1. Introduction

The increasing needs and wants of the society added to changing world and ever increasing population pose challenge to governments to address the wants and needs of the population as well as reducing poverty. These challenges call for more efficient, effective, transparent and accountable public service. Furthermore, the underway-civil service reform program is expected to vest more responsibility on local government in terms of good governance, and effective and efficient service delivery.

To cope up with these challenges, public officials need to be equipped with all the necessary tools that constitute capacity building. One aspect of capacity building is to furnish urban management officials how to utilize the hard-won and scarce resource in an economic, effective and efficient way. In fact, Finance is the scarcest resource that requires careful & proper handling.

In light of this, revenues and expenditures should be properly identified and planned if the management is to cope up with the needs and wants of the society. Otherwise, all of the strategic plan and other derivative plans will be meaningless. This is to mean that, financial management is the most important part of the strategic management process that requires careful (meticulous) planning and capacity building. Moreover, attitudinal change towards public finance in terms of expenditure management and careful identification and planning of revenues are crucial factors that need to be addressed in urban management.

In view of this, this paper is prepared to give urban management officials an insight to the importance of financial management, participatory budgeting, Budget cycle and the role of budgeting in executing strategic plans.
2. Financial Management

Financial resource is the lifeblood of any activity and a very scarce resource. Therefore, it is imperative that such resource should be properly allocated among equally competing need. The allocation involves the managerial activities of planning, prioritizing, financing and controlling. Finance needs to be managed and utilized in an economical, efficient and effective manner and should go towards alleviating the problem of the community at stake.

Urban financial management involves very important activities of planning, sourcing, utilizing, disbursing, reporting and controlling.

- **Planning:** deals with selecting the activities to be financed and determining when.

- **Sourcing:** is about identifying and making the necessary arrangement for financing the planned activities.

- **Utilizing & disbursing:** deals with the application of the finance in an economic, efficient and economic manner.

- **Reporting:** is about compiling all the necessary data and producing an informative and timely report to the management, financiers and other stakeholders.

- **Controlling:** verifying the proper use of resources in an efficient, economic and efficient manner per guidelines and procedures and action plan put forward so as to prevent or minimize fraudulent activities, minimize wastage, etc.

From the aforementioned few points we can understand that the role of urban financial managers involve both the managerial role of allocation, distribution, stabilization & controlling, and the accounting role of recording transactions, producing reports, analyzing the reports.
Activity 1:
Identify the role of Financial Managers in your respective urban and evaluate if they are properly exercising it.

3. Budgeting

Budget is the quantification of activity plans or strategic plans in monetary terms and has to be preceded by meticulous and proper planning of activities through the participation of implementers. It has been always the case that budgets not prepared through the participation of the concerned are not realistic and will not be implemented effectively and efficiently. The final implementation of the strategies in an effective, efficient and economic way requires full-hearted participation of all the concerned. Therefore, the final implementers need to participate in the preparation of action plans, strategies and infact, preparation of budgets.

The budgetary system of Ethiopia is partly participatory and partly centralized. But the recent move of decentralization is making the ground ready for participatory budgeting. This could be witnessed by the move of Addis Ababa City Administration to devolute power to lower units of city administration. The civil service reform program of the country is also expected to create fertile ground for good governance, participatory budgeting, responsive civil service, etc.

3.1 Participatory Budgeting

Budget is the principal instrument by which Government translates into action the policies and programs stetted out in its development plans, and it plays a pivotal role in the financial management of the economy.

Being a statement of expected results expressed in numerical terms, budgets are restrictive and usually distasteful; they are particularly distasteful if they are imposed-rammed down someone's throat.
Participatory budgeting has proved to be one of the most innovative programs that directly allow the involvement of citizens in the policy making process whereby citizens are given the opportunity to allocate resources, prioritize broad social policies and monitor public spending. The concept is now being related to the rights of citizens, democratic governance and poverty alleviation.

