

**The Challenges and Prospects of ChSA`70/30  
GUIDELINE` implementation on the performance of  
NGOs' in Ethiopia - A case study of Food for the  
Hungry/Ethiopia (FH/Ethiopia)**

**By**

**Hiwot Getachew Gebreyohannes**

**Advisor: Abebe Nigatu**

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**MAIDAN GARHI, NEW DELHI – 110 068**

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### **SIGNATURE OF SUPERVISOR**

Place: \_\_\_\_\_

Date: \_\_\_\_\_

### **SIGNATURE OF STUDENT**

Place: \_\_\_\_\_

Date: \_\_\_\_\_

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## Acronyms

**CARE:** Cooperative for Assistance and Relief Everywhere

**CBO:** Community-based Organization

**ChSA:** Charities and Societies Agency

**ChSO:** Charities and Societies Organization

**CSO:** Civil Society Organization

**CSP:** Charities and Societies Proclamation

**DFAP:** Development Food Assistance Program

**EPRDF:** Ethiopian People’s Revolutionary Democratic Front

**FFP:** Food for Peace

**FH/Ethiopia:** Food for the Hungry/Ethiopia

**GoE:** Government of Ethiopia

**HEW:** Health Extension Worker

**JEOP:** Joint Emergency Operations Program

**M&E:** Monitoring and Evaluation

**NGO:** Non-Governmental Organization

**OFDA:** Office of Foreign Disaster Assistance

**OXFAM:** Oxford Committee for Famine Relief

**SNNP:** Southern Nations Nationalities and Peoples

**TECS:** Tracking Trends in Ethiopia’s Civil Society Sector

**ToT:** Training of Trainers

**UNOCHA:** United Nations Office for the Coordination of Humanitarian Affairs

**USAID:** United States Agency for International Development

**WASH:** Water and Sanitation for Health

## **Abstract**

Charities and Societies, and national and international Non-Governmental Organizations (NGOs) have been operating in Ethiopia for a long time. A new Proclamation of Charities and Societies (Proclamation No. 621/2009) has been issued in 2009 in order to facilitate and strengthen the effective contributions of NGOs to the socio-economic development of the country as the laws governing their registration and operations which were first drawn up in the early 1950s had become ineffective.

The main objective this study is to assess the challenges and prospects of the 70/30 guideline (Article 88 of Proclamation 621/2009) on the performance of NGOs in general which states the annual allocation of budget by any charity or society shall not be less than 70 percent for the implementation of its purposes and not exceeding 30 percent for its administrative activities.

To achieve the objectives of this study, the research method used was descriptive case study. Through the use of primary and secondary data sources, the researcher has gathered the necessary information regarding the impact of the guideline.

As the findings show, NGOs are having difficulties in meeting the 70/30 requirement and NGOs are forced to compromise on programs' deliverables quality. NGOs are sandwiched to satisfy donors' interest by achieving high quality project outputs and on the other being compliant to the guideline by reducing administrative costs. The difficult part is major activities that are required for successful project accomplishments are found in the administrative category of the guideline. Due to this many NGOs are challenged to implement projects with major activities that are considered as administrative even if these projects have huge contributions to the country.

Therefore, NGOs should continue to raise their concerns about the 70/30 cost category classification amendment until favorable ground is set for successful projects implementation.

# CHAPTER ONE

## 1. INTRODUCTION

### 1.1. General background of the study

Non-governmental organizations (hereinafter called CSOs/NGOs) have emerged as an important catalyst of change in the development and democratic processes at both the national and international levels. They have begun to play a critical role in the worldwide drive for equality, social justice, human rights, fair trade, and the elimination of poverty. (*Forum for Social Studies, 2008 as cited in Eman, 2012*)

In most developing countries, particularly in Africa, the failure of the State as agent of development and the subsequent disappointment of donors have led to a shift of emphasis in development policy. This policy change calls for a greater participation of the private sector and civil society (of which non-governmental organizations are part) in the processes. (*Clark, 2000*)

In Ethiopia, as is the case of many States, CSOs/NGOs play a significant role in the social, political and economic development of the country. In addition to this, CSOs/NGOs play an important role around crisis and poverty alleviation and engage in activities such as agriculture, conflict management and displacement, HIV/AIDS, integrated rural development, health, education, income generation, information services, refugees, street children, women issues, peace, governance, food security, self help and youth. (*Clark, 2000*)

The involvement of CSOs in the economic and social life of the country has begun in the early 20th century. Their forceful involvement in the development efforts of the country, however, starts with the drought induced famine of 1973/74 and the recurrence of the 1984/85 drought.

Initially their operations focused on relief that saved millions of lives. However through time their roles and areas of intervention changed. (CRDA & DPPC, 2004)

Until recently, the basic law that was governing the formation and operation of most type of NGOs/CSOs was the 1960 Civil Code of Ethiopia. However, this law was not responsive to the current realities of the sector, as it failed to consider the diversity of profiles among CSOs and contemporary appreciation of their roles in good governance and development; implying the need to reform the legal framework governing the sector.

The EPRDF Government has introduced a Charities and Societies Proclamation No.621/2009 on January 6, 2009 and the purpose of this law is to regulate all domestic and international civil society organizations carrying out activities in the country and it is considered as a primary tool enhancing the transparency and accountability of CSOs.

Proclamation 621/2009 has 112 articles and this study focused on Article 88 which states about “*Administrative and operational Costs of Charities and Societies*”. This articles states “Any charity or society shall allocate not less than 70 percent of the expenses in the budget year for the implementation of its purposes and an amount not exceeding 30 percent for its administrative activities.” ChSA has issued a guideline on determining the administrative and operational costs of CSOs” on July 2011 and this guideline is quoted as the “GUIDELINE FOR DETERMINING THE OPERATIONAL AND ADMINISTRATIVE COSTS OF CSOs, NUMBER 2/2003” and in short as **ChSA“70/30 GUIDELINE”**.

The aim of this study is to assess the challenges and prospects of the 70/30 guideline on the performance of NGOs in general and a case study of FH/Ethiopia which is an international NGO founded in 1971 G.C, incorporated in Geneva, Switzerland.

## **1.2. Statement of the problem**

The 70/30 guideline classifies costs as operational and administrative and at least 70% of CSOs' total cost should go to operation and the remaining to administrative. To track this classification the 70/30 guideline specifies cost items on each category and it is based on this classification those CSOs should do their annual budgets, project proposals and their budget utilization reports and audited financial statements.

CSOs are facing problems in fulfilling this requirement and due to this fact many CSOs are becoming non-compliant. On this study the researcher looked forward why CSOs are unable to meet this requirement and the cost classification in depth in relation to the cost accounting principles and ground facts of the country.

## **1.3. Objectives of the study**

### **1.3.1. General Objective:**

The general objective of the study is to assess the challenges and prospects of ChSA`70/30 GUIDELINE` implementation on the performance of NGOs and a case study of Food for the Hungry/Ethiopia (FH/Ethiopia).

### **1.3.2. Specific Objectives:**

The derived specific objectives of the study are:

1. To assess the understanding and internalizing of the 70/30 guideline by the NGOs forum as well as the controlling agency.
2. To study the detail definition and interpretations of cost classification.
3. To look for possibilities to reconsider some cost items classification.

4. To propose possible solution with a workable system on the implementation of the guideline.
5. To assess the effect of the guideline of the NGOs' performance in general.
6. To identify problem areas that needs further research.
7. To identify major lessons that can be learnt and shared.

#### **1.4. Research Questions**

In order to meet the objectives set, some of the basic questions the researcher has tried to answer are:

1. Were there enough orientation and discussion with concerned stakeholders before the implementation of the guideline?
2. Are there any further documentations or references for areas that need further clarification on the directive?
3. What basis was used in the cost classification? Does the cost classification matches with the cost accounting principles? Does the cost classification represent the actual facts on the ground?
4. Which cost items are the most critical ones that need revision? What are the reasons or justifications for the need of revision?
5. Were there any revisions/amendments made so far to the guideline and what is the possibility for future revision?
6. What are the effects of the guideline on the performance of NGOs?

7. What are the main areas of concern by NGOs in implementing the guideline?
8. What are the short term as well as long term effects of the guideline?

## **1.5. Research Methodology**

Descriptive case study research methodology is used for this study and both primary and secondary sources of data are used to address the objectives of the study. The qualitative research techniques used to gather primary data were structured and semi-structured interviews and questionnaires. Secondary data was also reviewed to get better understanding and relevant information about CSOs. The collected data was then analyzed qualitatively using statistical descriptive method of analysis.

### **1.5.1. Data Collection**

Both primary and secondary sources of data were used to gather relevant information on the issue under study. The primary data was collected through questionnaire and interview from 17 staff of FH/Ethiopia (the case study); 15 staff from selected 5 NGOs, 7 selected Audit firms and 11 selected staff of Charities and Societies Agency. In addition personal discussions was also made with some FH/Ethiopia and Charities and Societies Agency staff to get better understanding on the issue under study. The secondary data was collected from various publications, journals, books, annual reports and online materials posted on internet by different scholars and organizations.

### **1.5.2. Data Analysis**

Information obtained from primary and secondary sources was analyzed in a qualitative approach. The data collected from the above-mentioned tools were organized and analyzed qualitatively based on statistical descriptive analysis.

## **1.6. Significance of the study**

The main role of CSOs is to contribute their part on the development of the country. In the process of undertaking this role CSOs are required to align their activities according to the new legislation 621/2009. Accordingly these CSOs should allocate their budget for operational and administrative costs and thereby establish transparency and accountability so that the wealth shall be used for the intended goals. The 70/30 guideline dictates CSOs when classifying their costs and currently CSOs are raising their voice as they are facing challenges in this regard. The significance of this study is therefore;

1. To look for what challenges and prospects that CSOs are facing in implementing the guideline.
2. To point out major areas of concern by CSOs that needs further study to improve and also accomplish their tasks.
3. To point out if there are some cost items that needs reclassification.
4. To provide an input for other individuals who are interested to perform similar or related study in this subject matter.

## **1.7. Scope and limitation of the study**

The study is limited to NGOs based in Addis Ababa, the capital city of Ethiopia, where many of the NGOs are located. Even if most of these NGOs have projects in the different regions of the country where they implement their programs; the information required for this study is obtained here in Addis Ababa; at their Head Office. For this study information was gathered from these NGOs and a case study on FH/Ethiopia. As the case study is on specific NGO the finding of this study cannot be taken as a generalization of all other NGOs in Ethiopia. However the

recommendation made based on the finding can be used as a source of information for other similar researches.

