

**ST.MARY UNIVERSITY**  
**BUSINESS FACULTY**  
**DEPARTMENT OF ACCOUNTING**

**AN ASSESSMENT OF CHARITIS AND SOCIETIES ACCOUNTING IN  
ETHIOPIA: THE IMPACT OF 70/30 ADMINISTRATIVE AND  
OPERATIONAL COST REGULATION**

**BY:**

- **Abeba Edesa**
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- **Woubitu Tafesse**

**JUNE 2014  
ADDIS ABABA,  
ETHIOPIA**

**AN ASSESSEMENT OF CHARITIS AND SOCIETIES ACCOUNTING  
IN ETHIOPIA: THE IMPACT OF 70/30 (ADMINISTRATIVE AND  
OPERATIONAL COST) REGULATION IN ADDIS ABABA**

**A SENIOR RESEARCH SUBMITTED TO THE DEPARTMENT  
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**BY:**

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I

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CSO(s) – Civil Society Organization(s) – This is used alternatively with NGOs and Charities and Societies

ChSA – Charities and Societies Agency

NGO – Non-Governmental Organizations

ChSP – Charities and Societies Proclamation

FDRE – Federal Democratic Republic of Ethiopia

## Declaration Page

“We the undersigned, declare that this senior research proposal is our original work prepared under the guidance of Ato Mehari H/selassie. All sources of material used for the manuscript have been duly acknowledged.”

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## **CHAPTER ONE**

### **1. INTRODUCTUON**

#### **1.1. Background of the Study**

Charities and societies or civil society organizations (CSOs) play critical and important roles in the socio-economic development of any country including Ethiopia. CSOs in Ethiopia contribute significant share of financial resources amounting to over 8% of the annual Gross Domestic Product (GDP) of the country (World Bank, 2007). There are also indications that between 2004 and 2007, CSOs were engaged in service provision and development activities worth of about 10 Billion Birr. With this more than 2000 projects were supported in the different parts of the country (Desalegn, et al, 2010). In 2011, 310 of the total CCRDA member organizations have implemented 4193 projects in the fields of education, health, food security, capacity building, skill training, women and child support, water development, livestock development, relief aid, natural resource management, and environmental protection with a total outlay of over Birr 12 billion thereby benefiting 17 million community members throughout the country (Consortium of Christian Relief and Development Associations, 2011).

Data from successive annual report of the National Bank of Ethiopia (NBE) attest that cash transfers through NGO channels has shown steady rise during the first several years of the first decade of 2000s. NBE statistics for the year 2005/2006 indicates that cash flows into Ethiopia through NGOs

stood at nearly 500 million USD in the period under review. This amounted to 28.6 percent of total private cash transfers for the period in question (NBE 2006 REPORT). The same report noted that the 6 percent rise in private cash transfer as compared to the previous year was made possible "...wholly on account of improvements in NGO cash flows". NGO cash transfers rose to 536.1 and 638.5 million USD in 2006/07 and 2007/08 respectively. The amount registered for 2008/09 was 921 million USD showing an increase of 50.4 per cent compared with the preceding year (2007/08). This trend however faced a downturn in 2009/2010 with the amount of money transfer declining to 888.9 million USD, which led to "... a 3.5 percent decline (NBE Report, 2010:75)."

CSOs in Ethiopia have relatively recent history related to the humanitarian crisis in the different parts of the country during the period from mid-1970s to the 1980s. The change in 1991 with overthrow of the Dergue and the subsequent reforms in the political system of Ethiopia created a favorable condition for the creation and expansion of foreign and local NGOs in the country. According to Dessalegn et al (2010) the numerical size, scope of intervention and diversity of CSOs grew by leaps and bounds since the 1990s. Charities and societies grew from less than hundred in the 1980s to nearly 3000 in less than twenty years; i.e. up to the first decade of the new millennium. These charities and societies started to be vibrant voluntary sector that operate in different social, economic and political development covering wider and different geographic locations.

Thanks to the unrestricted public space until 2009, CSOs as a voluntary sector operated in various fields of intervention without restrictions. They developed and implemented programs without restrictions including human

rights, lobby and advocacy, and peace and governance. Regarding the financial sources of the CSOs, all of them are dependent on foreign donations for the implementation of their development and right programs.

The operation of CSOs in Ethiopia lacked clear and specific legal environment that regulate the creation and operation of the sector until 2009. The voluntary sector realized that there should be a legal framework to regulate the voluntary sector. In 2009, the Government of Ethiopia promulgated Proclamation # 621/2009, to provide for the registration and regulation charities and societies in the country (FDRE, 2009). A regulation and various guidelines were also issued by the Government for the implementation of this proclamation. This new legal environment has given a new dimension for the existence and operations. The new proclamation altered the previous policy context and operational modalities of charities and societies. The provisions of the proclamation altered the mandates, governance, and autonomy of CSOs with a number of new reporting requirements. Thus, the Charities and Societies Proclamation and its associated directives issued by the Charities and Societies Agency (ChSA) have impacted on CSOs in various ways.

## **1.2. Statement of the Problem**

In the Charities and Societies Law (Proclamation No. 621/2009) and the Council of Ministers' Regulation No.168/2009, it is provided for that the expenditures of charities and societies be broadly divided into two categories: operational and administrative costs in the proportion of 70:30. The operational cost is meant all costs relating to objective attainment

component receiving a minimum of 70% of the total annual costs of a CSO, while the administrative costs mean spending on all cost items outside objective attainment activities with a maximum of 30% share in the annual overall costs. Charities and Societies Agency (ChSA) has issued Directive #2/2009 to define the 70/30 cost classification that are stated in general terms in proclamation 621/2009 and regulation 168/2009.

There is no controversy over the definition of a minimum level of administrative costs of charities and societies. Both the supervisory body and the CSOs agree on the requirement for the allocation of as much project budget as possible to operational costs that reach and benefit the beneficiary community. However, there is disagreement and controversy over the manner in which administrative and operational costs are categorized. Directive #2/2009 grouped operational and administrative costs grossly and in generic terms item by item. In other words, the operational and administrative cost categorization did not follow accounting principles that envisage cost classification by purpose rather than by type. As a result, the cost classification made in the Directive is unclear and has a lot of difficulty in interpretation. Due to the classification made by cost items rather than the purpose for which the cost was made, program costs that are reasonably associated with objective attainment activities are considered administrative costs.

Charities and Societies Agency has classified the whole CSOs in the country into ten clusters to facilitate the regulation of the allocation of administrative and operational costs. Under each cluster, relative administrative and operational cost items are outlined in detail. However, many CSOs have concern that the designation of expenditures set in the Guideline with

respect to administrative and project costs does not reflect the reality of each cluster as it is arbitrary classification of expenditure items. As a result, it is fear of many CSOs in each cluster that there are cost items classified under administrative costs that are by their very nature operational costs proper.

