the replacement was not a modern armed force; it was a guerrilla force, with all that that implies in terms of doctrine, organization and weaponry. The EPRDF retained a handful of officers and men from the old force, but otherwise it had to start afresh, establishing a new organizational structure and operating procedures and re-establishing facilities that it had closed when it took over. The EPRDF army started out with principles and a value system that were the antitheses of those of a modern professional army. Over time all this has changed. Since 1991 the government has focused on the re-establishment of a professional army. During this process, the new armed forces had to engage Eritrea in a border war. It is against this background that the budgetary process should be evaluated.

One of the methods of modern budget administration is 'planning, programming and budgeting' (see chapter 2), although the Ethiopian military has not adopted it. A particular advantage of this method in the Ethiopia situation is the analysis of defence capability that it requires; such an analysis is important in a defence system in the process of transformation. However, the planning, programming and budgeting method assumes that there are already short-, medium- and long-term plans and that the major budget centres are structured in such a way that they functionally reflect national defence objectives. Ethiopia may have strategic plans but, since the planning, programming and budgeting method has not been implemented, if these plans exist, they do not play an important role in the budgetary process because there is no mechanism for coordinating the activities of those who plan and those who prepare the budget. Lack of transparency in the process does not allow for an understanding of the basis of defence allocations.

It is known that the level of budget allocation to ministries is determined through the prior setting of ceilings by the MOFED. This does not contribute to budget discipline or efficient management of the budget or the defence system in general. On the contrary, in the administrative environment described above it may encourage the padding and inflating of budgets. For this reason, and others to do with efficiency, the MOFED should study the pros and cons of the

setting of budget ceilings as a budgetary tool in the absence of a defence policy and of overarching national priorities and policy goals.

Except for the past few years, actual expenditure on defence in Ethiopia has exceeded appropriations.<sup>18</sup> This may be largely owing to the fact that the MOND does not formulate its budget on the basis of medium- and long-term plans and may also be the result of the frequent external and internal conflicts. Long-term stability and the existence of medium- and long-term plans seem to be necessary conditions for budget ceilings to be an effective tool of the budgetary process.

In general, there are two possible approaches to budget formulation when attempting to achieve a goal. In the first approach, those responsible set budget ceilings and direct the implementing agencies to operate within the ceilings. There will of course be legal and administrative controls to ensure that implementing agencies with approved budgets adhere to the directives sent. This approach is usually less effective in maintaining budget discipline, as there is little basis for the ceilings.

The second and perhaps more useful approach is for the line ministries to first submit their spending estimates, without a ceiling being set beforehand. These estimates should give detailed justifications (usually on the basis of objectives or policy goals) for increases or decreases in budget, and should detail any new activities or programmes that are to be undertaken, such as fresh troop recruitment, the purchase of armaments or the construction of new facilities. Authorization may then be obtained from the government for the new or additional programmes and activities and for any cost increases after analysis of past budget performance. The emphasis is on justifying the new requirements, clearly indicating how they would enhance the readiness or capacity of the combat or support element concerned and, if the requirements arise during a period of conflict, how acquiring the new capability would contribute to the war effort.

This second method was used during the Dergue regime, but it was still a 'line item expenditure' approach. It fell far short of enabling decision makers to be able to use the budget as a tool to achieve national defence goals. If the method were suitably refined (with a strategic plan and policy), it would allow for systematic analysis of defence requirements in terms of system costs and defence objectives. Since the method is iterative, it allows closer scrutiny of the objectives themselves, making it possible to consider alternative defence systems or postures. With the establishment of proper criteria it would be possible to select the optimum defence package. For these reasons, the Ethiopian Government should consider implementing the planning, programming and budgeting method, with the requisite analytical tools to ensure that the national defence goals are achieved and optimal use of resources is made.

Table 3.5, which presents military budget appropriations by sub-programme, shows that the Ethiopian armed forces have undergone a number of changes in

<sup>18</sup> See also table 11.7 in chapter 11 in this volume.

**Table 3.5.** Ethiopian military budget appropriation by sub-programme, 1991/92–2002/2003  
 Figures are in m. birr. Figures may not add up to totals due to the conventions of rounding.