## **1.8. Organization of the study**

This study structured to have five chapters. The first chapter deals with introduction about the study, problem under discussion, research purpose and significance. The second chapter tries to explore related literature to the area under research that helps to have better understanding of the issues raised. The third chapter explains research design and methodology used to gather data and methods used to for data analysis. The fourth chapter presents the data analysis section of the paper, assessing the impact of the guideline on the selected CSOs and the last chapter discusses the conclusions as well as the possible recommendations that have been forwarded as to the researcher's findings.

## CHAPTER TWO

### 2. REVIEW OF RELATED LITERATURE

#### 2.1. Overview of NGOs (CSOs)

NGOs are now recognized as key third sector actors on the landscapes of development, human rights, humanitarian action, environment, and many other areas of public action. NGOs are best known for the delivery of services to people in need, and the organization of policy advocacy, and public campaigns in pursuit of social transformation. NGOs are also active in a wide range of other specialized roles such as democracy building, conflict resolution, human rights work, cultural preservation, environmental activism, policy analysis, research, and information provision. *(Lewis, 2009)*

Precise definitions vary as to what constitute an NGO/CSO, and the challenge of analyzing the phenomenon of NGOs/CSOs remains surprisingly difficult. One reason for this is that NGOs are a diverse group of organizations that challenge generalization, ranging from small informal group to large formal agencies.

The World Bank has adopted a definition of civil society developed by a number of leading research centers: “the term civil society to refer to the wide array of non-governmental and not-for-profit organizations that have a presence in public life, expressing the interests and values of their members or others, based on ethical, cultural, political, scientific, religious or philanthropic considerations. Civil Society Organizations (CSOs) therefore refer to a wide array of organizations: community groups, non-governmental organizations (NGOs), labor unions, indigenous groups, charitable organizations, faith-based organizations, professional associations, and foundations”. *(WorldBank, 2013)*

Globalization during the 20th century gave rise to the importance of NGOs and from the late 1980s, NGOs assumed a far greater role in development than previously. NGOs were first discovered and then celebrated by the international donor community as bringing fresh solutions to longstanding development problems characterized by inefficient government to government aid and ineffective development projects. Within the subsequent effort to liberalize economies and “roll back” the state as part of structural adjustment policies, NGOs came also to be seen as a cost-effective alternative to public sector service delivery. In the post Cold War era the international donor community began to advocate a new policy agenda of “good governance” which saw development outcomes as emerging from a balanced relationship between government, market, and third sector. Within this paradigm NGOs also came to be seen as part of an emerging “civil Society.” *(Lewis, 2009)*

The new attention given to NGOs at this time brought large quantities of aid resources, efforts to build the capacity of NGOs to scale up their work, and led ultimately to important changes in mainstream development thinking and practice, including new ideas about participation, empowerment, gender, and a range of people-centered approaches to poverty reduction work. *(Lewis, 2009)*

In relation to structure, NGOs may be large or small, formal or informal, bureaucratic or flexible. In terms of funding, many are receiving resources from abroad, while others depend on local fund raising activities. Some NGOs are well-resourced and affluent, while others lead a fragile “hand to mouth” existence, struggling to survive. When we come to staffing there are some NGOs with highly professionalized staff while others rely heavily on supporters and volunteers.

According to Togblo (2005) and many other scholar NGO types can be understood by their orientation and level of operation. NGOs are classified into four groups based on their area of orientation. *(Togbolo, 2005 as cited in Eman, 2012)*

**Charitable Orientation:** often involves a top-down paternalistic effort with little participation by the "beneficiaries". It includes NGOs with activities directed toward meeting the needs of the poor like distribution of food, clothing or medicine; provision of housing, transport, schools etc. Such NGOs may also undertake relief activities during a natural or man-made disaster

**Service Orientation:** includes NGOs with activities such as the provision of health, family planning or education services in which the program is designed by the NGO and people are expected to participate in its implementation and in receiving the service.

**Participatory Orientation:** is characterized by self-help projects where local people are involved particularly in the implementation of a project by contributing cash, tools, land, materials, labor etc. In the classical community development project, participation begins with the need definition and continues into the planning and implementation stages. Cooperatives often have a participatory orientation.

**Empowering Orientation:** is where the aim is to help poor people develop a clearer understanding of the social, political and economic factors affecting their lives, and to strengthen their awareness of their own potential power to control their lives. Sometimes, these groups develop spontaneously around a problem or an issue, at other times outside workers from NGOs plays a facilitating role in their development. In any case, there is maximum involvement of the people with NGOs acting as facilitators.

NGOs are also classified into four groups based on their level of operation.

**Community-based Organizations (CBOs):** arise out of people's own initiatives. These can include sports clubs, women's organizations and religious or educational organizations. There are a large variety of these, some supported by NGOs, national or international NGOs, or bilateral or international agencies, and others independent of outside help. Some are devoted to raising the consciousness of the urban poor or helping them to understand their rights in gaining access to needed services while others are involved in providing such services.

**Citywide Organizations:** include organizations such as the Rotary or lion's Club, chambers of commerce and industry, coalitions of business, ethnic or educational groups and associations of community organizations. Some exist for other purposes, and become involved in helping the poor as one of many activities, while others are created for the specific purpose of helping the poor.

**National NGOs:** include organizations such as the Red Cross, professional organizations etc. Some of these have state and city branches and assist local NGOs.

**International NGOs:** range from secular agencies such as Save the Children Organization, OXFAM, CARE, and Foundations to Religiously Motivated Groups. They can be responsible for funding local NGOs, institutions and implementing projects.

NGOs play different roles and take different shapes within and across different societies. The work undertaken by NGOs is wide- ranging but NGO roles can be usefully analyzed as having three main components: implementer, catalyst, and partner (*Lewis, 2007 as cited in Tesfaye, 2015*)

**The implementer role:** is concerned with the mobilization of resources to provide goods and services to people who need them. Service delivery is carried out by NGOs across a wide range of fields such as healthcare, microfinance, emergency relief, and human rights.

**The catalyst role:** can be defined as an NGO's ability to inspire, facilitate or contribute to improved thinking and action to promote social transformation. This effort may be directed towards individual or groups in local communities, or among other actors in development such as government, business or donors. It may include grassroots organizing and group formation, gender and empowerment work, lobbying and advocacy work, and attempts to influence wider policy processes through innovation, and policy entrepreneurship.

**The partner role:** reflects the growing trend for NGOs to work with government, donors and private sector on joint activities, such as providing specific inputs within a broader multiagency program or project, or undertaking socially responsible business initiatives. It also includes activities that take place among NGOs and with communities such as “capacity building” work which seeks to develop and strengthen capabilities.

## **2.2. NGOs/CSOs in Ethiopia**

### **2.2.1. Historical Overview of NGOs/CSOs in Ethiopia**

Ethiopia has a long tradition of informal community-based organizations like the “Idir” (burial societies) and “Equb” (traditional saving societies) that operate at the local level and offer mutual socio-economic support to their members. Formal civil society – that is, organizations with legal personality – is a recent development. Civil society was slow to take root under the Ethiopian Empire regime (1930-1974). It was also severely restricted under the rule of the Derg (a military junta) (1974-91). (*NGO Law Monitor, 2015*)

Modern civil society organizations were first established as faith-based organizations in the 1930s. It was during this period that the European missionaries began to participate in the tasks of transforming the economic and social life of the country. Although their primary

preoccupation remained spiritual, they took pioneering steps in expanding education and health services. Some were instrumental in establishing modern farms, irrigation schemes, flour mills, printing presses, and even electricity supply. True, their activities were limited but the efforts they made to positively influence the development of the country should not escape recognition. *(CRDA & DPPC, 2004)*

Some studies show that, NGOs that are formed immediately after the fall of the Derg regime in 1991 were ill prepared to have much impact because of few resources, untrained staff, and limited exposure to the nonprofit world, many demonstrated minimal comprehension of their proper roles. Donor organizations have also found difficult to work with local NGOs because of limited capacity in strategic conceptualization, service delivery, and financial accountability.

Currently CSOs/NGOs are one of the major partners of the government engaged in various development activities across the country and available records show that, overall, the participation of CSOs in the development of the country has brought a significant change in the lives of the poor and the disadvantaged sections of the population, and the socio-economic growth of the country at large in key areas. Significant increase in the number of CSOs has been observed and as of July 2015 there are 3060 CSOs registered in the country managing more than 4900 projects. Around 80% of these projects were engaged in the area of Health, Child Affairs, Education, Social Support and Capacity Building where as the remaining 20% focused in the sector of Environmental Protection, Agriculture and Professional Association. *(DAG-Ethiopia)*  
*(Agency, 2015- Interview Data)*

### **2.2.2. Legal Framework governing NGOs/CSOs in Ethiopia**

Various regulations and guidelines have been issued so far to govern CSOs starting from the original law authorizing and recognizing them that was put into place by Imperial legal regime in 1960 to the current Charities and Societies Proclamation of 2009.

The previous law has no restriction on area of operation by CSOs as long as their activity and source of income are lawful but the current law restricts Foreign charities and Ethiopian resident charities (getting more than 10% of their budget from foreign sources) not to work in areas related to human rights, democracy, gender equality, child rights, disabled persons' rights, conflict resolution and supporting the judicial system. The law defines Foreign Charities as Charities that are formed under the laws of foreign countries or which consist of members who are foreign nationals or are controlled by foreign nationals or receive funds from foreign sources. Ethiopian Residents Charities as Charities 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 funds from foreign sources.

The current law has also put a ceiling for administration costs which is 30% of total annual budget in contrary to the previous law. It seems the current law is much tighter and due to this a number of resistance and complaints have been observed by CSOs before its issuance and during implementation.

## **2.3. Overview of the Charities and Societies Proclamation**

### **2.3.1. Charities and Societies Agency**

Charities and Societies Proclamation (CSP) established a legal entity called Charities and Societies Agency (Hereinafter referred to as the “Agency”) with its own legal personality and as

an institution of the Federal Government. The Agency is accountable to the Federal Affairs Ministry and it is established with objectives to enable and encourage CSOs in developing and achieving their purpose with transparency and accountability in accordance with the law. It has a power to license, register and supervise CSOs in accordance with the Proclamation. The Agency has issued nine Directives that provide detail rules of procedure and requirements that CSOs need to follow. (*Annex 1*)

### **2.3.2. Directive No. 2/2011 - ChSA “70/30 Guideline”**

Directive to determine the Operational and Administrative Costs of Charities and Societies No. 2/2011 can be quoted as the “GUIDELINE FOR DETERMINING THE OPERATIONAL AND ADMINISTRATIVE COSTS OF CSOs, NUMBER 2/2003” or ChSA “70/30 Guideline”. The Guideline is issued with the objective to guide CSOs how they need to allocate their budget for operational and administrative costs and thereby establish transparency and accountability so that the wealth shall be used for the intended goals. Accordingly CSOs are expected to present their annual budget, project proposals and their budget utilization reports/audited financial statements with this classification of operational and administrative costs.