Participation, in addition to transforming stakeholders to stockholders, spurs administrative reform, and distribute public resources to low-income citizens. It is argued that participatory budgeting programs promote public learning and active citizenship, achieve social justice through improved policies and resources allocation and reform the administrative apparatus.

On the other hand, participatory budgeting whereby citizens are made to involve in defining priorities and tradeoffs will have the capacity to generate public demand for efficiency in the production of services.

In a nutshell, the process of participatory budgeting is grounded on elements of accountability, transparency, local capacity building, and ownership and sustainability that have profound implications to poverty reduction and good governance.

3.2 Main sources of Existing Revenue

Urban management should properly exploit and use all existing sources of revenue left to them by the central government in the form of ceded tax and/or constitutionally. This will help them address the needs of the public.

Conceptually, urban management has the following sources of revenue:
- Locally collected taxes, which includes property tax, business tax, rates on land, etc.
- Users and benefit charges, license fees, penalty, etc.
- Income from public enterprises owned by urban
- Public contribution
- Accumulated revenue funds
- Central government transfers
- Borrowing
- Sale of securities
- Grants

Municipalities use only limited sources of revenue to finance their capital and recurrent activities for various reasons. This has resulted in an increasing budget deficit.

Recurrent revenues like taxes, charges, penalties, income from public enterprises should be used to finance recurrent and capital expenditures. Indeed, the lion share of revenues should go towards financing capital expenditures.

Financing through borrowing should be made only on projects that are capital in their nature, which are self-liquidating or have long-term return. Though municipalities are allowed to borrow money from different sources, central governments in one way or another interfere in this task for macro-economic reason. In the case of Ethiopia, Addis Ababa is the only city that can borrow from local sources but with prior approval of the Federal Government.

3.3 Intergovernmental Revenue sharing

According to the world development report the central government has extraordinarily large share of taxation revenues.\(^1\)

Local governments and the central government need to have separate sources of revenue so as to reinforce local autonomy, accountability and separate responsibility. However, full tax

separation is not always advisable since it could create inequality between regions and also its implementation (administration) is too costly compared to the capacity of local governments especially urban.

3.4 Challenges in Raising Revenues

Municipal administrations use limited sources of revenue to finance their ever-increasing expenditures. The revenue generated is by far below the required level and it is unfortunate that they could not meet the needs of the public. Almost all of the urban management in the developing countries (especially African countries) have the following difficulties in raising sufficient revenue.

1. Lack of institutional Capacity: urban revenue have very limited capacity to source out additional sources of revenue and using the existing one. Moreover archaic and traditional revenue collection methods also hamper the revenue generating as well as collection capacity of urban.

2. Weak economic with the exception of few, most of local governments have very limited economic activities at their disposal.

3. Bureaucratic red tapes: the already existing bottlenecks in the urban administration and partly corruption force businesspersons to go into informal business.

4. Attitudes of urban management officials and the public: taxes, charges, duties, etc. are considered as imposition by some one powerful to take away their money. Few understand that the money goes to financing development projects and services that are provided by the government.

5. Absence of legal empowerment of municipalities by the central governments to raise and utilize their own funds. Inefficient regulatory system of urban management is also another challenge of municipalities in raising and using resources.
3.5 The budget Cycle

A standard budgeting process has the following major steps.
- Budget Call
- Budget preparation
- Budget Review
- Budget Hearing
- Budget Approval
- Budget Execution
- Reporting & Control

Each cycle in light of the Ethiopian budget system will be discussed in the following section.

3.5.1 Budgeting Process: Ethiopian Experience

The allocation of scarce resources through the medium of budget is believed to have begun to be conceptualized in Ethiopia in 1944.  