In this research, the problems stated above will be analyzed and their potential impacts are identified to provide evidence based recommendation both for the CSOs and the supervisory agency so that they seek joint action for the benefits of the communities supported by the voluntary sectors. Although there were studies on the impact of the CSO sector law, in all the studies the 70/30 issue and the 90/10 revenue related issues were confused. Some planned to deal with the 70/30 issue, while in reality they deal with all aspects of the law and its related regulation and guidelines. Further, the studies approached the problem of cost classification in general without relating it to the Generally Accepted Accounting Principles (GAAP) that suggest cost classification by purpose rather than by item as it is done in the 70/30 guideline. Thus, this research paper tries to deal with issues directly related to the 70/30 regulation thereby make objective analysis without any bias and in line with the GAAP.

### **1.3. Research Questions**

This research questions are selected NGOs to gather data on their perception on the importance and challenges of Guideline issued by the Charities and Societies Agency to define the 70/30 Charities and Societies cost classification.

- Do the provisions of 70/30 guideline fit to the GAAP principles?
- How could the charities and societies adopt to the tough requirements of 70/30 guideline in the past three years?
- What are the overall effects of the 70/30 guideline on the existence and operations voluntary sector?
- Are the impacts of 70/30 guideline different or the same for all charities and societies (small once, new once, bigger ones) and for development and right based ones?

### **1.4. Objectives of the Study**

#### **1.4.1. General objective**

The main objective of this research are studies the content of the Guideline and provide for the 70/30 cost allocation (Guideline No. 02/2009) and identify its impact on the existence and operations of Charities and Societies in Ethiopia if enforced without reconsideration and flexibility in its current form.

#### **1.4.2. Specific objective**

- To review the detailed provisions of the 70/30 Guideline in relation to Generally Accepted Accounting Principles (GAAP),
- To identify specific and practical challenges faced by Charities and Societies in adhering to the Guideline,
- To assess and identify the impacts of the directive on the existence and operations of the CSOs,
- To draw conclusions and make recommendations on possible remedial actions to be taken by the government and the voluntary sectors to ensure accounting system that is based on GAAP.

#### **1.5. Significance of the Study**

The study on the impact 70/30 guideline has the following main significances:

- By analyzing the provision of the 70/30 Guideline, the paper identified the gaps in relation to GAAP and makes suggestions on areas that need modifications to make it comply with GAAP.
- By identifying practical challenges the guideline brought to the voluntary sector and the overall effects, the study indicated possible remedial actions to be taken to overcome the challenges,

- The analysis made in the research paper different parts help to clearly indicated the kind of impact the 70/30 guideline caused to different CSOs.
- By assessing concrete impacts of the guideline on the existence and operations of the charities and societies, the study made recommendations to policy makers to reconsider those areas of the guideline that works contrary to the development objectives of charities and societies so that the sector plays its constructive role in the development of the country ensuring high benefit to the beneficiary communities.
- Based on the conclusions drawn from the various analyses in the paper, the study recommended possible areas that need to be amended to ensure that the charities and societies accounting systems are based on GAAP avoiding the arbitrary cost categorization.

#### **1.6. Scope of the Study**

This research focuses on the impacts of the charities and societies proclamation # 621/2009 on charities and societies. The proclamation has multi-dimensional implications and impacts on the operations and existence of charities and societies.

There are eight directives issued by the charities and societies agency, the supervising authority entrusted to implement the CSO law, that are intended to regulate and govern the various operations of the sector. In this study Guideline 02/2011 - issued in September 2011 to govern the accounting systems and reporting procedures of charities and societies has been



assessed and the pros and cons of the guideline were pinpointed, and the challenges faced by the sector while attempting to adhere to the requirements of the guidelines were identified. The charities and societies selected as sample were from Addis Ababa.

### **1.7. Definition of Terms / Concepts**

- 'CSO(s) – Civil Society Organization(s) – This is used alternatively with NGOs and Charities and Societies the aggregate of non-governmental organizations and institutions that manifest interests and will of citizens or 2) individuals and organizations in a society which are independent of the government.[2] Sometimes the term is used in the more general sense of "the elements such as freedom of speech, an independent judiciary, etc, that make up a democratic society" (*Wikipedia, the free encyclopedia*).
- ChSA-Charities and societies Agency According to the Charities and Societies Proclamation, a Charity" is "an institution which is established exclusively for charitable purposes and gives benefit to the public Agency is now under the jurisdiction of the Ministry of Federal Affairs). (*Wikipedia, the free encyclopedia*).
- ChSP – Charities and Societies Proclamation; Charities and societies Agency According to the Charities and Societies Proclamation, a Charity" is "an institution which is established exclusively for charitable purposes and gives benefit to the public, Proclamation Powers and Duties of the Executive Organs of the Federal Democratic Republic 'Proclamation" means the Charities and Societies Proclamation No.621/2009 FDRE –

Federal Democratic Republic of Ethiopia (*Wikipedia, the free encyclopedia*).

- NGO – A non-governmental organization (NGO) is any non-profit, voluntary citizens' group which is organized on a local, national or international level. (*Wikipedia, the free encyclopedia*).
- FDRE – Federal Democratic Republic of Ethiopia that is the federation of different states in Ethiopia which is democratic in character power residing in the people, and the government is ruled by elected leaders run according to law.

## **1.8. Research and Methodology**

### **1.8.1. Research Design**

The research design and methodology was both quantitative and qualitative survey, applying a number of tools and formula to examine and describe the current status of CSO's performance in regard to the Guideline 02/2011 - issued in September 2011 CSO/NGOs in Addis Ababa, and review of relevant source materials. The guideline was issued to govern the accounting systems and reporting procedures of Charities and Societies in relation to their work status. Questionnaires *and* Interview aiming at gathering quantitative and qualitative data were employed. The data gathered using these tools were tabulated in a proper way. Then descriptive analysis was used to assess and describe the collected and tabulated data. The final part was the conclusion and recommendation, in which the researcher showed and explained existing gaps and produced way forwards based on the results of the findings.

### 1.8.2. Population and sampling Technique

The population was 106 CSO/ NGO that were working in Addis Ababa at the research period. From this population 36% or (1/3) of sample units were selected by using structured questionnaire and simple random sampling technique to select sample NGO that were specifically Ethiopian Charities and Ethiopian Resident Charity for data gathering purpose. We used this formal to calculate sample population.

$$Size = \frac{X^2NP(1 - P)}{d^2(N - 1) + x^2P(1 - P)}$$

$X^2$  =Table value of Chi-square for 1 degree of freedom at the desired confidence (3.841).

N = Population size

P = Population proportion (assumed to be 0.50)

D= degree of accuracy (expressed as a proportion)

$$150 = \frac{3.84^2 * 150 * 0.5(1 - 0.5)}{0.5^2(150 - 1) + 3.84^2 * 0.5(1 - 0.5)}$$

$$150 = \frac{144}{0.3725 + 0.96}$$

$$150 = \frac{144}{0.13325}$$

$$= 109 * 1/3$$

$$= \underline{\underline{36}}$$

Determining sample size for research Activities by ROBERT V. KREJCIE,  
UNIVERSITY OF MINNESOTA, DULUTH

### **1.8.3. Types of Data Used**

The types of data used for the purpose of this research paper are qualitative and quantitative.

Hence, both primary and secondary sources of data were used to gather pertinent information on the issue under study. The primary data was collected by conducting in-depth interviews and structured questionnaire and gathering such as relevant officers, managers and concerned staffs with the selected CSOs, in Addis Ababa.

### **1.8.4. Methods of Data Collection**

The methods of data collection used in this research paper were preparing a questioner that consisted both *close* and *open ended* questions that were distributed to selected employees and management members of sampled CSOs. Primary data were collected from the respondents such as employees, managers, etc. through distribution of questionnaire to have updated and first hand information and also from key informants of selected organizations. Group discussions with concerned staffs were also conducted to get first hand information. On the other hand, secondary data were collected from document sources such as manuals, rules, reports, and the document review of Charities and Societies proclamation # 621/2009 and its allied 70/30 Guideline #2 or appreciation related to the topic that was studied in the past years.

### **1.8.5. Data Analysis Methods**

Information obtained from both the sources was analyzed in a qualitative approach. The data collected from the above-mentioned tools were organized and analyzed tabularized, described in ratio and percentage qualitatively based on descriptive analysis. To analyze and interpret the gathered with the above tools, the student/researcher used descriptive statistical tabulation method.

### **1.9. Limitations of the Study**

Due to the time given to undertake the research, the researcher faced some challenges and limitations. Among others, lack of cooperation by the different stakeholders to provide the necessary information due to high degree of self censorship and lack of confidence among the CSOs themselves to cooperate with the researcher, and this reduced the information the researcher had planned to get at the time required, which was crucial to have a balanced report. Also schedules of CSOs were tight with annual performance report, audit report and the coming year's annual operational plan preparation which made it difficult for them to respond to the research questions. Hence, the study relied on primary and secondary data that could be obtained within the above limiting factors. Also shortage of budget had made the research difficult to make various travels to collect data from CSOs located in different part of Addis Ababa. As the CSO formal legal regulation was a recent phenomenon, the major conclusions and findings relied on those data available and the impacts occurred so far.

### **1.10. Organization of the Study**

The research paper consists four chapters. The first chapter deals with the introduction of the research issues, what the problem in question is, research questions, objectives of the study, significance of the study, scope of the study, definition of terms, methodologies and limitations of the study and organization of the paper. In second chapter related literatures were reviewed in order to get information about the subject under study. The research paper presents the review of various literatures regarding the roles, accounting practices, regulations regarding expenditures, and collaborations. The last chapter, Chapter Four, presents the major conclusions drawn from the literature review lessons, the discussion and analysis of the guideline, and recommendations were made that deem necessary to reduce the impact of the new CSO accounting regulation towards constructive and proactive engagement between the voluntary sector and the government of Ethiopia.

## **CHAPTER TWO**

### **2. REVIEW OF RELATED LITERATURE**

#### **2.1. Role of Charities and Societies**

Charities and societies are important and major players in contributing to the international and national development efforts. Since the mid-1970s, the voluntary sector in both developed and developing countries has experienced rapid growth. From 1990 to 2000 total development aid disbursed by international CSOs increased ten-fold. In 1992 international NGOs channeled over \$7.6 billion of aid to developing countries (<http://wbln0018.worldbank.org>; February 2006). The same trend is true in Ethiopia too. CSOs in Ethiopia contribute significant share of financial resources amounting to over 8% of the annual Gross Domestic Product (GDP) of the country (World Bank, 2007). There are also indications that between 2004 and 2007, CSOs were engaged in service provision and development activities worth of about 10 Billion Birr. With this more than 2000 projects were supported in different parts of the country (Desalegn, et al, 2010). In 2011, 310 of the total CCRDA member organizations have implemented 4193 projects in the fields of education, health, food security, capacity building, skill training, women and child support, water development, livestock development, relief aid, natural resource management, and environmental protection with a total outlay of over Birr 12 billion thereby benefiting 17 million community members through the country (CCRDA, 2011). CSOs are active in areas where there are severe basic service availability is noted and communities are remote from development

services. Most CSOs use contemporary development approaches and innovative ideas to fight poverty among the marginalized communities. As can be seen from the figure above, CSOs are agents for international resources channeling from resource surplus area to resource scarce regions in the world. The practical implications of this new trend were manifested in the proliferation of programs for supporting democratization projects funded by governments, bilateral and multilateral agencies, international financial institutions, and private foundations (Peter Huetter, 2002:3).

International Accounting Standards (IAS) doesn't have specific guidelines for NGOs (Munima Siddika, No date). Regarding applicability of Accounting Standards to NGOs, the Accounting Standards Board (ASB) has given an opinion in September 1995. "The Institute will issue Accounting Standards for use in the presentation of the *general purpose financial statements* issued to the public by such commercial, industrial or business enterprises as may be specified by the Institute from time to time and subject to the attest function of its members" It is clear from the above that the Accounting Standards are applicable to NGOs whose some, or more, of the activities are commercial or business in nature. However, it is very difficult to determine what the exact meaning of commercial is or business activities with reference to NGOs as NGOs are not meant for earning profit out of their activities.(Munima Siddika, No date).

Civil society can be broadly understood as a field of and a bridge between the state and citizens and a forum for producing leaders, sensitizing about democratic values, building institutions, disseminating information and ideas, and forming social capital. Although civil society is a sector in its own



right that is separate from the state and the business, it needs to interact with both for sustaining itself and promoting its goals that form the basis of its existence. Most importantly, it needs a certain civic space within which to operate. To this effect, the state is in principle necessary to guarantee the autonomous existence of civil society. In particular, a political system that is responsive to the legitimate aspirations of society is vital for ensuring smooth operation and effectiveness of civil society arriving at promoting the legitimate interests and aspirations of constituencies. The interesting point to note here is that although civil society is viewed as separate from and collaborating and conflicting with the state, it relies on the latter for its existence and smooth conduct of its operations. Although the state can exist without civil society, citizens' associations of various forms provide the state with essential ingredients of domestic and international legitimacy that enhance the degree and extent of its acceptance (Daria Miloslavskaya(2010)

## **2.2. Overview of CSOs Regulations in Selected Countries of the World**

It is evident that governments alone cannot be the sole provider of development services in view of the increasing citizens' demands for accessing basic services for maintaining standard livelihood systems. Currently, support channeled to CSOs from international, multilateral, bilateral and locale sources has been increasing due to the limited capacity of the state structures in delivering all required development and charitable services. Thus, development partnership between state and CSOs is a necessity for the wellbeing of the marginalized or poor communities. In terms of their relation with the state, CSOs can complement, reform, and/or challenge the state as the case may be. In playing complementary roles, CSOs

act as implementers of development and social programs by bridging gaps that state agencies cannot fulfill as a result of variety of capacity causes. In this partnership, the role of the state becomes more of an enabler, provider and facilitator (Dessaiegn Rahmato, and Akalweld Bantirgu and Yoseph Endeshaw CSO's Ethiopia, (2010).

The relationships between the state and CSOs are influenced by the nature of CSOs' missions/objectives and the prevailing political systems. This can lead as the case may be to either smooth interaction or unhealthy competition. For effective realization of their common goal' i.e., provision of basic services to the citizens, friendly interaction between the state and the CSOs is essential (Lekorwe and Mpabanga, 2007: 5).

In recognition of the significance of non-state actors in national development, most developing countries have resorted to creating different types of partnerships that are vital for enhancing organizational capacity, cost effectiveness, resource mobilization, managerial innovation, consensus-building, popular participation, and public accountability (Haque, 2004: 272). Governments have enacted legislations and guidelines for regulating the establishment and operations of CSOs. Accordingly, a number of legal measures have been promulgated in the different parts of the world with varying implications for the voluntary sector. In the regulations, the governments claim that they aim to protect public welfare and national interest through the regulations. However, close examination of the context within which these legal acts are introduced in several countries reveals that the underlying motive is to limit the ability of CSOs in exposing the

inadequacies pertaining to lack of good governance and accountability (Mandeep and Netsanate, 2010:5).

The shift from a relatively informal and flexible mode of operation to formal and tight regulatory and procedural arrangements defining feature of public support to CSOs commenced in the 1970s, which was followed by increased regulatory mechanisms that became commonplace in the 1980s and 1990s. Subsequently, economic hardships that occurred in many countries prompted governments to explore means of progressively reducing public/government spending. Thus, contractual agreements with NGOs offered prospects for lowering public expenditure in running social programs. Consequently, public agencies were urged to change their roles from direct service providers to facilitators and enablers through outsourcing service provision to voluntary sector operators (Ibid: 6). Following the development of such trends, sub-contracting as an effective way of responding to new needs of citizens for basic services was considered attractive both politically and economically. This was evidenced by the growth of contractual arrangements between governments and international NGOs like Save the Children, CARE and Oxfam, which received huge contracts worth hundreds of millions of dollars to provide humanitarian relief and undertake varieties of development projects. Governments in many countries of Africa, Asia and Latin America also followed suit by forging similar relationships with local CSOs aimed at facilitating the delivery of a variety of important social services. The degree and extent of such relationships in most of the developing world has assumed exponential increase in the last twenty years as a result of the changing nature and direction of foreign aid. This was conditioned by recurrent crisis situations

expressed in intra and interstate wars, natural and manmade calamities, and growing political liberalization measures that led to expansion of voluntary sector actors. Interaction between governments and NGOs, as might be expected, varies enormously across countries. These vary depending on dominant political, social, institutional, historical and cultural settings peculiar to each country and political systems. Nonetheless, the general trend is toward greater specificity of the type of relationships that are often guided by a more formal competition (Ibid: 7) and partnership. In what follows, attempt is made to shed light on the situation pertaining to selected countries of Africa. (*Peter Huetter (2002)*).

In Africa, countries have regulations concerning CSOs. In **Namibia** the Government entered into cooperation agreements with some CSOs by allowing them to discharge delegated functions on behalf of and in conjunction with the concerned government agencies. Most often, such partnerships are made at lower levels where local authorities share the responsibility of providing services by working in collaboration with CSOs. The partnership arrangement in this respect is carried out by an advisory committee whose members represent all levels of government and civil society organizations. Sub-national units of government are represented by a nominee of the Association of Regional Councils or the Association of Local Authorities of Namibia. In addition, each Regional Council will designate a contact person charged with the responsibility of liaising with CSOs (Ibid. 19). The Advisory Committee is responsible for overseeing the review of legal and regulatory frameworks and providing inputs for formulating new policies, developing strategies for the implementation of policies, and bringing problems that hamper policy implementation efforts to the

attention of the National Planning Commission with a view to resolving them (Gov. of Namibia, 2005: 5).

**Egypt** has recently introduced a new CSO legislation urging them to obtain official permission and legal recognition prior to entering into partnership with or seeking resources from foreign organizations (Tiwana and Netsanet, 2010: 6). On the other hand, Sudan encourages collaboration and partnership between the public and the voluntary sectors in general and those NGOs engaged in providing health services. As an aspect of such partnership, the policy of the Sudanese Government requires that CSOs should engage in exchange of information, annual reporting on performance and financial expenditure regarding implemented projects including submission of project proposals at the beginning of every fiscal year. In addition to the aforementioned requirements, the policy of the Sudanese government encourages CSOs to minimize their administrative costs by earmarking a specific percentage of their annual budget for covering their recurrent expenditures (Gov. of the Sudan, 2004:22).

The 2008 NGO policy of the **Ugandan** government recognizes that an increasing amount of resource flows largely originating from international donor sources could be channeled through CSOs. It also demands that resources should mainly be geared towards addressing the pressing needs of communities that are not adequately dealt with by the government. To this effect, the Ugandan government requires CSOs to operate in a transparent and accountable manner by coordinating their programs, budgets, and activities with public sector offices at the national level and district or county planning agencies at the lower administrative tiers. The policy further states

that the “government recognizes the important of NGOs’ complementary roles in providing a wide-range of essential services to the communities. In view of this, the government pledged to enhance its financial commitment to social development to be implemented ... in collaboration with all development partners. This is intended to enhance the volume of resource flows to the voluntary sector (Gov. of Uganda, 2008: 21)”.

## CHAPTER THREE

### 3. PRESENTATIONS AND ANALYSIS OF DATA (DATA ANALYSIS AND INTERPRETATION)

#### 3.1. CHARATERSITICS OF THE STUDY POPULATION

The research design and methodology is conducted to indicate the impacts of Ethiopia civil society Proclamation, 70/30 regulation on some selected Ethiopian charities/ societies and Ethiopian residents' charities/ societies. The focus of the study is to answer the impact of the regulation on those organizations on specified area such as, to fit organizational GAAP principle, the organizational adoption according to the requirement level in the past three years, the effect of the regulation on the existence/ operational voluntary sector and the general developmental effect of organization on different level (Small, Large and New).For this research purpose, the study selected Ethiopian charities/ societies and Ethiopian residents' charities/ societies, which are affected by the 70/30 regulation. These are classified in three categories according to CSO's law:

- Ethiopian Charities' or 'Ethiopian Societies' that mean those Charities or Societies that are formed under the laws of Ethiopia; all of whose members are Ethiopians; generate income from Ethiopia and wholly controlled by Ethiopians. ***However, they may be deemed as Ethiopian Charities or Ethiopian Societies if they use not more than***

***ten percent of their funds which is received from foreign Sources”2.***

[Article 2(2)]

- “Ethiopian Residents Charities’ or ‘Ethiopian Residents Societies’ shall mean those Charities or Societies that are formed under the laws of Ethiopia and which consist of members who reside in Ethiopia; and **who receive more than 10% of their fund from foreign sources**”. [Article 2(3)]
- “Consortiums/ Networks’ shall mean established for the following purposes: coordinate the activities of their members, build the capacity of their members and provide support for the attainment of the objectives of their members, facilitate exchange of information and experience and improve the integrity and professional standards of members and undertake related activities. In other words, since consortiums are established to coordinate and support their members, the direct beneficiaries of their activities shall be the member organizations.

For the study of the impact of 70/30 on the general developmental effect on different levels we classify our target population into two categories based on their age as follows:

1. Established before 10 years
  - a. High capital >20,000.000
  - b. Low Capital < 20,000.000
2. Relatively newly established (less than 10 years since formation)
  - a. High Capital >500.000
  - b. Low capital <500.000



In this study the researcher uses interview and questioner methods to collect data with both *close* and *open ended* questions. Primary data was collected from the respondents such as employees, managers, etc. through distribution of questionnaire to have updated and first hand information and also key informant interview of focal persons of selected organizations. Group discussion with concerned staffs was also conducted to get first hand information. On the other hand, secondary data was collected from document sources such as manuals, rules, reports, and the document review on Charities and Societies proclamation # 621/2009 and its allied 70/30 Guideline #2.

### 3.2. Analysis of the Findings of the study

#### 3.2.1. Do the provisions of 70/30 guideline fit the GAAP principles

Three networks, 7 Ethiopian Charities and 26 Ethiopian Resident Charities were contacted to give response on the above question. Overall, 36 organizations were contacted to provided information on this issue. The result is provided in the table below:

*Table 1 GAAP principles*

Type of CSO	No	Yes Respondent		NO Respondent	
		In No	%	In No	In %
Network/ Consortiums	3	1	33	2	66

Ethiopia Charities/Societies	7	3	43	4	57
Ethiopia Resident Charities	26	12	47	14	53
Total	36	16	44	20	56

As could be seen from the above table, 20 (56%) out of 36 organizations have said that the 70/30 rule is in contradiction with the GAAP principle of cost categorization, while 16 of them said it fits to the GAAP. Specifically, 67% of the consortiums, 57% of Ethiopian charities, and 53% of Ethiopian Resident Charities said it contradicts with the GAAP. Thus, more organizations (over 50%) from each category stated that the 70/30 guideline did not fit to the GAAP reasoning that the cost classification in the guideline is based on type of cost items than purpose of the costs.

Directive #2/2009 grouped operational and administrative costs grossly and in generic terms item by item. In other words, the operational and administrative cost categorization did not follow accounting principles that envisage cost classification by purpose rather than by type. As a result, the cost classification made in the Directive is unclear and has a lot of difficulty in interpretation. Due to the classification made by cost items rather than the purpose for which the cost was made, program costs that are reasonably associated with objective attainment activities are considered administrative costs. Analysis of the general categorization of operational costs may raise two issues: one is that the list may not be exhaustive so that new items may be point of controversy whether they fall under operational cost listing and the other issue is that the naming of the human resource just followed government job title which is not proper for charities and societies. Although

it ended with ***the like***, the job titles used by charities and societies may be a point of controversy with the Agency. This two require mutual deliberation and understanding.

The presentation of operation costs of charities and societies with respect to clusters has some added value to make possible specific expense items for each cluster. One problem not addressed in the guideline is concerning charities and societies whose operations crosscut clusters. For instance, a charity/society may engage in education, health, women, children, environment, etc.

**3.2.2. How could the charities and societies *adopt* to the tough requirements of 70/30 guideline in the past three years?**

Table 2: The issues that have relevant to this question are summarized in a tabular form as follows:

No	Type of impacts	Total CSOs	Yes Respondent		NO Respondent	
			In No	%	In No	%
1	Monitoring and evaluation	36	36	100	0	0
2	Freezing salary,	36	28	78	8	22
3	Reducing travels,	36	30	83	6	17

As could be seen from the table above, (100%) said that their monitoring and evaluation of their organizations are affected by the ChSP , and (78%) of

them said that they froze salary increments and (83%) said that they reduced travel. On the other hand, 8 organizations (22%) and 6 organizations (17%) responded that they are not affected in terms of salary increments and field travel, respectively. The organizations that reported not being affected are well organized and relatively larger ones with large annual budgets that can absorb the 30% administrative costs. The response relating to this research question varied due to lack of information on the concrete impact of the guideline on the sector at large. Most of the sample organizations stated that they reduced M&E activities, froze salary, reduced travel, relied on telephone contacts, and employees are given more assignments to reduce salary costs, stopped purchase of expensive fixed assets, and enhanced economic use of resources such as vehicles. As mentioned above, few of the sample organizations said not affected.

**3.2.3. What are the overall effect of the 70/30 Guideline on the existence and operation of the voluntary sector?**

*Table 3:* The issues that have relevant to this question are summarized in a tabular form as follows:

<b>No</b>	<b>Type of impacts</b>	<b>Total CSO's</b>	<b>Yes Respondent</b>		<b>No Respondent</b>		<b>It has not serious problem</b>	
			<b>In No</b>	<b>In %</b>	<b>No.</b>	<b>In %</b>	<b>In No</b>	<b>In %</b>
1	Operation of your organization	36	36	100%	0	0	0	0
2	Sustainability of programs	36	36	100%	0	0	0	0
3	Motivation and Development of Your work force	36	25	69%	0	0	11	31%
4	Quality of Program	36	30	83%	0	0	6	17%
5	Organization performance	36	31	83%	0	0	5	17%
6	Freezing pay rise	36	26	72%		0	10	28%
7	Outreach expansion	36	23	63%	7	19%	0	18%
8	Worked remote areas	36	28	78%	8	22%	0	10

As could be seen from the table above, all respondents (100%) said that their operations and sustainability of their organizations are affected by the guideline; 69% of them said that it affected the motivation and development of their employees where as 31% said the impact is not serious; 83% of the respondents stated that it affected quality and performance of their program/organization where as 17% of them said that the effect is not serious; 72% stated that they freezed pay to the workforce while 28% said the impact on pay increase is not serious; 63% stated that they stopped expansion of their program; and 78% responded that they are not willing to work in remote areas. On the other hand, 19% of the respondents said that the guideline did not affect their outreach expansion where as 18% said that the effect on the outreach expansion is not serious.

As presented in the above table, the guideline has affected majority of the organizations (CSOs) in different ways as evidenced from the response of the majority of the sample organizations.

#### **3.2.3.1. The Implication of 70/30 Regulation**

The central theme of this research is to reveal the impact of Guideline No. 2/2011 that regulates the categorization of administrative and operational costs of Charities and Societies in Ethiopia. Thus, this section attempts to highlight the impact of 70/30 costs classification system on the existence and operations of charities and solidities in Ethiopia.

#### **3.2.4. The impact of 70/30 Burden on Small and New Charities and Societies**

Small and newly emerging organizations generally have high administrative costs, as establishment costs and office running costs are relative high given their limited budget size. As expansion takes time, it is difficult for small and new charities and Societies to meet the requirement of 70/30 rules given their expected limited annual budget. Following the new CSO legal environment, most donor organization made funding conditional on fulfillment of 70/30 requirements. As pointed out by some of the CSOs surveyed by CCRDA, many international donors are now hesitant to support young and newly formed Ethiopian Resident Charities. This is due to the fact that newly formed CSOs are forced to spend bulk of the grants they receive on administrative expenses until they manage to consolidate their operations that could take between 3 and 5 years (CCRDA 2012).

The current donor trend is also to make risk assessment before funding even if the 70/30 requirement is met and a CSO is found eligible for funding. Since organizational development costs are classified as administrative costs, small and new CSOs have limited organizational capacity in terms of man power, systems and organizational capacity so they cannot pass risk assessment test. As fixed assets are categorically made administrative costs, it is also impossible for these charities and societies to access vehicles, office equipment, and other facilities that are required for quality program delivery. The results of assessments made by different networks and professionals have testified this (For example CCRDA 2012; Constantine 2012: both draft documents). Thus, the guideline has forced small and new charities and societies to work under heavy burden and difficulties or to perish.

### 3.2.5. Human Resource Related Effects

Guideline No 2/2011 has seriously affected staffing capacity of charities and societies. As we have already seen, salaries and benefits staff members who are categorized as administrative staff and benefits of those project staff members whose salaries are categorized as operational costs considered administrative. As a result, the bulk of staff salary and all benefits are administrative costs. This makes recruitment of new human resource and retention of existing staff members for CSOs. From the sample NGOs studied, 36 of them (100%) confirmed this.

*Table 4 : Impact of 70/30 Guideline on Human Resource of CSOs student's research*

No	Type of impacts	Total CSOs	Yes		No	
			No.	%	No.	%
1	Staff retrenchment	36	17	47	19	53
2	Freezing pay rise	36	25	69	16	44
3	Reducing staff benefits	36	21	58	15	42
4	Demand staff to undertake multiple tasks	36	28	77	8	22



As could be seen from the above table, affected CSOs used different mechanisms to cope with the problem. These include staff reduction (47%), freezing pay (69%), reduce staff benefits (58%), and demanding staff to undertake multiple tasks (77%). These measures are taken to reduce administrative costs and keep administrative cost ceiling within the maximum 30% range. There are also organizations that reported refraining from new employment despite budget availability that required assignment of more tasks to existing staff members. There are cases where Charities and societies forced to work during weekends and late in the evening to cover their task

*Table 5: Impact of 70/30 Guideline on Human Resource of CSOs*

No	Type of impacts	Total CSOs	Yes		No	
			No.	%	No.	%
1	Staff retrenchment	60	22	36	38	64
2	Freezing pay rise	69	36	52	33	48
3	Reducing staff benefits	54	21	39	33	61
4	Demand staff to undertake multiple tasks	58	31	53	27	47

*Source: CCRDA Survey 2012*

As could be seen from the above table, affected CSOs used different mechanisms to cope with the problem. These include staff reduction (37%), freezing pay (52%), reduce staff benefits (39%), and demanding staff to undertake multiple tasks (62%). These measures are taken to reduce administrative costs and keep administrative cost ceiling within the maximum 30% range. There are also

organizations that reported refraining from new employment despite budget availability that required assignment of more tasks to existing staff members.

The above measures may serve as a short term remedy to respond to the challenge of the guideline. However, they may undermine staff morale and motivation. Low morale and motivation of staff members will result in poor organizational and program efficiency and effectiveness. It is also evident that inability to make timely salary increment and inflation adjustments will result in loss of skilled, competent and committed employees.

### **3.2.6. Limited Room for Organizational Development**

All costs pertaining to organizational development of charities and societies are categorized as administrative costs and are accounted out of 30% allocation. For any organization to be viable and sound, it requires well developed systems, appropriate equipment and machinery, vehicles, skilled and well trained human resources, and conducive work environment/office facilities. All these require large investment and periodic maintenance costs. Activities in organizational developments have critical role to play to ensure operational efficiency and effectiveness as well as image building. In order to minimize administrative costs to meet legal requirements and protect the effect of violating them, charities and societies have started to cut costs in organizational development areas. Thus, staff capacity building through selected training; purchase of vehicles and other equipment; systems improvements; incentive schemes; installation of improved office services and facilities, etc. will be compromised. In one way or another, this action

will lead to poor program quality and operational viability. One critical issue that needs rational thinking is the way fixed asset costs are considered in the guideline. Important fixed assets such as vehicles, buildings, office equipment and the like are used for many years. The guideline requires charging full cost at the time of purchased instead of distribution over the useful life following depreciation policy of fixed assets. For example, vehicles are assumed to serve for 5 years and their costs should be prorated for five years which reduces the burden of 70/30 cost report. In another case, for a CSO to build its own office facility while maintaining 30% administrative ceiling is more unlikely. As reported by CCRDA, one organization that secured land for the construction of its office in Dire Dawa cancelled its plan and returned the land to the city administration only to continue to work in a rented office premises. Another organization based in Hawassa Town of SNNPR has ceased the effort of building its headquarters after laying the basement (CCRDA, 2012). The study of the researcher showed that 85 % of the respondents said that the regulation affected their organization development initiatives.

### **3.2.7. Reduced Quality of Program Delivery**

One of the various mechanisms to ensure development service quality is through periodic monitoring, evaluation, reflection and review activities. All these activities are categorized as part of administrative activities of charities and societies. In order to reduce administrative costs so as to keep the administrative budget and expense of a given project and program, these activities will be reduced to manageable size right from planning. Thus less

monitoring of activities, less evaluation of achievements, less reflection and review sessions, and thus less learning and improving is expected. Especially, as monitoring and evaluation activities are better done by independent consultants, allocating sufficient budget for this activity is not easy under the current legal and operational requirement. Internal monitoring and evaluation results may not be as valued by external bodies as the one done by independent entities. The above factors lead to poor program quality assurance process and reliability of program quality evidence produced internally.

Charities and societies work in collaboration with government experts and officials in the process of their development interventions. To enable the experts and officials effectively participate and collaborate in project implementation, appropriate capacity building training and awareness raising activities are required. Now, costs for these activities are classified as administrative expenses. Some officials have stated that this was done deliberately to protect the experts and officials from running to NGO workshops to seek high per diem payments, which affects government activities. As NGOs limited their activities in this area, the collaboration with the government officials and experts may be affected, which in turn impacts on program performance quality.

### **3.2.8. Limited Access to institutional Funding**

Some of the charities and societies contacted to provide information for this study had institutional funding which could be allocated to areas where there budget gaps. According to these organizations, the fund could be allocated both for direct program delivery and for running costs (operational and

administrative costs as per the new legal classification in Guideline #2/2011). This gives good opportunity for the organizations to bridge their administrative budget gaps flexibly. Now, as sector offices and the Agency require allocation of 70/30 budget, direct institutional support programs cannot be accessed and legally signed with the relevant government sector offices. As a result, only activities that are supported by projects that are developed within the framework of 70/30 guideline could be implemented. Institutional funds are helpful to meet legal requirements in case of staff turnover and other unplanned requirements even including membership fees.

### **3.2.9. Implication on Outreach Expansion**

Charities and societies have generally the vision to reach out to hard to reach areas and communities. These areas and communities are usually located at distant and underdeveloped and underserved areas. To start and sustain development activities in such localities and communities require large funding and high logistic costs. Especially, except in few instances and special cases, to expand to new intervention areas, large funding is not likely possible. Thus, staffing, arrangement of office facilities and other essential logistic facilities require huge costs that jeopardize respecting the 70/30 principle. On top of this, backstopping and coaching of the project implementation again need high travel costs.

The charities and societies contacted have indicated that they cancelled many expansion plans stipulated in their strategic plans. Apart from the charities and societies, this situation negatively affects the potential communities hindering the service that would be delivered by the NGOs. Now, most charities and

societies are reluctant to work in remote areas and to concentrate in areas close to the center that do not require high administrative costs.

### 3.3. Frustration on Officers due to Rigorous Penalties

The Proclamation has contained provisions that set fines and punishments in case of violations of the requirements concerning administrative and operational costs ceilings and maintenance of books of accounts. These are given below in a table.

*Table 6 : summary of Requirements and Fines for Non-Adherence*

Provision of Legal Requirements	Fines and punishments
Allocating administrative and operational costs of not more than 30 percent and less than 70 percent respectively (Art. 88.1).	Failure to comply with this obligation entails a punishment on the defaulting charity or society of a fine of not less than birr 5,000 and not exceeding birr 10,000 in addition to the punishment that may be imposed in accordance with the provisions of the criminal law (Art. 102.2d).
Keeping books of accounts and financial records and submitting annual statement on the same to the	Failure to comply with this obligation results in a fine of not less than birr 20,000 and not exceeding

Agency (Art. 77).	birr 50,000 in addition to punishment in accordance with the provisions of the criminal code (Art. 102.2a).
Undertaking annual auditing of the books of accounts of the charities or societies (Art. 78).	Failure to comply with this obligation results in a punishment of fine of not less than birr 10,000 and not exceeding birr 20,000 in addition to the punishment in accordance with the provisions of the criminal code (Art. 102.2b).

### **3.4. Mechanisms for Ensuring Organizational Survival and Sustainability**

The surveyed CCRDA member organizations were asked to highlight the strategies they adopted in order to ensure their survival and sustainability in view of the problems that they reported as having been encountered due to the taking effect of the Guideline that required strict adherence to the categorization of expenses highlighted above. It was learnt that the inadequacies that underlie the fault lines underpinning the formulation of the Guideline has forced several surveyed CSOs to seek various ways of coping in order to ensure their survival and sustainability (see Table).

*Table 7: Strategies for Survival and Sustainability of Organizations*

No	Type of coping mechanisms	Total Responded	Yes		No	
			No.	%	No.	%
1	Change of job titles	50	26	52	24	48
2	Refrained from geographic expansion	68	36	53	32	47
3	Enhanced community contribution and voluntarism	61	16	26	45	74
4	Reduce field visits and training sessions	64	39	61	25	30

*Source: CCRDA Field data*



As could be seen from the table above, of the NGOs responded, significant proportion of them used change of job titles, refraining from geographic expansion, use of community contribution, and reduction of field trips and training sessions. The community contribution included community and professional volunteers, use of community and government meeting facilities, and the like.

## **CHAPTER FOUR**

### **4. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **4.1. SUMMARY**

The major purpose of the study on Ethiopian civil society proclamation is in order to know the major impact of regulation on Ethiopian charities and societies. The research study selects different Ethiopian charities that are affected by 70/30 regulation. In order to study the major impact of the regulation on the charities development the necessary data collected from different concerned parties.

Different organizations provide necessary information on the provision of 70/30 guideline and most of the organizations agreed on the guideline does not fit to the GAAP reasoning that the cost classification in the 70/30 guideline is based on types of cost items than purpose of the cost, and also the operational and administrative cost categorization did not follow the General Accepted Accounting principle.

Most of charities and societies reduced M&E activities, freeze salary etc. Because of 70/30 guideline. It also forced the charities and societies in order to work under heavy burden and difficulties. The regulation also seriously affected staffing capacity of the charities and because of this they are forced to staff reduction, reduce staff benefit and also demanding the staff to undertake multiple tasks. The major purpose that these measure are taken to reduce the administration cost of the organizations.

All cost that are taken into account to organizational development of charities and societies are categorized as administrative cost, because of this charities and societies are forced to cut costs in organizational development areas. This type of action will lead to poor program quality and operational viability. In general the regulation affect the organization development initiatives and forced them to minimize their activities in different charities and societies the activities of periodic monitoring evaluation, reflection and review activities are categorized as part of administration costs and this lead to poor program quality assurance process and reliability of program quality evidence produced internally.

Charities and civil societies have the vision to reach in different areas and communication, but because of short fund these organization are forced to work or to give service only for areas close to center that do not require high administrative costs.

The government proclamation contained provision of legal requirements that sets fine and punishment make frustration on charities and societies officers.

## **4.2. CONCLUSIONS**

### **4.2.1. Strengths of 70/30 Guideline**

As a part of the law, the 70/30 guideline recognizes the role of Charities and Societies in the development of the country supporting the poor community of the population and filling the gap where the government could not reach. As the voluntary sector in Ethiopia lacked a separate and specific regulatory environment until the promulgation of the current ChSP, the 70/30 with its pertinent provisions provides direction to the financial management and accounting systems of the voluntary sector. The guideline also defines the legal requirements and necessary procedures for the financial management of charities and societies. This helped to harmonize voluntary sectors budgeting and financial reporting. Despite the gaps as studied in the research paper, Guideline # 2 classification of the costs of CSOs is important to govern the sector to use its resources efficiently and effectively for the charitable activities.

The current voluntary sector law environment envisages collaborative works between the government and the CSOs to develop positive and trustworthy partnership.

### **4.2.2. Weakness of Charities and Societies Law (Proclamation No. 621/2009)**

The nature of the work of charities and societies require experts who are versatile with the capacity and professions to undertake multiple activities. This is because these organizations cannot hire employees for all jobs as it is

done on private and government organizations. The money managed by CSOs comes from donors and the donors want to accomplish projects with high level of efficiency so that they provide limited funds for salaries and related benefits. Thus, CSOs have to pay such experts a relatively higher salary and benefits. Under the current legal requirement and cost classification, the salary of these experts inflates the administrative costs of CSOs and affects the capacity to meet 30% maximum administrative limit. This forces the sector to rely on low paid and low experienced employees that will result in poor performance.

The guideline classified all fixed assets as administrative costs. Thus, for a CSO to buy fixed assets important for the implementation of any project is difficult under the current law environment. This is because they inflate the administrative costs and hinder CSOs from meeting the 30% maximum limit. Especially, this effect limits CSOs to have their own buildings and expose them to high office rental costs. Since intervention in remote areas require high running costs, the regulation also limits CSOs capacity to expand to remote and underserved areas. The guideline further limit capacity building in terms of training for government and own staff members. This affects the effectiveness of project implementation. As those CSOs that cannot meet the 70/30 requirement might withdraw from the sector, foreign currency earning will be less that it could be. The burden on small and new CSOs limits the expansion of the sector and this will result in the reduced employment opportunities especially for rural educated citizen. Due to classification of M&E costs in the administrative component, the CSOs reduce M&E activities that will result in compromised quality of project performance.

The impacts that the new CSO accounting policy and procedures imposed on CSOs heavily limit the role of the sector in national development. As the voluntary sector mainly works with and for the poor, this regulation affects the benefits of the marginalized communities. In one way or another, the effect is reflected in the realization of national development plans.

### **4.3. RECOMMENDATIONS**

Based on the findings and conclusions made in this study, the following recommendations are made to help both the supervisory body and the CSOs to address the issues in civilized and proactive manners. The recommendations are made to suggest action that are worth taking to minimize and remove the impacts of the guideline on the operation and sustainability of CSOs and to facilitate, as promised in the proclamation itself, their positive contribution to the overall socio-economic development of the country.

***Adherence to International Accounting Principles*** - The CSO accounting system should take into account cost segregation and categorization based on purpose of the cost rather than mere classification by type of cost items. In other words, costs that are used for the purpose of activities implemented at community levels should be considered operational. This may include perdiems, vehicle use, fuel use, M&E costs, project office rents, stationery and supplies used for project implementation, salaries of project level experts

and agents, etc. This will reduce the unnecessary burden of 70/30 on project budgets.

***Need to Revise the 70/30 Cost Policy*** – The importance and the negative effect of Guideline #2 concerning the classification of CSO costs into operational and administrative costs have been deliberated upon by different parties. Thus, the supervisory body, the ChSA, should make revision of the cost classification based on so far practical problems faced by NGOs and learning from the experiences of other countries that have well functioning and progressive accounting policy for the voluntary sectors. The government should start to walk it talk and facilitate the operations of CSOs in their accounting and reporting. If rational revisions are made to the accounting of CSOs, even the administrative cost of 20% will be enough.

***Proactive Dialogue*** – Charities and Societies should engage in proactive and positive dialogue with the government ***presenting concrete facts and evidences*** on the impacts of the provisions in 70/30 Guideline. The voluntary sector should enhance its ***accountability and transparency*** to will the trust of the government. It is also important that the voluntary sector ***cleans its inner part from corruption and misuse of resources*** secured in the name of the poor, so as to build its images. Good images and fight against those NGOs that are not working observing the sector's code of conduct can empower the CSOs to boldly deal with the government.

***Judicious Use of Resources*** – the voluntary sector must create a system that can ensure that resources obtained in the name of the marginalized and poor communities are properly utilized to address the felt need of the

beneficiaries. This will minimize the bad image (inefficiencies, lack of commitment to values of the sector, resource misuse, lack of transparency, lack of sense of accountability, etc) that the public and the government hold against the sector.

***Common Understating*** – the 70/30 regulation is applicable to the total annual costs of the CSO. However, Sector Offices require all CSOs to adhere to 70/30 requirement for each project. The ChSA should create good understanding of the application of the guideline at all levels. This will enable CSOs to access institutional funding projects that they may utilize freely for critical activities of the organization including organizational development activities. The responsibility to ensure adherence to 70/30 rule should be left to the ChSA that has the mandate to check the adherence to the requirements during annual expenditure reporting and plan presentation.

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## Research Questions

The following interview check lists are used to interview selected NGOs to gather data on their perception on the importance and challenges of Guideline issued by the Charities and Societies Agency to define the 70/30 Charities and Societies cost classification. The questions in this check lists are just used as entry points and other pertinent questions are asked depending on the opinions and responses given by the interviewees.

1. Name of Your Organization \_\_\_\_\_
2. Year of established \_\_\_\_\_
3. Annual income of your organization? \_\_\_\_\_
4. Area of engagement and operation \_\_\_\_\_
5. What type of charity/society is your organization? \_\_\_\_\_
6. Are you aware of all the provisions of Proclamation 621/2009 and the related regulation and directives? 1. Yes \_\_\_\_\_ 2. No \_\_\_\_\_
7. How do you evaluate the usefulness of the new legal environment?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
8. Do you think that the new legal environment has challenging issues that might affect your working and existence? 1. Yes \_\_\_\_\_ 2. No \_\_\_\_\_
9. What are the impact of Guideline #2/2011 issued on 70/30 cost classification? \_\_\_\_\_  
\_\_\_\_\_
10. What are the specific problems you face due to this guideline with respect to (a) Your Organizations performance? (b) Sustainability of your programs? (c) The motivation and development of your workforce? (d) The quality of your program?

11. Have you ever received institutional funding from donor sources?
12. Answer for question #9 is yes, How is this affected by 70/30 rule?
- 13.** What is the impact of 70/30 rule on your (a) OD? (b) Quality of program implementation (c) outreach expansion? (d) Work in remote areas (e) Human Resource Related Effects?
14. What do you suggest as a solution to the problems CSOs face as a result of this regulation?
15. If you know any organization deregistered or terminated or given warning its existence due to 70/30 impact?
16. Any other thing you may want to provide with respect to this NGO accounting?
17. Do you think that the 30/70 guideline is consistent with GAAP?
- (A) Yes (B) No (C) Indifferent (D) I don't Know
18. What are the system bottlenecks faced you're in implementing the 30/70 guideline?
- 
- 
- 
19. Pose a comment you feel about the 30/70 Guideline, a maximum of one page.
- 
20. How could the charities and societies *adopt* to the tough requirements of 70/30 guideline in the past three years?