The Guideline defines “Administrative costs” as those costs incurred for emoluments, allowances, benefits, purchasing goods and services, travelling and entertainments necessary for the administrative activities of a charity or society where as “Operational costs” as the money spent to achieve the goals for which the CSO has been established and to benefit the community. This definition is very clear but when we see the list of Administrative costs (*Annex 2*) it includes some costs that are operational like monitoring and evaluation, consultancy fee, vehicle purchase and maintenance, and training expenses that are essential for the achievement of the CSO’s goal even if few are later re-classified by the Agency.

## **2.4. ChSA “70/30 Guideline” Implementation**

### **2.4.1. The Guideline Orientation**

Before the issuance of the Charities and Societies Proclamation there were extensive public discussions on the draft legislation with all NGOs operating in the country and with other stakeholders. ChSO Taskforce which was established to work for the creation of an enabling legal and policy environment for civil society organizations in Ethiopia has organized a number of forums for the broader civil society to discuss the draft of the current Charities and Societies law, and has submitted general and specific comments on the draft legislation. Some of these comments were accepted by the government, and a number of minor changes were made, nonetheless, the major concerns were retained intact in the Charities and Societies Proclamation. *(TECS, 2011)*

One writer expressed this as follows:

“The law to regulate the operations of NGOs, which would make their work more transparent and accountable, government officials said, was one that created furor both locally and internationally. Despite resistance and criticisms, the proclamation, which differentiates activities of international and local organizations based on resource mobilization, was passed by Parliament. The directive that has created another round of complaints from NGOs includes the determination of the percentage of the budget that can be used for administrative purposes.” *(Mahlet, 2011)*

When we come to the 70/30 Guideline issuance the Agency didn't arrange any forum to get comment or feedbacks from ChSOs and other stakeholders and this created a huge gap and discomfort on ChSOs as the Directive lacks some clarity. The Agency accepted this gap as a

lesson learnt and on the way forward section of “TECS INFORMATION BULLETIN NO. 8 - The Charities and Societies Agency staff exposure visits debriefing workshop of September 2013” this gap is also expressed as follows:

**“Future directives should be developed through a consultative process:** Prior discussions with stakeholders on rules and regulations to be issued by the Agency will minimize the risk of challenges in implementation. For instance, the persisting complaints raised by charities in the application of the cost classification could have been avoided, had a prior consultation taken place with ChSOs.” *(TECS, Information Bulletin 8 September 2013)*

#### **2.4.2. Concerns raised by ChSOs**

ChSOs stated that having a charity law and a regulatory body in the country by itself was positive, because the main purpose of the charity law and the regulatory body is to provide leadership and guidance to charities and societies operating in the country in their efforts to realize their missions and goals in accordance with the laws of the country. All ChSOs and donors also agree that the 70/30 ratio is reasonable in principle but there is widespread concern that the actual classification of administrative costs has a negative impact on ChSO programmes and projects. *(TECS, POLICY BRIEF 9, 2014)*

The key challenge for regulators is how to strike the best balance of regulation and control against the danger of hindering the role of CSOs and limiting the amount of funds dedicated to supporting beneficiaries, due to over-regulation or over-expectation. CSOs are required to use the lion’s share of the financial and material resources they mobilize for the realization of their goals and should exercise accountability and transparency by keeping their accounts in line with generally accepted accounting practices. *(TECS, Report 7, 2013)*

It seems that the ChSA “70/30 Guideline” missed this balance as almost all CSOs are raising their voice because of not being able to play the role of their existence and failure to achieve the goals they set. The cost classification doesn’t consider the nature of service that CSOs are delivering to the beneficiaries and the costs that are essential for any project implementation.

“Financial accountants argue that the best way to delineate costs is to allocate them as either direct or indirect costs. According to this approach all costs can be traced back to and classified as a direct or indirect based on their application on an organization. The most important point is that the approach should take into account the operational nature of the organization and any predetermined categorization could be misleading.” (*TECS, Report 3, 2012*)

Accordingly CSOs are raising their concerns repeatedly to get cost reclassification for some cost items under administrative category and per diem for trainers, capacity building related costs for both staffs and government officials, Monitoring and Evaluation related costs, procurement of vehicle and related running costs, salary of project staffs and transportation of project materials are some to mention. CSOs also provide justifications why the revision is needed.

For example not allowing capacity building for government staff creates a problem of sustainability of the intervention when CSOs hand over the programme/project to the government staff as they lack the required expertise and local governments do not have the budget to do the capacity building by their own. The study that was made by TECS in March 2014 to assess the impact of Charities and Societies Proclamation and Guidelines on ChSOs operating in Agriculture pointed out this as a main challenge and described capacity building of government staffs as follows:

“In principle, it is the responsibility of the Government to assign capable staff in the sectoral offices. However, the reality is that this is challenging due to high staff turnover, knowledge and skill gaps, and insufficient local government capacity building budgets. Local governments therefore tend to rely on the support of charity organizations operating in their localities to help build staff capacity. Nevertheless, there are indications that the ChSA does not want ChSOs to include any capacity building activities targeting government staff in their programmes and projects.” (*TECS, POLICY BRIEF 9, 2014*)

This study has also pointed out the comments given by ChSOs to elaborate their case and below are some for reference as cited in the study report:

“All our efforts will be fruitful and sustainable if staffs in the local administration have the capacity to take over the work when we leave... But the ChSA has put a lot of pressure on us not to provide local governments with capability building services by putting such costs in the administration cost group and discouraging us whenever we come up with such initiatives to address the capacity gap ... We know that the local government do not have budget to building the capacity of their staff ... So we feel that we are sandwiched between two parties that have different interests.”

“Local community and government experts should be trained with the latest approaches and technology to manage the environment and natural resources effectively, and boost agricultural production ... This is no longer possible.... As a result, this will have an adverse impact on sustainability of the programme and on the efforts to introduce knowledge and technology to the local community to cope with the environmental challenges.” (*TECS, POLICY BRIEF 9, 2014*)

Monitoring and Evaluation (M&E) is also another important activity that needs to be done in a regular manner to assess the overall performance, progress and impact of a programme or project against a set of stated objectives or predicted outcomes. ChSOs have been forced to minimize expenditure on M&E in order to reduce their administration cost ratio. However, M&E is a particularly difficult problem because donors who fund ChSOs take a diametrically opposed view. For the donors, M&E is vital to ensure accountability, transparency, value for money and lesson learning. Donors and development partners are accountable to their own domestic constituencies: taxpayers, charity givers and citizens through reporting institutions such as parliaments, boards of directors of charities and independent monitoring bodies such as charity or non-profit commissions. Indeed, various sections of the Ethiopian Government that work with ChSOs also demand rigorous M&E. *(TECS, DRAFT POLICY BRIEF 10, 2014)*

The impact of reducing M&E activities have resulted in reduction of transparency and accountability, which can lead to projects closing down; loss of effectiveness, which affects quality of services for beneficiaries; some services may be closed when quality and standards are no longer properly assessed in a timely manner and the ability to identify new solutions to community problems (‘innovation’) is lost. *(TECS, DRAFT POLICY BRIEF 10, 2014)*

Expenditures for the procurement of vehicles, fuel, and the salaries of drivers, secretaries, and project officers are also other costs in contention that ChSOs are raising. ChSOs argue that these costs are incurred in making a project feasible and should be considered operational costs. “Since most of our project sites are located in regional states, it is unreasonable to consider these costs as administrative, as we use all of the expenses for drivers and fuel to implement the projects,” the finance manager at the international charity told Fortune. *(Mahlet, 2011)*

In addition to the cost category issue the inconsistent implementation of the guideline by the Agency on different ChSOs is another concern which is raised by ChSOs. A study made by TECS on Charities working with children in August 2014 also revealed this challenge. It gave the following statement to elaborate the case on the study report.

“One organization had applied to the Agency to purchase a three-wheel vehicle instead of a motorbike. The request was denied by one officer and accepted by another after attention was drawn to the fact that other organization had been allowed to do so. Organizations also cited examples of different officers categorizing similar expenses differently: where one officer specified an item as administrative costs, a second designated the same cost as operational. Asked about how they coped with this situation, organizations mentioned making visits in person to argue their case rather than relying on a formal paper application procedure. This may be likely to increase discretionary and inconsistent decision making on the part of Agency staff rather than leading to fair and equitable regulation. As well as improving consistent decision making, the organizations suggested that Agency staff should not only be concerned with regulation but also promoting good practice.” (*TECS, POLICY BRIEF 13, 2014*)

Another study made by TECS on Charities and Societies engaged in provision of different health services in January 2014 outlined their major issues and challenges on the guideline and it is presented below as cited on the report.

Table 1: Intervention component and description of challenge

No.	Intervention component	Description of the challenge
I.	Training for front line health extension workers (HEWs), health care providers at government health centers and hospitals, Training of Trainers	Costs such as per-diem, transport reimbursement, trainers' per-diem, refreshment, hall rent, stationary costs are treated as administrative cost
II.	Clinical mentorship/coaching	Cost of mentorship such as mentors professional fee, per-diem, travel costs are treated as administrative cost
III.	Integrated supportive supervision costs	Per-diem and transport cost of integrated supportive supervision is categorized as administrative cost
IV.	Mobile and outreach services provision costs	Costs related with mobile and outreach services are considered as administrative cost
V.	Periodic review meeting costs	Treated as administrative costs
VI.	Consultancy costs for different initiatives	Treated as administrative costs
VII.	Transportation costs	Considering transportation cost of health commodities, drugs and equipment as administrative cost

Source: (TECS, INFORMATION BULLETIN NO. 10, 2014)

### 2.4.3. Mechanisms used by ChSOs to comply with the Guideline

ChSOs used different mechanisms to comply with the 70/30 Guideline even if some of these measures had negatively impacted their project implementations.

Scaling back review and other management meetings that had been part of normal practice and adopted a policy of having only “cost-free” meetings is one of the mechanisms adopted by CSOs. Some CSOs have also reduced training expenses of staff although this has an adverse effect on staff motivation and was contributing to high staff turnover. Reducing staff salary and benefit; restructuring and aligning positions are also another mechanism adopted by some CSOs. Some reduced their M&E expenditures by reducing the frequency of field visits for monitoring

purposes; by avoiding monitoring the activities of projects far away from the headquarters; locating projects only near to ChSO headquarters; by using different methods of gathering data e.g. mobile phone, email and fax; and by conducting only terminal evaluation with minimum cost and omitting mid-term reviews and evaluations. Some have also followed stopping or limiting projects in remote areas to reduce their administrative costs.

#### **2.4.4. TECS's Impact study on the Guideline**

All parties agree that the ratio of 70/30 is reasonable and government and donor partners also support the approach that the majority of development aid should reach the final beneficiaries. ChSOs should make use of development aid resources efficiently and avoid unnecessary administrative wastages as development partners are accountable to see whether their tax payers' money is spent for its intended objective.