In the Ethiopian budgetary process, there are, two competing processes: political and administrative, with corresponding actors therein; each process is based on a different perspective of the use of the budget. Politicians and citizens perceive the budget as a reflection of alliances among competing interest. To these participants in the budgetary process the final document shows who won and who lost, who was able to form appropriate coalitions and workout satisfactory compromises, and who was not able to accomplish these political feats. According to this perception of the budget, it is a political tool that shows which policies are currently in ascendancy, with much less

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2 Shimelise Tsegaye, Opening Decision Making to the society through Participatory Budgeting. Training material, March 2002.
attention given to the processes by which these policies are achieved or administered.

However, department heads, budget officials, and operating public managers perceive the budget as a managerial tool, which has as one of its major functions the presentation of a plan for government action. These participants in the budgetary process are primarily interested in developing a document that presents a meaningful plan showing both ends and means so that it can also be used as a control device. Between these two groups stand the chief executive, who must attempt to use the budget both ways. The two perceptions of the budget cannot be separated.

Evidences suggest that budget preparation is primarily a centralized process or perhaps a mixture of centralized and decentralized processes; even where it is decentralized, the finance department's influence is usually quite significant.

3.5.2 The Ethiopian Budget Cycle

The Ethiopian fiscal (budget) year and hence the budget cycle runs from July 7 of one year to July 6 of the following year. The stages in the cycle to be discussed hereunder are the budget call, budget preparation, budget hearing, budget approval and allocation, budget execution (Implementation)

- **Budget Call:**
  Every year, at least three months before the end of the fiscal year the Ministry of Finance and Economic Development issues annual call letter for recurrent and capital budgets to different institutions. At regional levels, the Finance Bureaus issue the budget call letters to different public bodies in their respective regions.

  The existing economic conditions of the country and the priority areas, tentative budget ceiling and the prescribed formats to be used are stated and/or enclosed with the call letter.
- **Budget Preparation**

Budget preparation is done by different sections of the organizations. The Administration and Finance Department prepares the recurrent budget while the Department for Plan and Project prepares the capital budget.

After the proposed budget is compared and evaluated in accordance with the budget ceiling and the reason for the increase, if any is verified. The draft budget of the institution is discussed and reviewed by senior officials (top management) of the respective organization.

Finally, the budget proposal that won the support of the officials is prepared being broken down into programs, subprograms and expenditure items.

In general, the budget proposal that is revised and accepted by the senior officials is, depending on the level at which it is prepared, sent to the respective Finance Bureau or Ministry of Finance & Economic Development. This budget proposal must be substantiated and supported by relevant documents. If the budget proposal shows variations from budget ceiling for the year, then explanation for the variation need to be given.

- **Budget Hearing**

The proposal shall be presented to the Budget Hearing Committee where they will be subjected to DISCUSSIONS and NEGOTIATIONS in the presence of officials of the budget proposing body. The officials then defend their budget before the Committee.

- **Budget Approval**

Budget proposals agreed-up by the concerned units are compiled into one budget document that shows the recurrent and capital budgets of the country, for submittal to the Council of Ministers for review & discussion. Finally, the Council of Ministers will forward the budget document to the Council of People's Representatives for approval.
At regional level, the budget Estimates for recurrent and capital expenditures shall be presented to the Region's Council by the region's Finance Bureau. Once the Region's Council approves the budget, it will be submitted to the Council of Ministers for review and recommendation.

The Council of Ministers having discussed the proposal makes recommendations, if any, and shall submit it to the Council of People's Representatives which shall approve it by July 6 and notify all public bodies by July.

If the Council of People's Representatives has not approved the Annual Budget by the beginning of the fiscal year, the previous year budget will be implemented on a monthly basis until the Annual Budget for the current fiscal year is approved. Then Budget of the country will be proclaimed and published; and notification shall be made on the approved estimates to the concerned institutions.

- **Budget Allocation**

Following the approval, the Budget is published in the 'Negarit Gazetta'; but this official organ shows only the headings, sub-headings, and expenditure items of the budget and not the allocation of the budget to different branches within the respective public bodies. Once the public body gets the budget allocated under each sub-heading from the concerned Finance Bureau, it allocates the budget under sub-headings and branches at different levels. This may involve the revision of plans of action accordingly, for proper execution of the budget.