Sub-programme	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03
Administration and general services	6.4	10.8	9.7	9.8	7.5	6.6	9.4	8.4	8.4	37.8	103.8	507.2
Ground force	568.7	599.3	586.8	579.3	638.1	704.3	789.0	895.4	2 412.4	3 537.9	2 149.3	1 122.4
Air force	10.6	28.0	37.7	47.7	46.0	30.4	36.3	74.4	74.4	531.6	404.0	32.4
Navy	2.9	7.4	9.3	10.4	6.8	4.2	..	..	..	..	..	..
Defence construction	4.4	5.1	4.2	..	..	..	..	..	..	..	..	..
Political Organization	..	9.7	9.9	9.9	0.4	..	..	..	..	..	..	..
Army Department	..	..	..	..	..	..	..	..	..	..	..	..
Project 40720	..	..	..	6.0	6.0	9.4	12.1	4.9	4.9	8.1	70.4	14.3
Defence Engineering	..	..	..	..	..	..	..	..	..	..	52.3	28.4
College/University	..	..	..	..	..	..	..	..	..	..	..	..
Dejen Defence Project	..	..	..	..	..	..	..	..	..	..	215.0	86.5
Coordination Office	..	..	..	..	..	..	..	..	..	..	..	..
Health College	..	..	..	..	..	..	..	..	..	..	5.2	..
Office of the minister	..	..	..	..	..	..	..	..	..	..	..	6.4
Defence procurement	..	..	..	..	..	..	..	..	..	..	..	1 202.5
<b>Total</b>	<b>593.1</b>	<b>660.3</b>	<b>657.5</b>	<b>663.1</b>	<b>704.8</b>	<b>754.9</b>	<b>846.9</b>	<b>983.1</b>	<b>2 500.0</b>	<b>4 115.4</b>	<b>3 000.0</b>	<b>3 000.0</b>

.. = No such sub-programme in that year.

Sources: 'Budget proclamation', *Negarit Gazeta*, 1991/92–1994/95 and *Federal Negarit Gazeta*, 1995/96–2002/2003.

organizational structure since FY 1991/92. These were accompanied by a high turnover of personnel, resulting in a shortage of well-trained staff for budget administration. However, the size of the budget to be administered is huge for a low-income country. Under these circumstances and because of delays in policy formulation and in communicating policy decisions to implementing units, some delays in budget preparation and submission are to be expected. If the Budget Call is delayed, for example, this will shorten the time available for preparation of the budget. Those in the Budget Department of the MOND who analyse and review the process are also pressed to keep to the financial calendar of the MOFED. The cumulative result of all this is that the standard of the work throughout the budgetary process inevitably suffers.

A major activity of the budgetary process is the biannual taking of inventories of stocks of materials and supplies. This exercise is an integral part of budget preparation, as budget estimates take into account the balance of the stocks. Procurement plans are also reviewed on the basis of inventory results. Existing stocks are redistributed so as to avoid excessive concentration of stocks in one unit or shortages in another—this is done in order to reduce the size of the budget estimates, and it is accordingly regarded as a very important part of the budgetary process. However, if this aim is to be achieved effectively and a substantial budget reduction is to result from the exercise, then an efficient control system must be put in place with trained personnel to operate it. Owing to staff turnover and reorganization, this may not be practicable. Under these circumstances, it is to be expected that there will be a bias in favour of under-reporting stock levels, in the hope that budget ceilings will be increased or at least maintained.

In short, the overall picture is that conditions in Ethiopia are not conducive to the efficient implementation of the budgetary process in the MOND.

As far as the administration of the budget is concerned, apart from ensuring that salaries and benefits are paid and that materials and supplies are procured in accordance with organization and equipment tables, the overriding emphasis is on control: not enough attention is paid to efficiency. In fact, there does not even appear to be a mechanism that could contribute to achieving efficiency. The budget consists of line item expenditure calculated on the basis of budget standards, the established civil service salary scale and the lowest possible prices for goods and services. Such an exercise in itself and in isolation cannot ensure that the goals of the defence system or its sub-systems are cost-effective, nor can it assist in measuring mission effectiveness.

Furthermore, the recent changes in classification in the military budget with the introduction of the defence procurement sub-programme, which is centrally planned and administered, are leading to over-centralization of authority and a reduction in the powers of the service units, which can only have a negative effect on the optimal use of resources. Table 3.5 shows that this new sub-programme has been allocated over 40 per cent of the total military budget. While supplies of materials and equipment constitute a significant portion of

the input to the military sector and there is a need to control costs (e.g., through taking advantage of bulk purchasing), this does not justify the classification of procurement as an independent category in the budget. Doing so is tantamount to taking from the service units (the ground and air forces) control over a significant portion of their resources: it deprives them of the opportunity to manage themselves efficiently and effectively. The service units are the best judges of their requirements and they should be allowed to make the necessary choices independently. Since some of the requirements of a service can be highly specialized, the right to manage its own financial resources is an integral part of a service's ability to manage itself efficiently. While central procurement need not mean that the budget for procurement is centrally planned and administered in the MOND, the recent change in budget classification is retrograde. It has come as a result of an overemphasis on cost reduction, to the exclusion of considerations of efficiency.

Ministry of National Defence expenditure increased by more than 180 per cent in real terms over the period 1992–2004. This partly reflects the strategic importance that the new regime attaches to the sector and the level of threat perceived by the state. However, allocations for defence remain high even after the reductions that followed the formal end of the Eritrea–Ethiopia War, in December 2000. There are two major factors that will affect Ethiopia's military expenditure in the future, aside from the actual performance of the economy itself. The level of foreign aid to Ethiopia, especially that from the World Bank and the International Monetary Fund, has in the past been contingent on reduction in the size of the armed forces. Consequently, the high level of expenditure may not continue. On the other hand, the Ethiopian military sector is in the process of transformation; this essentially means capacity building, with perhaps some change to the structure of the forces. Whatever the actual outcome of the opposing trends for capacity building and force reduction, there will be a need for a qualitative change in the management of the armed forces if undue burden on the economy is to be avoided and if the cost-effectiveness of the defence system is to be improved.

The role of the House of Peoples' Representatives in the budgetary process is minimal, even though the constitution grants the legislature a great deal of power. The President's role in the process is purely ceremonial; he has no constitutional power to influence the way in which the budget is formulated. While the House is the supreme body in terms of budget appropriation, the extent to which it exercises this authority is debatable. Although there is a standing committee for the budget, which is expected to study the budget proposals in detail and to submit its recommendations to the House, committee members lack the expertise to scrutinize the military budget properly and they do not have the services of experts at hand. In any case, the budget estimates are scrutinized as a whole, rather than by sector. The government announces through the media that budget hearings are going to be held and invites the general public to attend the hearings. Various interest groups have the opportunity

to submit their views to the standing committee and many actually do so, but this is little more than a formality: the committee deals with the budget proposals in their entirety and, in general, the recommendations presented to the House are identical to those presented by the executive. The committee cannot therefore be said to be as accountable to the public as its constitutional role demands. In fact it is the Ministry of Finance and Economic Development and the Office of the Prime Minister that have the decisive role in the budgetary process. It is therefore important to devise means of enhancing the competence of the Budget and Financial Affairs Standing Committee.

## VI. Issues arising from the study

There are several issues arising from this study that indicate the limitations of the research and of the policy issues arising from it.

Owing to the nature of the subject area (i.e., excessive confidentiality) and because of limited access, it has not been possible to unravel the informal processes and politics of the military budgetary process. Emphasis is placed more on the formal mechanisms and processes of the military budget and their critique.

Military budgeting starts at zero each year; there are no medium- or long-term strategic budget plans.<sup>19</sup> Equally, there is no evidence of the existence of mechanisms for coordinating the planning organs and the Budget Department of the MOND. In the process of issuing Budget Calls in the MOND, decisions on increases or decreases in manpower strength, variations in budget standards and capacity building are made. However, it is unlikely that decisions on major defence policy issues (which will be converted into specific goals and programmes) are communicated to the head of the Budget Department who will have to apply them in the budget. Extra- or off-budget spending for the military is often not disclosed by the state or the military sector.

Organizational changes in the armed forces as different regimes take power, either through coup or armed struggle, tend to be motivated by a desire for regime stability. This has an effect on the continuity and development of the armed forces and deprives the nation of an experienced and disciplined professional armed force.

External assistance in the form of loans and grants, both bilateral and multi-lateral, is detailed in the revenue side of the national budget by source, but it is not shown on the recurrent expenditure side for any sector, including the military. Budget allocations for demilitarization and demobilization after the EPRDF took power from the Dergue regime are reflected in the government budget proclamations. They do include a foreign aid component, but this is not recorded in the recurrent budget.

<sup>19</sup> The MOFED does have 5-year strategic and 3-year rolling plans for the federal budget; these are not proclaimed by law but form the basis for the annual budgetary process.

The Civil Service Reform Budget Design Team—a body representing the former ministries of Finance and of Economic Development and Cooperation and the Decentralization Support Activity Project—was established in 1997 to recommend reforms in the budget processes and structure for the federal government. It made proposals on how best to coordinate the preparation of the recurrent and capital budgets.<sup>20</sup> Among the study's recommendations were changes in the format of the budget to promote consistency in the presentation of the recurrent and capital budgets and, most importantly, the preparation of the budget on a cost-centre basis. The latter proposal would bring together recurrent and capital expenditure so that budget managers could immediately see the total cost of a project or an administrative unit. Unit costs are used in the cost build-up of these cost centres. The team regards the use of these unit costs as a key technique for determining cost build-up and as a norm reference for costing the budget. The costs that the team have in mind are not the prices of items or services but ratios such as cost of transport per passenger or cost of education per pupil. Unit costs are developed for each major area of service and are calculated by dividing the total outlay by the output. Aside from the fact that the output of the military sector, in most cases, is not quantifiable, the necessary expertise for such an exercise does not exist in the MOND. In fact, the ministry has not yet set up a unit to undertake such a task. The measurement of costs and effectiveness in defence is very difficult, and the team's requirement for the calculation of unit costs would demand sophisticated cost-effectiveness analysis currently far beyond the capability of the MOND.

Reforms that have arisen from the recommendations of the Civil Service Reform Budget Design Team include organizational restructuring and a redistribution of duties and responsibilities in the MOND. Organizationally, a 'flatter' structure has been instituted, reflecting a move towards more decentralization. For example, budget and finance administration have been decentralized, as has local purchasing. Foreign purchasing remains centralized.

Redistribution of duties and responsibilities has meant that the Budget Department has been renamed the Plan and Budget Department and is now accountable directly to the Minister of National Defence, instead of the minister of state. The Material and Inventory Control Department has been separated from the Budget Department and made accountable to the minister of state. Inventory control will be undertaken once a year and will be computerized. Other reforms include: (a) the appointment of a new civilian vice-minister for policy and human resource development; (b) the initiation of the preparation of a strategic plan for the MOND; (c) in the future, annual and six-month performance reports will be presented to Parliament, and (d) the Hormat and Gafat engineering factories have been incorporated as sub-agencies of the MOND.

Significant as this reform is, it falls far short of a planning, programming and budgeting system. However, even with the existing system of budget prepar-

<sup>20</sup> Budget Design Team, *Budget Reform Design Manual*, version 2.1 (Ministry of Finance: Addis Ababa, Jan. 2000).

ation and implementation, the research indicates that, if the suggested reforms are to bring about the expected benefits, it will need to be complemented with training of personnel at all levels to upgrade the standard of budget administration in the MOND. Additionally, the ministry will need to establish a cost-evaluation unit staffed with highly educated and experienced professionals.

## VII. Conclusions

There is a paradox in the military budgetary process in Ethiopia. While Ethiopia has an established military culture which should provide a basis for a well-structured, cumulative and entrenched tradition of military budgeting, the political instability that has plagued the country has tended to undermine this. Different regime types with different ideological orientations, governance models and world views impose different management patterns on the military. In the current liberal democratic dispensation, the military budgetary process is carried out by different organs of government spanning the executive, legislature and bureaucracy (specifically, the Ministry of Finance and Economic Development and the Ministry of National Defence). As well as the MOND, the MOFED plays a key role in the military budgetary process in preparation, implementation, monitoring and evaluation. A zero-sum budgetary system has been adopted in military budgeting in Ethiopia.

While the formal process of military budgeting in Ethiopia is well laid out, it is accompanied by an informal process. Yet a strictly formal process is important in determining who actually does what and how it is done, and who wields what power and how it is wielded. For instance, while the legislature is formally conferred with wide powers in budgetary matters, in practice little of it is exercised with regard to the military sector; instead, the Prime Minister plays a pivotal role in the military budgetary process.

Similarly, the input of civil society is still very limited in the military budgetary process. Although Parliament conducts public hearings on budgetary matters for the different sectors of governmental activity, including defence, this does not usually result in any significant public or civil society input into the military budgetary process. Military issues generally remain 'sensitive' and largely classified, so any participation by civil society organizations is necessarily limited and uninformed. Moreover, only a few civil society organizations have the competence and expertise to analyse the intricacies, mechanisms and processes of military budgeting. The perceived 'sensitive' nature of military budgeting also discourages the public disclosure of off-line or extra-budgetary expenditure by the state.

There is a need to further democratize the process of military budgeting in Ethiopia (and in most other African countries). The budgetary process should be open to public scrutiny and discourse in order to improve the techniques used, ensure greater efficiency and better resource allocation, and extend the accountability of the nation's military sector.