“It is known that other countries also use such a ratio thresholds – indeed some are even stricter than Ethiopia: the ratio in Canada is 80/20. However, the context of Canada and Ethiopia isn't the same: For one mobility isn't restricted due to lack of infrastructure, marginality of project location, etc. in Canada and different means of communication (mobile networking) and internet communication all facilitate for example project monitoring and evaluation and reduce travel costs. The challenge to the guidelines, in the case of the ChSA in Ethiopia, lies not on the rule itself *per se* but on the definitions and the allocation of the cost categories which must fall under each category. The guidelines attempt listing different sorts of operational and administrative costs in detail. However, despite this detail, the guidelines cannot exhaustively reflect the complex operational circumstances of individual ChSOs. Moreover, the rigorous accounting and auditing requirements demanded by the guidelines will tend to increase the administrative costs

of ChSOs, which of course is in contrary to the original intention of the guidelines.” (TECS, *Report 3, 2012*)

The Tracking Trends in Ethiopia’s Civil Society Project (TECS) is an initiative of the Civil Society Sub Group of the Development Assistance Group and it began in early 2011, and completed in November 2014. TECS’s purpose is to create a conducive and enabling environment through supporting research, dialogue and publications on emerging issues and trends in Ethiopian civil society sector, including those arising from the implementation of the Proclamation on Charities and Societies. The TECS Information Bulletin series aims to bring to key emerging issues to the attention of Government, civil society and development partners.

TECS had conducted a number of studies to assess the actual and likely impacts of the 70/30 Guideline on the operational activities of ChSOs by undertaking an in-depth study of sample ChSOs and by seeking a wide range of stakeholder views, in addition to drawing upon international CSO accounting standards.

The below table summarized some specific cost line challenges with their potential impact on ChSOs operation under study by TECS in March 2012.

Table 2: Cost items categorized as administrative costs in the guideline and their potential impacts on the ChSOs operations

<b>Specific Challenge</b>	<b>Possible reaction by ChSOs</b>	<b>Potential impact</b>
Monitoring and evaluation	Will reduce M&E activities	Implementation failures and wastage of resources
Project Vehicle	Will reduce delivery of projects in remote and rural areas, and emerging regions	Projects will be focused on larger urban areas, and not seek to work with rural area beneficiaries.
Consultancy fee	Will need to engage in less qualified and less experienced staff	Project delivery will be negatively affected and costs may increase
Staff training	Will reduce training spend	Project delivery will be negatively affected
Transport and maintenance cost	Will be forced to limit expense on transport and maintenance	Project delivery will be negatively affected. ChSOs' projects will be limited by cheap transport access.
Salary cost of some ChSOs	Will be forced to hire less qualified & experienced staff to work, to keep their overall costs down	Project delivery and CSO performance particularly in remote areas will be negatively affected.
Capacity building or training of trainers (ToT)	Will limit their ToT operations and knowledge transfer, keeping up to date on new technologies or approaches.	A multiplier approach and local capacity building will be negatively affected.

*Source: (TECS, Report 3, 2012)*

The study made by TECS to assess the actual and likely impacts of the 70/30 Guideline on the operational activities of ChSOs in April 2013, also stated the following statement when describing the early impact of the guideline:

“Most ChSOs have made operational changes in order to comply, but they fear these changes will impact negatively on their efficiency, effectiveness, accountability and transparency. They gave examples of the negative consequences of cutting back on M&E, consultancies, transportation, research and training activities, which ranged from reducing or stopping projects in remote areas or emerging regions to the inability to ensure project quality. They also believe

that development partners could cease funding them because core accountability systems and practices are no longer in place.” (TECS, *POLICY BRIEF 5, 2013*)

On its subsequent study of September 2013, TECS presented some of the challenges relating to specific categories of costs in particular sectors highlighted by ChSO representatives to explain the situation and it is quoted below:

**ChSO representative 1: We fear that cutting back on capacity building leads to aid dependency** - “The Guideline implies not to worry about sustainability because it wants us to simply dump whatever resources we have on target beneficiaries. Our worry is that dumping resources on beneficiaries will make them aid dependent and will not give them a chance to stand up on their feet. Before we give the seed money (start-up capital) to our target beneficiaries, we need to equip them with business and entrepreneurial skills by hiring knowledgeable and well experienced trainers/facilitators so that they can start small businesses which will support their lives sustainably. Unfortunately we cannot do this because the trainer/facilitator fee is treated as administration cost.”

**ChSO representative 2: Quality of health care is compromised when staff capacity is weak** - “We believe that we have to provide quality reproductive health and HIV/AIDS related services to our beneficiaries. In addition to getting the latest technology, we have to upgrade the knowledge and skills of our health staff to improve the health services they provide for the beneficiaries. The problem is we are reluctant to upgrade the capacity of our health staff because all costs associated with their capacity building are treated as administration, increasing our administration cost percentage.”

**ChSO representative 3: We no longer support schools in remote areas because of high transportation costs** - “The Guideline is limiting and discouraging. It limits you to think about only locations or intervention areas where you will be able to meet the cost ratio requirement. We know that there are schools in rural and remote areas which need our attention and support but we are discouraged from developing any intervention projects to address their needs because we know that we cannot satisfy the requirements of the Guideline.”

**ChSO representative 4: Transportation costs made us cut back on support to highly vulnerable groups**

“There are many remote areas where we have been supporting highly vulnerable groups like women and children. The guideline forces us to limit our activities only to few urban and semi urban areas. We hope that the Government will look into our genuine concern and makes revision of the guideline.” (*TECS, REPORT 10, 2013*)

The study further described that ChSOs are still struggling to comply even if efforts made have also had certain negative consequences on the performance of ChSOs operation. Some of the negative consequences that arise due to cost cutting measures are: low quality service delivery to beneficiaries; an inability to develop and effectively implement programmes or projects that support the development plans of the country; and an inability to meet the expectations of donors on project design and implementation, M&E and capacity building for sustainability.

#### **2.4.5. Subsequent revision of the Guideline**

TECS conducted a training needs assessment (TNA) of the Agency’s staff in April 2011 and this TNA showed that ChSA staff had limited exposure and knowledge of ChSOs operations and field activities. To tackle this gap a series of exposure visits to ChSOs had been conducted by the

Agency staff so that they could acquire a first-hand impression of ChSOs field operations. The visit has provided the Agency team with ample learning opportunities to see projects and their activities and get a clear picture of charities' operations on the ground.

This and other attempts by different parties have resulted in the subsequent revision of some cost elements, and the then Agency's Director, Mr. Meseret Gebremariam, made the following response for the questions raised on the Agency's staff exposure visits debriefing workshop of September 2013.

“Mr. Meseret responded to the concerns raised by participants regarding the 70/30 classification of costs. He stated that the issue of the 70/30 directive is equally a concern of the Government as it is of ChSOs. Nevertheless, the two view the issue from different perspectives: from the perspective of developmental state and that of the neo-liberals. He added that the purpose of establishing the classification is to ensure the maximum utilization of resources for the benefit of society. Therefore, if everyone involved employs this guideline as a premise of engagement in the sector, then the concerns we are raising now will no longer be concerns. The law is amenable to changes given some practical issues which have appeared. He further claimed that despite the 70/30 requirement in place, the Agency in uncovering situations where some expenses falling under administrative costs are actually operational costs and, as a result, some changes to the directive may need to be considered.” (*TECS, Information Bulletin 8 September 2013*)

Two amendments have been made so far to the initial ChSA “70/30 Guideline” that was issued in July 2011. The first amendment was made in May 2012 whereas the second amendment was done in February 2015. The amendments were made to some cost elements by clusters to match the Guideline cost breakdown lists. Salary of temporary and permanent staffs who engaged in

some field works; special type of vehicle purchase costs (example: for disabilities, water drilling and related activities; vehicles used for waste removal activities); vehicle related expenses like fuel and lubricant costs, maintenance expenses, drivers' salary when engaging in direct project related activities; or vehicle rent costs; project material purchase transportation costs; training expense of ToT(Training of Trainers) and training expense of experts and staffs whose salary categorized as operational are some to mention that are classified to operational cost category.

The revisions have incorporated some of the concerns that have been raised by CSOs even if still there are many major cost elements that are pending that are affecting CSOs performance and expectations of donors.

## **CHAPTER THREE**

### **3. RESEARCH DESIGN AND METHODOLOGY**

#### **3.1. Research Approach and Design**

The research objective is to assess the challenges and prospects of ChSA 70/30 GUIDELINE implementation on the performance of NGOs. To conduct this research the researcher used case study approach. In order to achieve the objective of the research it employed both primary and secondary, qualitative and some quantitative data were collected.

#### **3.2. Sampling Techniques**

This study employed purposive sampling and selected one International NGO for the case study and other five International NGOs to supplement the research as NGOs are the main source of evidence: directly applying the guideline and face the actual impact of the guideline under study. These NGOs are selected on availability but have similar nature with the selected case study NGO. The researcher selected these NGOs because she finds it useful to achieve the research objectives and assess the impact of “ChSA 70/30 Guideline” implementation on performance of NGOs. Seven Audit firms are also selected randomly upon availability to obtain their opinion on challenges they faced in auditing NGOs financial reports annually and they have direct information from their clients on specific matters that CSOs are challenged. The Agency is also included being the guideline owner to obtain information how the guideline implementation is going on and on how CSOs are performing to comply with the directive.

#### **3.3. Data Collection Techniques**

Data collection was made through the use of primary and secondary data collection instruments. The primary data was collected through quantitative and qualitative methods. All data was

collected using questionnaire and interview questions prepared by addressing all-important variables. An open ended self-administered questionnaire was prepared in English for all the three group of respondents i.e. NGO, Audit firm and the Agency. The interview was conducted for the Agency and the case study NGO staffs.

Both program and finance staffs of NGOs are asked to fill the questionnaire as they are familiar with the issue under study. Agency staffs who are engaged in reviewing ChSOs annual plan and financial reports, having a direct contact with CSOs in giving consultation are also selected to fill the questionnaire.

The data collection was done from December 2015 to April 2016. From the 27 questionnaire distributed for the NGO staffs 17 are returned but one questionnaire is rejected due to incomplete response. Four responses have been received from the 7 questionnaire distributed to Audit Firms and from the 8 questionnaire distributed to the Agency staffs 7 are returned. Five interviews with NGO staffs and 3 interviews with the Agency staffs were also conducted.

### **3.4. Data Analysis Technique**

Information for the study was collected from primary and secondary sources. Then the collected data was compiled, organized and statistically analyzed in a qualitative approach. The research findings are then treated with statistical descriptions, that is, the study used descriptive techniques in analyzing the research findings and research questions that have been raised in the study.

## CHAPTER FOUR

### **4. DATA PRESENTATION AND ANALYSIS**

#### **4.1. Organizational Profile of FH/Ethiopia**

Food for the Hungry is a child-focused international relief and development organization operating in 20 countries around the world which aims to walk with communities to end all forms of poverty. It is founded in 1971 G.C, incorporated in Geneva, Switzerland. It has eight field offices in the continent of Africa and operations in Ethiopia began in 1984 during an acute crisis due to famine emerged in the country. Its initial relief activity expanded through time and now it managed many multi-sectorial programs in four regional states of Ethiopia: Amhara, Oromiya, SNNP and Benishangul Gumuz regions. Supported by diverse bilateral, multilateral and private donors from around the world, FH/Ethiopia directly impacts on average nearly 700,000 individuals a year with an annual operating budget of more than \$27 million (both in cash and in kinds).

FH/Ethiopia has expertise in the area of Health, Livelihoods, Education, Disaster Risk Reduction, Gender and Climate Change and currently it operates eight projects in the four regions of Ethiopia mentioned above. USAID/FFP, USAID/OFAD, World Renew, UNOCHA, and Private Donors are some of the major donors to mention that assisted the implementation of Development Food Assistance Program (DFAP), Joint Emergency Operations Program (JEOP), Conservation Agriculture Program, Integrated Community Development Program, Brightening the Future of Orphans and Vulnerable Children Program and WASH and Livestock Recovery Program.

## **4.2. Orientation and Understanding of the Guideline**

It is known that having adequate orientation with respective users is important when new policies are issued but the information gathered from CSOs and other stakeholders shows that adequate orientation has not been given by the Agency before the implementation of the 70/30 Guideline.

All respondents from the NGO sector agreed that the concept or intentions of the Guideline with its objectives are very clear but they feel that they are not clear entirely when it comes to its interpretation to apply. It is only 33% from the NGOs' respondents that confirmed they have fully understood the Guideline while the remaining 67% (14 respondents) indicated having some gray area. All the 10 respondents from the Agency have confirmed that they observed that most CSOs failed to understand the Guideline and this is reflected with the challenges that the Agency is facing when dealing with CSOs on the Guideline implementation.

One NGO respondent described his understanding about the Guideline as follows:

“The guideline by itself is not bad on one hand but has a wide gap on the other side. My understanding of 70/30 guideline therefore is mixed.”

Lack of adequate staff in the first one and two years of its establishment was one of the major reasons by the Agency for not being able to organize adequate familiarization workshops as one respondent from the Agency explained. The Agency has confirmed subsequent familiarization workshops have been organized lately at different levels with different stakeholders but it seems many CSOs were not aware and didn't participate. Only 24% from the 21 respondents have participated in workshops that were organized by the Agency but the remaining 76% failed to participate or missed the opportunities. As to the adequacy of the familiarization workshops only

5% agreed but the remaining 95% of the respondents confirmed that enough orientation has not been given so far by the Agency.

The Agency now provides a desk review service with one to one discussion session to all CSOs that need clarification and support. Some drawbacks have been observed by this mechanism as individual interpretations and beliefs are expressed during consultations and this gap is explained in TECS's Policy Brief report of August 2014 as "Inconsistent implementation of the guideline".

*(TECS, POLICY BRIEF 13, 2014)*

### **4.3. Benefits and Challenges of the Guideline Implementation**

#### **4.3.1. Benefits**

It is known that every policy/law has its own benefits as well as drawbacks and what is needed is to see the weight of the output produced. It is always good to start with positive sides and one respondent from NGOs expressed his opinion on overall benefit of the new regulation as quoted below:

"In the first place, it is appreciable and an important step taken by the Government of Ethiopia (GoE) so that the country has its own defined legal ground governing the contribution of civil societies operating in the country. This shows a strong belief by the GoE that these organizations are playing vital role in the development of the country and have to be governed by legal framework. The Proclamation covers key areas and clearly articulated roles and responsibilities to be played by various bodies involved in using and enforcing the law. Use of charity funding mainly for the 'Purpose' it is intended for rather than spending on support costs is clearly defined and puts a bar on those wishing to cherish such actions."

When we analyze the responses got from FH/Ethiopia staff their organization has benefited a lot in different aspects by implementing the Guideline and only three respondents (18%) have expressed their opinion that their organization has not benefited by the Guideline and one of them explained that “This policy is basically to benefit the community not organizations” but the remaining 82% agreed that FH/Ethiopia has benefited from the Guideline.

One respondent expressed the benefit that FH/Ethiopia has got in the following statement:

“The benefit is the recognition by the government counterparts that FH/Ethiopia is implementing programs in compliance with the government guideline. This will add trust to the organization by the benefactors and government bodies that the resources are optimally used to the benefit of the community.”

Resource utilization and accountability has also increased in FH/Ethiopia as every staff is consciously and strictly utilizing budgets accordingly to the original plan.

One respondent from FH/Ethiopia forwarded the benefit that the Organization achieved by comparing previous trends with the current ones after the implementation of the Guideline. And it is quoted as:

“In terms of resource utilization what my organization achieved after the implementation of 70/30 is a saving in training supplies left from training and workshop to keep for the next training/workshop from being lost or wasted. In utilization of budget costs now there are lots of improvements and the organization has now become more conscious than we were back then. In terms of accountability before the guideline implementation fewer considerations have been given to operational activities but now we give serious consideration for responsibility and accountability for this case all concerned staff are accountable for their component budget.”

The other benefit that was forwarded by some respondents is the chance to assess grants before their implementation about their feasibility in line with cost classification. But this benefit is in question as there are small and short term grants that have great contribution to beneficiaries but that don't meet the cost ratio.

### **4.3.2. Challenges**

When we come to the other side of the Guideline all the respondents of FH/Ethiopia have confirmed that their organization has faced different challenges during the Guideline implementation. The researcher has tried to analyze these challenges in terms of fund securing, program implementation, supervision and reporting.

#### **Fund Securing:**

FH/Ethiopia has returned one approved grant to the donor (USAID/OFDA) in late 2011. The grant failed to meet the 70/30 guideline requirement as research projects will not directly address communities and all the costs that are associated with doing the research are considered as administrative costs. The grant was a two years program having a grant value of \$244,047 with the objective to reduce grain loss through introducing appropriate storage systems and the program targeted to benefit 2500 individuals. Lots of efforts had been exerted to convince different government offices to give a waiver as this is at the early stage of the guideline implementation and the proposal was submitted to the donor before the issuance of the guideline. However the efforts were not successful and the fund was finally returned to the donor with explanation.

Donors are willing to provide required resources for the implementation of a program. But FH/Ethiopia couldn't be able to secure enough resources for appropriate personnel, capacity

building activities for own and government staffs, vehicle purchase and M&E activities as these costs are considered as administration and project agreements will not be signed by the government officials if each program failed to meet the 70/30 requirement at the initial project approval level. This challenge is severe especially for small grants.

Due to this 70/30 requirement FH/Ethiopia has failed to secure many grants that may assist the organization to get enough budget to cover its overall administration costs. One respondent expressed her thought to this fund securing challenges as:

“There were a number of funding opportunities that the organization was forced to decline due to the requirement to fulfill 70/30 guideline. Particularly capacity building related projects were found to be difficult to implement.”

### **Program Implementation:**

Project implementation is the output of project design and approved projects without enough resources will end up with poor program implementation output. All FH/Ethiopia project offices are located outside Addis Ababa (Capital city of Ethiopia) within a range of 165 to 750 kilometers from Addis Ababa where FH/Ethiopia Head office is located. It is obvious that organizations that are implementing programs in remote areas will incur high administrative costs and FH/Ethiopia is one of them. Due to this FH/Ethiopia is incurring high costs related to transportation for project implementation activities. To implement programs in remote areas, having its own vehicle is mandatory but due to the cost classification nature for vehicle purchase FH/Ethiopia is forced to use rented vehicles which is very expensive. This has also adverse effect as staffs are not comfortable to go with rented vehicles with relation to safety driving and drivers of rented vehicles are not also willing to go to very remote villages with difficult road conditions.

FH/Ethiopia has been forced to omit some activities like training, capacity building and M&E that can benefit project accomplishments as these are counted as administrative costs. The shortage of fund for administration part has brought negative impact on project implementation of FH/Ethiopia because the budget required for the key program staff at head office is not fully covered by projects. Capacity building related activities was not also planned as required due to the guideline restriction that contributes to low impact of targeted community.

### **Supervision**

One of the most challenging issues of the guideline is that it gives less attention to program quality assurance mainly because the cost of monitoring and evaluation (in addition to supervision) is within the 30% cost structure. This discourages organizations to make regular supervision particularly when travel is required to monitor program implementation and FH/Ethiopia has suffered a lot on this aspect. FH/Ethiopia is forced to budget less for supervision that ultimately affected the quality programs.

One respondent explained this situation in the following statement:

“There is serious shortage of budget for projects supervisions. Especially, government technical experts ask to frequently supervise projects, while the per diem and mileage expenditures are in administration category, which are falling on 30% side. Even though the frequent supervision of the government experts is helpful for the implementation of projects by rendering technical support to the target beneficiaries, this has been great challenge for FH/Ethiopia in its projects implementation.”

## **Reporting**

Reports are results of monitoring and supervision and the less monitoring is made the less number of timely reports to be produced. This gap created a huge concern from the donors' side and FH/Ethiopia fears that ultimately this might impact future funding.

The guideline requires organizations to track each and every transaction into the two categories and it is time consuming and tiresome. FH/Ethiopia has developed a mechanism to track expenses by using its current accounting software but still when preparing financial reports for local audit purpose detail verification is done to make sure for the compliance.

The other point to mention here as a challenge is after securing fund from donors organizations are expected to convert the budget to the 70/30 category and it is additional burden on paper works.

Some Agency staffs have also explained the challenges that they are facing in providing support to CSOs as the guideline doesn't include all types of activities and nature of organizations. For example Research institutions are not included and media activities and volunteer services are also missed from the guideline.

## **4.4. Cost Classification and Revision**

### **4.4.1. Cost Classification**

“Other countries experience (like Singapore; Canada; USA and South Africa) were taken into consideration when this directive was developed and existing situations and NGOs work experience in Ethiopia were also taken in to account during development. Previously charitable work was considered to bring individual benefit instead of benefit to the community. So the

directive took this reverse way of thinking in to account and generally it can be said that the directive represents the actual facts on the ground and followed cost accounting principles.” This is the response from one senior Agency staff during interview session.

But the result from the data analysis revealed that 60% of all respondents do not believe that the guideline matches cost accounting principles and represents the actual facts on the ground. Only 20% agreed with the response given above and the remaining 20% are not sure about the case.

One NGO respondent explained the case as follows:

“The guideline doesn’t follow the cost accounting principles as cost accounting for project cost classification splits costs incurred into direct and indirect. Direct costs are costs that can be accurately traced with the project under implementation where as indirect costs are costs that cannot be accurately traced with specific project. This principle helps to capture all the necessary costs for a successful project implementation. But the guideline missed this very important concept and it doesn’t take into consideration the nature of output expected from projects. For example for an NGO that is highly engaged in capacity building activities, it is meaningless to account the capacity building activity costs as administration unless we want NGOs not to engage in capacity building activity.”

Another NGO respondent expressed his opinion as follows:

“The cost classification doesn’t reflect the facts on the ground and it should need more discussion with all professionals, respective government bodies and implementer organizations in order to have common and clear understanding on 70/30 direction.”

One respondent from the Audit firm expressed his understanding in the following statement:

“The objective of 70/30 is not to segregate operating costs and admin costs/overhead costs in the sense of cost accounting. It is to boost efficiency of NGOs by minimizing the costs incurred on the means used to deliver their services and maximize value of the services that can be delivered to the beneficiaries.”

#### **4.4.2. Cost Category Revision**

The two revisions made on the guideline show the Agency’s effort to amend the gap observed on the guideline and also answered some of the questions raised by NGOs and FH/Ethiopia respondents agree that the recent revision has significantly improved the tightened situation that their organization faced. Still many believed that subsequent revisions are also expected to solve the challenges of NGOs. All the respondent of FH/Ethiopia supported the idea of future revision even if one respondent expressed his feeling on the revision made so far with a statement “now the guideline is good”.

Even if subsequent revision is expected by CSOs on the guideline, the response from the Agency revealed that there is no cost item under revision currently. But CSOs are continuing to raise their concerns on any related appropriate forums to contribute to the effort for the amendment of the guideline.

Data obtained from primary and secondary sources revealed that many cost items are asked by CSOs for reclassification and some of them are:

- training costs like trainers fee, trainees’ fee for staff and government staffs;
- program staffs related benefits whose salaries are considered as operation
- M&E costs

- Capacity building activities
- Vehicle running cost that are dedicated to a certain project
- Consultancy fee
- Capital expenditures such as purchase of vehicle, etc

All the above costs are incurred to run project programs successfully and some of the NGO respondents' opinion is presented below for reference:

**NGO respondent A:** “I believe that government rules and close follow-ups and supervisions of NGOs are highly required to ensure healthy resources utilization. Therefore revision of the guideline is highly required especially to consider technical monitoring budgets of government experts, some trainings and capacity building activities that are directly related to project implementation and the salaries of skilled manpower involved in project cycle management from administrative to operational category.”

**NGO respondent B:** “Costs such as capacity building, M&E were considered as part of the ‘Admin’ instead of ‘Main Purpose’ has curbed engagements in community and stakeholders’ capacity building efforts. Besides, there are staff members, even if they are office bearers, who are purely technical and should have been considered as part of ‘Main Purpose’ rather than ‘Admin’.”

**NGO respondent C:** “In the area of staff positions; revision must be made to classify staffs who are working directly on the program component under the program category. Especially those who will be based at head office or region offices. Again, the supervision cost for projects must

be reclassified in to program since it is not administration job the staff do when they do supervision, rather it is program supervision.”

**NGO respondent D:** “Monitoring and evaluation expenses should be considered as operation because it is part and parcel of a particular program and the project cycle will not be complete without monitoring and evaluation. All project level technical staffs regardless of their title and relevant technical staffs at the Head office and training fees for project level own and government staff need to be reclassified to operation.”

**NGO respondent E:** “Monitoring and technical support of government experts to the projects and beneficiaries, which is currently considered as administration cost should be considered as operation cost. Field monitoring visits by head office technical staff, which is currently administration cost, need to be considered as operation cost because the technical support is being rendered to efficiently implement the project activities and capacity building technical trainings for government workers should be considered as operation cost.”

**NGO respondent F:** “Re-classification of category of key staff salary, training, travel within the project, monitoring and evaluations, to operation instead of administrative is required and the rationale behind is that those activities are basics for effective implementation of a given project and ensures quality of a program that ultimately will bring about the required impact.”

#### **4.5. The Guideline effects on Performance of FH/Ethiopia**

In Section 4.3 of this chapter the benefits and challenges of the guideline in the case of FH/Ethiopia have been described in detail and in this section the effects of the guideline on FH/Ethiopia’s performance is analyzed.

One of the guideline effects on the performance of FH/Ethiopia is it increased the organization resource utilization and accountability trend in a more systematic way. The 70/30 classification helps the organization to track each cost incurred and for what purpose. So this enhances the organization to achieve its objective of serving the most vulnerable.

The other effect of the guideline is it increased the cost awareness of all staffs of FH/Ethiopia at all levels. Previous to the guideline implementation there was a trend by program staffs to ignore the actual cost incurred in project implementation and only focus on physical output of projects. But now the guideline implementation has forced both program and finance staffs to sit and work together starting from proposal preparation to final terminal report and analyzing projects in respect of cost effectiveness and efficiency.

The major impact of the guideline observed on FH/Ethiopia is on the quality of program deliverables. Due to less supervision and support to programs low quality of deliverables are achieved. As a result dissatisfactions has been observed from different stakeholders like beneficiaries, donors, government and FH/Ethiopia own staffs on projects accomplishment as the final outputs are below expectations or set of stated objectives. Even if FH/Ethiopia met the 70/30 requirement by each project that gives recognition from government partner failure to meet project objectives with the required quality is unbearable by the organization. There is also a fear that in the long run the good reputation of the organization that it has from other stakeholders will be in question unless some permanent solution is given to this challenge. FH/Ethiopia has a concern that the guideline challenges might force the organization to erode some of its good practices that are developed through time as the guideline undermines program effectiveness.

FH/Ethiopia has been affected negatively by the guideline as government experts expect capacity building activities in their region but it couldn't be able to deliver this service due to the cost nature. This has impacted the relationships of the organization with the concerned partners during project implementation. It seems that FH/Ethiopia is sandwiched in between satisfying regional government expectation and its governing body, the Agency.

Before the revision of the policy FH/Ethiopia was challenged to accomplish program activities in a timely manner as compared to the previous time. For example most water works, construction activities were accomplished timely before the 70/30 policy but after the implementation of the guideline due to lack of continuous supervision most activities that require strong follow-up lagged behind their schedule.

Due to the guideline FH/Ethiopia is restricted to focus only with grants having huge value as most small grants do not satisfy the guideline requirement. This hinders the organization not to diversify its funding sources and only depend on few donors.

Unable to work in the area of capacity building related projects/programs is another effect of the guideline that hinders FH/Ethiopia's contribution for the development of the country. Using its international access much can be done in transferring knowledge to the country which is very much useful than financial or in kind resource delivery.

Unable to employ qualified and well experienced staff to improve its human resource that can highly contribute to projects' success is another effect of the guideline implementation observed on FH/Ethiopia.

Finally, due to the staff development restrictions of the guideline FH/Ethiopia couldn't be able to invest in developmental activities on existing staffs that could improve significant program quality and staff retention scheme.

## **4.6. Challenge Mitigation and Compliance Trend**

### **4.6.1. Challenge Mitigation**

Like other CSOs, FH/Ethiopia has used different mechanisms to mitigate challenges created due to the guideline implementation. FH/Ethiopia has sacrificed staffs' benefit as well as compromised on staff work load and safety issue to comply with the guideline when implementing some projects/programs.

FH/Ethiopia used cost controlling mechanism starting from project design stage by considering the cost classification before starting implementation and this helped a lot. Strong internal control at all levels by program and finance staffs are in place in FH/Ethiopia and strong reporting mechanisms are also maintained in relation to the guideline.

In some of its program implementation budget cut was done to some activities and some important activities like evaluations have also been done by own staff to reduce administrative costs. FH/Ethiopia also used only hiring few staffs and engaging them in various activities to reduce costs as another coping strategy.

FH/Ethiopia is following a mechanism to apply or compute for big grants as much as possible to be on safe side and avoided projects that focus on capacity development as these projects are too costly or having huge administrative costs in the eyes of the guideline. Project supervision activities are reduced as well and different mechanism like telephone conversation, emails and joint travels are also followed.

Intensive staff orientation is also used to familiarize the cost classification to all so that everyone who is involved in project implementation is aware of the cost that he/she is going to incur and its impact on the guideline implementation.

Networking with other agencies to get updates and news about the guideline and participating in any experience sharing forum organized by the Agency, CSOs and donors to adapt best practices are also another mechanisms used by FH/Ethiopia.

#### **4.6.2. Compliance Trend**

All these challenge mitigation mechanisms have assisted FH/Ethiopia to achieve good compliance rates during its past five years of operation even if programs of food assistance and seed support activities contributed the major share for the success. Table 3 below presented FH/Ethiopia’s five year ratio of operational and administrative costs.

Table 3: Five years operational and administrative costs ratio of FH/Ethiopia

<b>Year</b>	<b>Operational costs ratio</b>	<b>Administrative costs ratio</b>
2011	87%	13%
2012	85%	15%
2013	86%	14%
2014	77%	23%
2015	87%	13%

*Source: Interview data obtained from FH/Ethiopia finance staff*

After the establishment of the Agency so far 415 CSOs are closed from 3074 CSOs registered by the Agency (March 2016) and the two major reasons for the closures are lack of budget and compliance issue on which failure to meet the 70/30 guideline took the major share and 121 and 294 are the number of CSOs closed due to the two reasons mentioned respectively. 294 represent around 10% of CSOs by March 2016. (Agency, 2016)

Data found from the Audit firms respondents also revealed that even if most of their clients from the NGO sector are currently complying with the guideline there are few CSOs that failed. One respondent from the Audit firm has shared its organization data and from its CSOs clients around 20% have failed to comply and some of them are closed and other are given warning letters by the Agency to improve in the future.

Recent data could not be found to see the overall compliance trend of CSOs but the study made by TECS on 63 sample CSOs in 2013 showed that only 58% complied in the year 2012. (*TECS, REPORT 10, 2013*)

## **4.7. Potential Risk and Proposed Suggestions**

### **4.7.1. Potential Risk**

82% of respondents from FH/Ethiopia believe that there is a potential risk of not meeting the 70/30 requirement by their organization in the future but the remaining 18% believe that there is no risk. Majority of the respondents mentioned the possibility is if large size funding could not be obtained as currently these large sizes funding contributed major share for the operational cost category of the organization. The other justification of these respondents is that FH/Ethiopia will reconsider implementing enough M&E activities to achieve the required quality output from projects and unless revision is made to this cost classification complying with be difficult.

Some project staffs as well as HO program staffs related expenses contribute to the administrative section in addition to the M&E and other program activity costs that are forced to be included. If number of projects that are implemented by FH/Ethiopia increased in the future and no revision is made to the above costs the accumulated administrative costs of all these projects will be unbearable which forces the organization to be non-compliant to the guideline.

If FH/Ethiopia failed to be selective of projects and tries to implement projects that have high administrative cost shares due to the classification of the guideline then the risk of being non-compliant will materialize highly.

#### **4.7.2. Proposed Suggestions**

All the three categories of respondents (NGO, Audit Firms and the Agency) forwarded possible suggestions on the guideline and a summary from each group is listed below.

##### **Respondents from NGOs proposed the following suggestions on the Guideline:**

- Revision should be made on project staff salaries and benefits to be incorporated to the operational cost category. It has to be noted that project staff are directly responsible for implementing the goals of the NGOs and they are the interface of the NGO with the community and carry out the activities of the organization. They are critical to the operations of the NGO which, without project staff, would not be able to impact beneficiaries at all.
- Revision should be made to M&E activity costs to be classified to operational cost category. It has to be understood that Monitoring and Evaluation of projects is key to ensuring sustainable impacts on beneficiaries as well as the most effective and efficient allocation of project resources. Monitoring and evaluation is key to the project cycle used in the NGO sector and is critical to ensuring effective programming, as well as enabling the identification of replicable best practices. It enables sustainable impacts that can be scaled up to have the greatest impact on beneficiaries. Thus it is integral to effective and efficient projects and its classification to operational cost is much worth.

- The guideline treats all projects equally but there should be some sort of mechanism to incentivize projects that are operational in marginal areas just similar to investment policies that attract investors to invest in remote areas with incentives.
- The guideline should consider separately those organizations which are working in remote setup/area with semi urban and urban context. Those who are working/struggling to reverse the vicious circle of poverty in rural area must be encouraged in this policy separately.
- All project implementation costs at community level should be within operational cost. Whereas, costs incurred at HO level should be administrative.
- Training fees for project level own and government staff should be considered as operational.
- Field monitoring visits by head office technical staff, which is currently administration cost, need to be considered as operational cost because the technical support is being rendered to efficiently implement the project activities.
- Capacity building technical trainings for government workers should be considered as operational cost.
- Capital expenditures such as purchase of vehicle should be considered as operational cost.
- The Agency should be supportive instead of problem finding, as CSOs are gap filling and contributing to the development of the country. The Agency should not judge all CSOs in general rather provide special considerations based on performance.

**Comment given to the Agency by one NGO respondent:** After audit reports have been submitted some Agency staffs calculate another 70/30 cost classification ratio for CSOs by looking only the description of the account category presented in the financial and audit report. This is not ethical and there should be some level of trust on the professional work that has been done by auditors and if necessary the Agency need to look for a mechanism to do its own analysis to verify the work done by Audit firms.

**Respondents from Audit Firms proposed the following suggestions on the Guideline:**

- Whenever a new guideline is to be issued by any concerned government body, the content should be thoroughly discussed with all concerned stakeholders. Otherwise, it will create ambiguity and difference in interpretation of a given guideline upon implementation. Still there is a room to do this thorough discussion to clarify gray areas of the guideline for the benefit of all stakeholders.
- There are some costs related with the program activities that must be allocated to operational category on the guideline such as consultancy fee.
- Since the request from NGOs are many in number with valid justifications the Agency should reconsider the request forwarded by NGOs and do appropriate study and forward its response timely.

**Respondents from the Agency proposed the following suggestions:**

- General Impact Assessment should be done to see the guideline effects on CSOs and achievement of the guideline's objectives.

- The directive should separately consider organizations that support other governmental health institutions as all of their costs are considered as administrative and the existence of such important organizations are in jeopardy.
- The directive does not contain all areas that needs to be addressed so subsequent update should be made to incorporate missed points.
- There are some costs that are difficult to categorize to one of the cost category and the Agency should identify such costs and provide clear demarcation where to classify.
- The guideline misses some clusters like research institutions, media activist and voluntary service providers and these should be included with their detail guidance.

## CHAPTER FIVE

### **5. CONCLUSION AND RECOMMENDATIONS**

#### **5.1. Conclusion**

NGOs are one of the major partners of the government engaged in various development activities across the country and their participation in the development of the country has brought a significant change in the lives of the poor and the disadvantaged sections of the population, and the socio-economic growth of the country at large in key areas. For the continuation of these great contributions new laws to be issued to govern NGOs must be formulated very carefully not to slow down their pace. Thorough discussion with all concerned stakeholders attempt should be made to incorporate all necessary input required for the smooth implementation of these laws. Appropriate caution should be taken to meet the balance of regulation and control against the danger of hindering the role of NGOs during law formulation process.

Two major gaps are observed that contributed a lot to the major challenge of the 70/30 guideline implementation. One is failure to engage concerned stakeholders in development process of the guideline and the other is not providing adequate orientation and familiarization before the implementation of the guideline as there are some gray areas that need clarification for the smooth implementation.

Not taking considerations for the nature of NGOs and the actual fact on ground where NGOs are operating resulted in many complaints and dissatisfaction by many NGOs. The challenges and effects of the guideline implementation on the performance of NGOs out weighted over the benefits that NGOs gained by the guideline implementation. Still many NGOs are struggling to overcome these challenges and this puts NGOs as sandwich that strives to satisfy donor

requirements and government's requirements. Accordingly objectives set on projects are compromised and NGOs are not operating as expected as they are required to comply with the guideline.

## **5.2. Recommendations**

As it is presented in the literature review and data analysis section many NGOs are affected by the guideline and appropriate revision for the administrative cost category section is recommended for better performance of NGOs.

Further research is recommended to assess the short and long run impact of the guideline on NGOs performance. Communities and regional government bodies are expected to take over the initiations made/projects by NGOs and studies should be made to evaluate these projects' sustainability ahead of time as many NGOs are raising this concern repeatedly.

All partners need to work closely for the smooth implementation of the guideline as well as for the achievement of the guideline's objectives which ultimately benefits all. Looking at the actual facts on the ground will minimize misconceptions and it is recommended to continue the team based field visits that were conducted sometime by the Agency as the field exposure visits promoted some of the revisions on the guideline and it will be advantageous if NGOs take this initiation as its long run benefit is high.

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[http://web.worldbank.org/defining\\_civil\\_society](http://web.worldbank.org/defining_civil_society))

## **Annex 1: List of Directives issued by the Agency**

1. Consortium of Charities and Societies Directive No. 1/2010
2. The Directive to Determine the Operational and Administrative Costs of Charities and Societies No. 2/2011
3. The Directive to Provide for the Establishment and Administration of Charitable Committee No. 3/2011
4. Directive to Provide for the Establishment of a Charitable Endowment, Charitable Trust and Charitable Institution No. 4/2011
5. The Directive to Provide for Public Collection by Charities and Societies No. 5/2011
6. The Directive to Provide for the Liquidation, Transfer and Dissolution of Properties of Charities and Societies No. 6/2011
7. The Directive to Provide for Income Generating Activities by Charities and Societies No. 7/2011
8. The Directive to Determine the Particulars of the Audit and Activity Reports of Charities and Societies No. 8/2011
9. The Directive to Determine Cost Sharing, No 9/2013

## **Annex 2: List of Administrative Costs**

### **A. Charities**

1. Expenses used to pay for services and purchase of equipment used for different office works: purchase of consumable goods, permanent/durable goods, maintenance costs; payments for parking lots, audit services, promotion, bank services, electricity, telephone, fax, water, publications, postal service, office rent, tax, internet, interest expense, membership fee, vehicle purchase and maintenance; for fuel, oil, insurance, fines, consultancy fee, legal service, recruitment costs, monitoring and evaluation, and holding different meetings; for preparing plans and reports, registration fee; and all expenses including training fees, allowances, and reception except the allowance paid for beneficiaries and for preparing training material, refreshment and travel expenses.
2. Salary for staff and managers engaged in operational activities for support staff, allowance, fringe benefits and includes the following type of employees: managers, head accountant, administration and finance managers, store keeper, transport division head, cashier, auditor, guard, driver, program and project director/coordinator, human resource manager, messenger, janitor, gardener, secretary, and the like.
3. Any expenses related to office construction and maintenance, and inner roads and fence construction.

## **B. Societies**

All administrative expenses listed for Charities, except the hall rental expenses of the general assembly, for preparation of reports and for membership fee paid to networks, shall be applicable to Societies as well.

### **Annex 3: Questionnaire to be filled by NGO**

Dear Sir/Madam:

This is a questionnaire designed for a research paper that is being conducted as a partial fulfillment of Master’s degree in Business Administration in area of Operation Management at Indira Gandhi National Open University, India.

This survey is anonymous and your responses will be kept highly confidential and used only for the intended purpose.

Your feedback will be used to analyze the challenges and prospects of “ChSA 70/30 Guideline” implementation on the performance of NGO’s in Ethiopia.

I thank you very much in advance for participating in this survey and providing your thoughtful feedback. If you have any additional comments please use separate sheet and include it with your reply. You can also reply to my personal email address [hiwget2013@gmail.com](mailto:hiwget2013@gmail.com) if you use softcopy.

#### **Questionnaire:**

##### **Section I – NGO Background**

1. Please select the type of organization you are working  
 International NGO       Indigenous / Local NGO
2. Date of establishment: \_\_\_\_\_
3. Date of Re-registration : \_\_\_\_\_
4. Number of projects and regions of operations : \_\_\_\_\_
5. Area of operation/ Major programs: \_\_\_\_\_

##### **Section II – Open ended questions**

1. What is your understanding about the 70/30 Guideline? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
2. Do you think you understand the Guideline clearly or are there any gray areas that are not clear?  
Please explain. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. Were there any orientation or familiarization workshops organized by the Charities and Societies Agency about the 70/30 Guideline that you have participated? \_\_\_\_\_

\_\_\_\_\_

4. Do you think adequate orientation has been given by the Agency before the implementation of the 70/30 Guideline to stakeholders? \_\_\_\_\_

\_\_\_\_\_

5. After the implementation of the 70/30 Guideline what benefits does your organization achieved? In terms of resource utilization, program implementation, accountability, etc. Please explain in detail. \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

6. Does your organization face any challenge so far in implementing the 70/30 Guideline? (Yes, No)

\_\_\_\_\_

○ If yes, would you please describe in detail in terms of:

➤ Fund securing? \_\_\_\_\_

\_\_\_\_\_

➤ Program implementation? \_\_\_\_\_

\_\_\_\_\_

➤ Supervision? \_\_\_\_\_

\_\_\_\_\_

➤ Reporting? \_\_\_\_\_

\_\_\_\_\_

➤ Any other areas? \_\_\_\_\_

\_\_\_\_\_

7. What are the effects of these challenges on your organization's performance? Would you please give examples? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

- What steps or mechanisms were followed to mitigate these challenges? \_\_\_\_\_

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8. Do you believe revision is needed on the 70/30 Guideline to solve some of the challenges you faced? \_\_\_\_\_

9. If your answer to question #8 is yes:

- What are the areas that need revision? Please explain with justification.

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10. As implementer of the 70/30 Guideline, do you think the cost classifications basis used in the guideline matches with the cost accounting principles and represent the actual facts on the ground? Explain in brief. \_\_\_\_\_

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11. Do you have any information if there has been any update or amendment on the 70/30 Guideline?

\_\_\_\_\_

- If yes, who communicated you and how? \_\_\_\_\_

\_\_\_\_\_

- Did the revisions incorporate your area of concern? \_\_\_\_\_

\_\_\_\_\_

- Are there areas that still need revision? If yes, would you please list and write your justifications? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

12. Does your organization meet the 70/30 requirement so far? If so what mechanisms were followed for the fulfillment? \_\_\_\_\_

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- Would you please share your organization's past five year's data of Operation and Admin cost shares? \_\_\_\_\_

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13. Is there any potential risk of not meeting the 70/30 requirement by your organization in the future? Explain in detail the reason. \_\_\_\_\_

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14. Any other comment or suggestion that needs to be included here? \_\_\_\_\_

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Thank you for taking your time.

## **Annex 4: Questionnaire to be filled by Audit Firms**

Dear Sir/Madam:

This is a questionnaire designed for a research paper that is being conducted as a partial fulfillment of Master's degree in Business Administration in area of Operation Management at Indira Gandhi National Open University, India.

This survey is anonymous and your responses will be kept highly confidential and used only for the intended purpose.

Your feedback will be used to analyze the challenges and prospects of “ChSA 70/30 Guideline” implementation on the performance of NGO's in Ethiopia.

I thank you very much in advance for participating in this survey and providing your thoughtful feedback. If you have any additional comments please use separate sheet and include it with your reply. You can also reply to my personal email address [hiwget2013@gmail.com](mailto:hiwget2013@gmail.com) if you use softcopy.

### **Section I – Interviewee Background** (Please put thick (√) mark in the appropriate box)

1. Category of the Audit Firm

- Group A       Group B       Group C

2. The Audit Firm year of service

- < 5 years       5-10 years       > 10 years

3. Number of clients

- > 300 clients       200 – 300 clients       100 – 200 clients       < 100 clients

4. From your clients what % ages do NGOs represent?

- > 50%       35 – 50%       20 – 35%       < 20 %

### **Section II – Open ended questions**

1. What means of communication were used by the Agency to inform your audit firm about the new Charities and Societies Proclamation and respective Guidelines? Have you got orientation from the Agency?

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2. What is your understanding about the 70/30 Guideline issued by the Agency?

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3. As per the 70/30 Guideline, do you think that the cost classifications made matches with the cost accounting principles and represent the actual facts on the ground?

- (Yes/No) \_\_\_\_\_
- Would you please describe how?

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4. When conducting audit, what challenges did you observe or come across in relation to the 70/30 Guideline implementation by your clients?

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5. When conducting audit, have you come across for any cost item that clients raised that needs to be classified as operation from the administration category? \_\_\_\_\_

- If yes, would you please list some of the frequently raised ones?

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- What was the justification forwarded by clients for reclassification?

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- Do you think the concerns raised above by your clients are valid?

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6. Do all your clients comply with the guideline? \_\_\_\_\_

- If no, how many have failed to comply? \_\_\_\_\_
- Do you know the measures taken by the Agency on these clients?

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7. What is the ratio of Operation and Admin costs by the majority of your clients?

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8. What do you think are the effects of the 70/30 Guideline on the performance of NGOs? Explain.

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9. Does your audit firm face any challenge so far in relation to the 70/30 guideline during audit process or after issuing audit reports to clients? \_\_\_\_\_

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10. Any other comment or suggestion that needs to be included here?

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Thank you for taking your time.

## **Annex 5: Questionnaire to be filled by Charities and Societies Agency**

Dear Sir/Madam:

This is a questionnaire designed for a research paper that is being conducted as a partial fulfillment of Master's degree in Business Administration in area of Operation Management at Indira Gandhi National Open University, India.

This survey is anonymous and your responses will be kept highly confidential and used only for the intended purpose.

Your feedback will be used to analyze the challenges and prospects of "ChSA 70/30 Guideline" implementation on the performance of NGO's in Ethiopia.

I thank you very much in advance for participating in this survey and providing your thoughtful feedback. If you have any additional comments please use separate sheet and include it with your reply.

### **Open ended questions**

1. It is recalled that comments have been forwarded by many stakeholders on the draft Charities and Societies Proclamation before it was approved and issued in 2009. What approaches did the Agency follow to collect comments from respective stakeholders before issuing the 9 Directives that it has? \_\_\_\_\_  
\_\_\_\_\_
2. Would you please list parties that are expected to know and apply the 70/30 Guideline?  
\_\_\_\_\_  
\_\_\_\_\_
3. What mechanisms were used to familiarize the 70/30 Guideline to these stakeholders?  
\_\_\_\_\_  
\_\_\_\_\_
4. What was the response of CSOs to the 70/30 Guideline initially? Did the Agency face any challenge? Explain. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
5. Do you think all the concerned stakeholders especially CSOs understood the 70/30 Guideline fully now? \_\_\_\_\_
6. List the major challenges that the Agency faced while administering CSOs with the 70/30 Guideline? \_\_\_\_\_

- 
- What do you think the reasons or sources of these challenges? \_\_\_\_\_
- 
- 
- What measures or actions are taken to overcome these challenges by the Agency? \_\_\_\_\_
- 
- 
7. What are the expected outcomes of the Guideline on the performance of CSOs? (short-term and long-term effects) \_\_\_\_\_
- 
8. Can you say these expected outcomes are achieved in the last 5 years of the Guideline implementation when you see the performances of CSOs? \_\_\_\_\_
- Would you please give some examples to support your answer? \_\_\_\_\_
- 
- 
- Can you describe the achievement in percentage? \_\_\_\_\_
9. On the 70/30 Guideline, what basis of cost classification used? \_\_\_\_\_
- 
- 
- Does the cost classification matches with the cost accounting principles? Please explain. \_\_\_\_\_
- 
- 
- Does the cost classification represent the actual facts on the ground? \_\_\_\_\_
- 
- 
10. CSOs are expected to submit activity and audited financial reports annually. What are the major challenges encountered so far on this regard? \_\_\_\_\_
- 
- 
-

- What comments are frequently given to CSOs in relation to these reports? \_\_\_\_\_  
\_\_\_\_\_
11. Is there any revision made so far on the 70/30 Guideline issued by the Agency? \_\_\_\_\_
- If yes, what are the areas? \_\_\_\_\_  
\_\_\_\_\_
  - What form of communication channels were used to disseminate the revision to the concerned parties, especially for CSOs? \_\_\_\_\_  
\_\_\_\_\_
12. Are there areas that are under review on the 70/30 Guideline currently? \_\_\_\_\_  
\_\_\_\_\_
- If yes, would you please mention areas that are under review? \_\_\_\_\_  
\_\_\_\_\_
13. What are the major concerns or challenges forwarded by CSOs to the Agency? \_\_\_\_\_  
\_\_\_\_\_
14. Are there questions raised by CSOs so far in relation to 70/30 Guideline cost elements reclassification? If yes, which cost elements are frequently asked? \_\_\_\_\_  
\_\_\_\_\_
15. Are there CSOs that cease operation (closed) after the new regulation? \_\_\_\_\_
- If yes, how many are there? \_\_\_\_\_
  - What are the main reasons for the closure? \_\_\_\_\_  
\_\_\_\_\_
16. Any other comment or suggestion that needs to be included here? \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Thank you for taking your time.

## **Annex 6: Interview questionnaire for NGO**

Dear Sir/Madam:

This is an interview questionnaire designed for a research paper that is being conducted as a partial fulfillment of Master's degree in Business Administration in area of Operation Management at Indira Gandhi National Open University, India.

This survey is anonymous and your responses will be kept highly confidential and used only for the intended purpose. Your feedback will be used to analyze the challenges and prospects of "ChSA 70/30 guideline" implementation on the performance of NGO's in Ethiopia.

I thank you very much in advance for participating in this survey and providing your thoughtful feedback.

### **Interview Questions:**

1. What is your understanding about the 70/30 guideline? Have you participated in any meetings for familiarization? Do you fully understand the guideline?
2. What benefits does your organization achieved by applying the guideline?
3. Does your organization face any challenge in implementing the guideline? What mechanisms were followed to mitigate these challenges?
4. What is the effect of the guideline on your organization performance?
5. Do you believe revision is needed on the guideline to solve some of your challenges?
6. As implementer of the guideline, do you think the cost classifications basis used in the guideline matches the cost accounting principles and represent the actual facts on the ground?
7. Does your organization meet the 70/30 requirement so far? If so what mechanisms were followed for the fulfillment? Would you please share your organization past five year's data of Operation and Admin cost share?
8. Is there any potential risk of not meeting the 70/30 requirement by your organization in the future?
9. Any other comment or recommendation that you need to included?

Thank you

## **Annex 7: Interview questionnaire for ChSA**

Dear Sir/Madam:

This is an interview questionnaire designed for a research paper that is being conducted as a partial fulfillment of Master's degree in Business Administration in area of Operation Management at Indira Gandhi National Open University, India.

This survey is anonymous and your responses will be kept highly confidential and used only for the intended purpose. Your feedback will be used to analyze the challenges and prospects of "ChSA 70/30 guideline" implementation on the performance of NGO's in Ethiopia.

I thank you very much in advance for participating in this survey and providing your thoughtful feedback.

### **Interview Questions:**

1. What are the major tasks of the Agency and what is the main purpose of the guideline?
2. What cost basis was used for classification? Does the cost classification match the cost accounting principles and represent the actual facts on the ground?
3. What mechanisms were used to familiarize the 70/30 guideline to CSOs and do you think the guideline is fully understood by CSOs currently?
4. What are the expected outcomes of the guideline on the performance of CSOs?
5. What are the major challenges of the Agency in administering CSOs by the new regulation?
6. What do you think the reasons of these challenges & what are the measures taken?
7. Is there any complaint or concern raised by CSOs to the Agency? Would you please list?
8. Which cost elements are frequently asked by CSOs for revision and what is the justification for the request? What is the reply of the Agency the requests so far?
9. Are there areas that are under review on the 70/30 guideline? Please list.
10. Are there any CSOs that cease operation after the new regulation? If yes, how many are they and what are the main reasons for closure?
11. Are there organizations that work with the Agency to smoothen the implementation of the new regulation?
12. How frequent does the Agency have meetings with CSOs?
13. Any other comment or recommendation that you need to included

Thank you