- **Budget Execution**

Since budget is a monetary estimate for activities to be carried out in the future, discrepancies may arise upon execution; there may be budget shortage for one sub-program or another may be in excess both necessitating the transfer of budget.

The presentation and approval of budget transfer requests are done at different levels. Transfers are allowed from the recurrent budget to the capital budget and from one Sub-heading to another within the recurrent budget and from personnel services to non-
personnel services subject to regulations issued by the Council of Ministers. But no transfers are allowed from the capital budget to the recurrent budget.

- **Budgetary Reporting and Control**

Subject to the directives of the Ministry of Finance and Economic Development, the heads of public bodies shall maintain a register of appropriations, authorized transfers and allotments for each budgetary heading and sub-heading and for each capital project. Each institution local or central should prepare and submit monthly statement of cash receipt and expenditure.

At this stage, institutional compliance to the budget, economic and effective application conformity with the Government Accounting System will be verified. The verification could be made by respective finance bureau or the internal audit unit or external auditors.

Each government institution is supposed to form an internal audit team or unit in their structure. While the Federal Auditor General or the regional Audit bureaus are the external auditors of the pertinent government bodies.

### 3.5.3 Accounting System

The Ethiopian Government Accounting system that has evolved in Ethiopia is cash basis accounting with the cashbook as principal book of accounts of all government departments. As a means of controlling expenditure each department is obliged to produce statement of receipt & expenditure periodically per their designated budget heading.
The Budget Cycle

Budget Call
By Higher body

Feedback

Budget Control
- Internal Auditing
- External Auditing

Budget Preparation
By respective unit

Budget Discussion
At institution Level

Budget Hearing
Negotiation & reasoning with Budget Hearing Committee

Budget Approval
Council, Parliament

Reporting
- Budget execution report
- Statements

Budget Execution
Allocation of budget per
3.6 Core features of Good Financial Management

Good financial management is expressed through good budgeting, good accounting and good auditing

- **Good budgeting**: when budgets are prepared through the participation of implementers, supported by strong, meaningful, achievable and realistic action plans, when it addresses the needs and wants of the society and largely concentrates on the capital expenditures it could be regarded as good budget.

- **Good Accounting** deals with meticulous identification and categorization of financial transaction, proper recording of the transaction and timely production and analysis of reliable financial statements. When the accounting activities are assisted by information technology and strictly follow the accepted accounting principle added to adequately trained and competent staff, we could argue that a good accounting practice is at disposal.

- **Good Auditing** means strict and regular follow-up on the sourcing, allocation, and application of financial and other resources inline with the target put forward and budget. The ultimate end of auditing is to prevent public properties from embezzlement, abuse, misappropriation, etc and also to give feed back to policy makers as to the generation and allocation of resources. Moreover, good auditing practice calls for independent, impartial, timely and ethical evaluation of activities and financial transactions.

**Activity**: Asses & discuss the financial management activities of your respective cities and determine if the aforementioned core features prevail or not.

4. Concluding Remarks

Financial plans have to be supported by action plans and such plans should be derived from strategic plans. The strategy should be prepared through the participation of the target groups and final implementers. In view of this, major part of revenues
generated by local authorities should finance capital projects that could help in resolving the socio-economic problems of urban dwellers and reducing urban poverty, HIV AIDS, etc. This calls for the empowerment of municipalities to generate and utilize their own revenue. The empowerment should be augmented by institutional capacity building of municipalities with special emphasis on revenue generation and collection.

The devolution of power to municipal administrations and their branches is imperative in such away that it helps to address the issues of the society from its bottom-line and assists in the effort of poverty reduction.

Finally, more need to be worked in changing the attitudes of public servants and the public on revenue generation, expenditure, public properties, etc. Towards this, the public needs to be confident that the money they pay in different forms will finance development projects that are targeted to ameliorate their own problems. This could highly be augmented by exercising participatory budgeting.
Reference Materials:

