

**ADDIS ABABA UNIVERSITY
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**TAX ASSIGNMENT TO SUBNATIONAL
GOVERNMENTS IN A DECENTRALIZED FISCAL
SYSTEM OF ETHIOPIA**

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System of Ethiopia**

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Declaration

I declare that this thesis is my original work and has not been presented for a degree in any university and all the sources of materials used for the thesis are duly acknowledged.

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Table of Contents

Acknowledgements	i
List of Tables	ii
Acronyms	iii
Abstract	iv
Chapter One	<u>1</u>
Introduction.....	<u>1</u>
1.1 Statement of the Problem.....	<u>3</u>
1.2 Objectives of the Study.....	<u>5</u>
1.3 Significance of the Study.....	<u>5</u>
1.4 Research Methodology	<u>6</u>
1.5 Limitations	<u>7</u>
1.6 Organization of the Study.....	<u>8</u>
Chapter Two.....	<u>9</u>
Literature Review	<u>9</u>
2.1 The Concept of Fiscal Decentralization.....	<u>9</u>
2.2 Tax Assignment	<u>13</u>
2.2.1 Tax Assignment in a Decentralized Fiscal Framework	<u>13</u>
2.2.2 Conceptual Constraints on Tax Assignment	<u>15</u>
2.2.3 Alternative Methods of Tax Assignment	<u>17</u>
2.2.4 Assignment by Type of Tax	<u>18</u>
2.3 Practices of Tax Assignment	<u>27</u>
Chapter Three	<u>29</u>
Fiscal Decentralization in Ethiopia	<u>29</u>
3.1 Pre- 1991 Fiscal System.....	<u>29</u>

3.1.1 Fiscal System in Haile Sellassie Regime	<u>29</u>
3.1.2 Fiscal System in the “Derg” Regime	<u>31</u>
3.2 Post-1991 Decentralized Fiscal System in Pactice	<u>34</u>
3.2.1 Legal Framework for Fiscal Decentralization	<u>35</u>
3.2.2 Governance Structure	<u>36</u>
3.2.3 Intergovernmental Fiscal Relations	<u>37</u>
3.2.3.1 Expenditure Assignment	<u>37</u>
3.2.3.2 Revenue Assignment	<u>41</u>
3.2.3.3 The Federal Grant system	<u>42</u>
3.2.3.4 Borrowing	<u>46</u>
Chapter Four	<u>48</u>
Tax Assignment to Subnational Governments in Ethiopia	<u>48</u>
4.1 Tax Assignment Between the Federal Government and Regional States	<u>49</u>
4.1.1 Trend and Composition of Regions and Federal Government Revenue	<u>54</u>
4.1.2 Revenue Share and Financing Capacity of Regions	<u>56</u>
4.1.3 Vertical Fiscal Imbalance	<u>60</u>
4.2 Tax Assignment Between Regional States and Local Governments	<u>63</u>
4.2.1 Governance Structure of SNNP and Oromia Regions	<u>63</u>
4.2.2 Functions Assigned to Woredas	<u>65</u>
4.2.3 Source of Finance to Discharge Decentralized Functions to Woredas	<u>66</u>
4.2.4 Tax Assignment between Regional States and Local (Woreda) Governments	<u>69</u>
Chapter Five	<u>81</u>
Conclusion and Recommendations	<u>81</u>
5.1 Conclusion	<u>81</u>
5.2 Recommendations	<u>84</u>
References	<u>86</u>
Annexes	

List of Tables

- | | |
|----------|---|
| Table 1 | Share of the central government and regions in national revenue and expenditure (1979-1989). |
| Table 2 | Average ratio of revenue collection to recurrent expenditure of regions (1979-1989) |
| Table 3 | Federal and regional shares in public expenditure |
| Table 4 | Distribution of recurrent and capital expenditure of regions and federal government, 1993/94 and 2003/04 (in %) |
| Table 5 | Per capita public expenditure by regions for selected years |
| Table 6 | Shares of regions in federal transfer payments for selected years |
| Table 7 | Total and per capita transfer payments for regional states for the year 2003/04 |
| Table 8 | Trends in the composition of revenues with in federal government and regions, 1993/94 and 2003/04 (in %) |
| Table 9 | Revenue share of the federal government and regional states by sources, 1993/94 and 2003/04 |
| Table 10 | Financing capacity of regions: Ratio of regions revenues to regions expenditures, 1993/94 and 2003/04 (in %) |
| Table 11 | Trends of vertical fiscal imbalance in Ethiopia, 1993/94-2003/04 |
| Table 12 | Revenue by source of Oromia and SNNP regions, 2002/03 (in %) |
| Table 13 | Regional per capita and distribution of major revenue sources among woredas of SNNP and Oromia regions, 2002/03 |

Acronyms

AAU	Addis Ababa University
BoFED	Bureau of Finance and Economic Development
CSA	Central Statistics Authority
CVAT	Compensating Value Added Tax
EPRDF	Ethiopian Peoples Revolutionary Democratic Front
FDRE	Federal Democratic Republic of Ethiopia
GST	Goods and Service Tax
MLN	Million
MoFED	Ministry of Finance and Economic Development
QST	Quebec Sales Tax
RLDS	Regional and Local Development Studies
SNNP	Southern Nations Nationalities and Peoples
TGE	Transitional Government of Ethiopia
VAT	Value Added Tax

Abstract

Fiscal decentralization is one dimension of decentralization, which refers to the devolution of fiscal resources and fiscal decision-making power by the central government to subnational governments. Ethiopia has developed and defined constitutional and legal provisions to support fiscal decentralization and strengthening of decentralized levels of government. The design of fiscal decentralization is based on four pillars, of which tax assignment is the emphasis of this research paper.

The study is based on more of descriptive analysis. In addition to secondary data, primary data produced through interviews and discussions with officials of different levels of government were utilized in the study.

The findings indicate that, due to the assignment of very weak tax bases to regional states, their financing capacity is very low. This, in turn, has made regional states highly dependent on the central government for the larger part of their expenditure, which may pose a challenge to the realization of economic efficiency, responsiveness and accountability. Inefficiencies in tax collection and administration have some bearing on the lower financing capacity of the regions. The grant distribution formula also is not encouraging for better revenue effort. Furthermore, though it has been said that the decentralization process is broadened and deepened to woredas, which are considered to be centers of socio-economic development, experiences of SNNP and Oromia regions revealed that currently they control only the expenditure side (through block grants) of their fiscal resources. Still woredas have not been empowered to control their own revenue sources.

To enhance economic efficiency, responsiveness and accountability it would be advantageous to take measures in such a way that can raise revenue effort of the regions. The measures should include assigning adequate bases, allowing regional states to have discretion on 'own source' taxes, and designing transfer formula in a way that encourages regions to develop their own source revenue. Deepening the decentralization process also requires giving woredas control of appropriate taxes. In relation to this user fees and charges, rural land use fee, agricultural income tax and personal income tax are recommended as appropriate sources of revenues for woredas.

Key words: Decentralization, subnational, fiscal, tax and assignment

Chapter One

Introduction

During the 1980s, the economic reforms in different parts of the world largely focused on increasing the role of the market and improving the environment in which it operates. The importance of the public sector in achieving broader objectives such as economic stability, sustainable growth and provision of public services received little attention (Ebel and Yilmaz, 2001:1). However, the underlying facts leading to market failure to provide public goods and services has necessitated the potential role of the public sector. As a result, there have been widespread attempts to redefine the potential role of the public sector and improve its performance to achieve the objectives mentioned above. An important component of these reforms is the introduction of policies to decentralize government functions (Smoke, 2001:iii).

Decentralization is simply defined as “a process of transferring political power, administrative, and fiscal responsibilities from central government to lower levels of government” (Derrese, 2003:1). However, as this author indicated, much of the literature focuses on the fiscal dimension of decentralization since inter-governmental fiscal relation is the main rationale for decentralization in general.

Fiscal decentralization deals with expenditure assignment, tax assignment, intergovernmental transfers and borrowing. It encompasses the three related process of “devolution”, “delegation” and “deconcentration ” (Bird and vailancort, 1999:3). Devolution is a process by which a central government transfers some authority to subnational governments, including ability to raise taxes and formulate expenditure budgets. Delegation is a process by which a central government transfers a responsibility for subnational governments remaining responsible for

the service and keeping the authority to take back this transfer at any time. Deconcentration refers to the transfer of responsibility for certain services to regional branch offices. It doesn't require any participation of subnational governments. Each process involves a different level of fiscal autonomy. In recent years the emphasis in many countries has been more heavily on the "devolution" version of decentralization. This assumes appropriate assignment of powers and resources to reasonably autonomous subnational governments.

As Smoke (2004:2) noted the potential benefits of fiscal decentralization can be broadly characterized as improvements in efficiency, governance and /or equity in public service delivery process and outcomes. These benefits, in turn, are often associated with medium and longer-term goals of stronger economic development and poverty reduction.

It is argued that if fiscal decentralization is to be a reality subnational governments must control their "own" sources of revenue. This leads to a question of which revenue sources can and should be assigned to sub national levels of government and how these assignments are to be effected. "Tax assignment problem" is commonly used to refer to this group of questions (Mclure 1999:3). According to this author, "tax assignment problem" is closely related to "the expenditure problem" because of the importance of benefit taxation in the finance of subnational government and the need to assure that subnational governments have revenues that are adequate to finance the functions assigned to them.

When we come to the case of Ethiopia, the federal and regional constitutions and other proclamations have laid the basis for the devolution of decision-making powers and responsibilities on fiscal matters to the regional and local (particularly woreda) governments. However, the fiscal arrangement is criticized for having a large vertical

imbalance between the revenue raising power and expenditure responsibilities of subnational governments (see World Bank (2000b), Vander Loop ed. (2002)). Such imbalance is argued to be the result of unbalanced tax assignment between the federal government and regions, and due to the inefficiencies in tax collection on the part of the regions. Therefore, this paper attempts to evaluate the effects of the intergovernmental fiscal relations in general and the tax assignment in particular, in discharging responsibilities autonomously by subnational governments.

1.1 Statement of the Problem

A series of the federal proclamations and the 1995 constitution lay the basis for the devolution of decision-making powers and responsibilities to the regional governments. Accordingly, regional governments are accorded extensive powers and functions. Regional governments also enjoy a substantial degree of fiscal decentralization. The recently revised regional governments' constitutions also further the decentralization processes to the local level by establishing the powers, duties and responsibilities of woreda governments.

The expenditure assignment to subnational governments in Ethiopia is, argued to be, consistent with principles of federal spending functions, and is close to highly decentralized systems. Regional and woreda governments have broad power to function. They have power to determine their own priorities with respect to functions assigned to them.

In principle, tax assignment is closely related to expenditure assignment because of the importance of benefit taxation in the finance of subnational government and the need to assure that subnational governments have revenues that are adequate to finance responsibilities assigned to them (McLure, 1999:3-4). Accordingly, the 1995 constitution and proclamation no. 33/1992 provide regional governments taxation

power. According to these laws the revenue bases are classified as federal, regional and joint.

However, the current fiscal arrangement in Ethiopia is being criticized for having a large vertical imbalance between the revenue raising powers of the federation and the expenditure responsibilities of the regions, which is bridged by grants (see Befekadu (1994), Vander Loop ed. (2002), Asmelash (2000) and Eshetu (1994)). The fact that regions depend much on the federal government is a result of the unbalanced tax assignment between the federal and regional governments, the lack of freedom on the part of the regions to develop their tax policies and also due to the inefficiencies in tax collection on the part of regional governments. In terms of tax assignment, it is mainly due to the concentration of larger tax bases within the federal domain, including foreign trade taxes, corporation tax and federal stump duties. The federal government also has constitutional rights to some other smaller tax bases, including taxes on income from monopolies and winnings on national lotteries and other game of chance. Regions on the other hand, have not only narrow revenue base but some of the tax categories assigned to them are not presently high yielding categories. The productivity and elasticity of the revenue base assigned to them are too small to generate a significant volume of revenue. Thus, in the current practice of fiscal decentralization high expenditure decentralization is accompanied by low fiscal autonomy, creating heavy financial dependence by regional governments on the central government (Bulti, 1994:159). Such low financial autonomy of regions may in turn, challenge regional governments to provide effective public services.

Limitation of the tax assignment only to the federal and regional governments is another problem area. Currently local/woreda governments (via the block grant) control the expenditure side of their fiscal resources but not their own revenue in most of the regions. Deepening the decentralization process to local level requires giving local

governments control of appropriate taxes. Without assigning and expanding revenue sources and introducing effective tax collection systems, regional and local governments will not be in a position to discharge the responsibilities assigned to them. This problem can be solved by strengthening subnational tax regimes. And measure to do this has to be supported by conducting researches on the area. It is in light of this scenario that this study tries to examine the case of Ethiopia.

1.2 Objectives of the Study

The general objective of this study is to identify and analyze the effects of the intergovernmental fiscal arrangements in general and the tax assignment in particular on subnational governments in Ethiopia in discharging their responsibilities, and forward the necessary recommendations on the basis of the research findings.

The specific objectives of the study are:

- a. To discuss the principles and criteria that are used in the assignment of tax revenues to subnational governments.
- b. To examine the practices of resource mobilization by levels of government from revenue sources assigned to them.
- c. To identify and analyze the fiscal relationship between levels of government in relation to tax policy and administration
- d. To investigate the impact of the tax assignment in discharging responsibilities autonomously by subnational governments.
- e. Based on the findings of the research, forward viable recommendations.

1.3 Significance of the Study

The fact that the current Ethiopian intergovernmental fiscal arrangement is based on a combination of a highly decentralized spending power with a highly centralized tax system, has given rise to much critiques. Critics argue that the present fiscal system has an adverse effect on the fiscal

autonomy of subnational governments (Befekadu, 1994:82, Bulti 1994:164). This study contributes to a better understanding of the current status and process of intergovernmental fiscal relations in general and resource mobilization from taxes by subnational governments in particular. This study, it is hoped, also contributes to a deeper understanding of the problems and possible prospects of the current centralized tax system.

Accordingly, it is expected that findings of this research would help policy makers and concerned officials reconsider the current assignment of revenue sources, mainly of taxes, to subnational governments. Furthermore, practitioners and the academicians will benefit from the findings of this research.

1.4 Research Methodology

Data Collection Method

The research utilized data and information from two sources.

Primary source: Aside from secondary sources field work was used to get additional information from primary sources. Interviews and discussions were held with federal, regional and woreda officials and other government workers. The offices and the informants that I selected were those that had connection with the topic: MoFED, FIRA, regions' BoFED and woreda finance and economic development offices in SNNP and Oromia regions. Most of the interviewees were experts in the federal offices, deputy heads and department heads of the regional bureaus, and woreda offices and section heads.

Secondary source: Recent literature on fiscal decentralization is used to introduce the theoretical part. Ethiopia's experience was investigated from official proclamations and other secondary sources such as books and articles. Data regarding fiscal issues such as revenues,

expenditures, transfers and others were collected mainly from MoFED and regional BoFED.

In addition to regional states the study includes local level governments. But to cover local level governments in all regions was impossible. Therefore, I selected two regions namely SNNP and Oromia. The selection is not random. It is based on different reasons. First, given the limited time and resources available for the study, collection of data from these regions requires less time and money compared to other regions. Second, the two regions comprise areas with different economic activities and level of development that can represent other localities of the country relatively in a better way.

Data Analysis

This study is based on descriptive analysis and the methodology combined both quantitative and qualitative types of data and information. Computation of the fiscal variables and decentralization measures were done using simple mathematical techniques. Details of the power over revenue sources assigned to regional states and woredas, and the effects of these assignments in discharging their responsibilities are also described and analyzed.

1.5 Limitations

It is difficult to get organized and well developed time series data in the regions. Most of the available data are fragmented and incomplete. Woredas are not in a good position to provide sufficient information on their fiscal issues. Data available also lack accuracy. There are also differences of figures on the same issues at all levels. Moreover, due to time shortage it was possible to handle only two regions and the center. It is difficult to totally avoid the effect of these problems on the accuracy of the study but maximum effort was made to get as correct analysis as possible.

1.6 Organization of the Study

The paper is divided into five chapters. The first chapter is this introductory part. A brief discussion of literature review will follow in chapter two. Here, topics like the concept of fiscal decentralization, tax assignment in a decentralized framework, alternative methods of tax assignment, assignment by type of tax and practices of tax assignment will be discussed. The third chapter is analyses of fiscal decentralization in Ethiopia based on the four pillars of fiscal decentralization. The fourth chapter deals with tax assignment to subnational governments. The first part of this chapter looks into the assignment of taxes between the federal government and regional states. And the second part analyzes the tax assignment between regional states and local (particularly woreda) governments focusing on two regions - SNNP and Oromia. The final chapter presents the conclusion and provides recommendations.

Chapter Two

Literature Review

2.1 The Concept of Fiscal Decentralization

Financial responsibility is the core component of decentralization. It is argued that if subnational governments are to carry out decentralized functions effectively, they must have adequate revenues raised locally or transferred from the central government, as well as the authority to make expenditure decisions. Today, many developing countries are experimenting with fiscal decentralization as a means of improving their governance and economic growth. According to the World Bank (cited in Kee, 2003: 2-3) by the mid 1990s, 62 of 75 developing nations with population of over 5 million each were embarking on some form of fiscal decentralization.

Fiscal decentralization can be defined as “the devolution by the central government to local governments (states, regions, municipalities) of specific functions with the administrative authority and fiscal revenue to perform those functions” (Kee, 2003: 2-3).

According to Kee there are three reasons for a renewed interest in fiscal decentralization as a reform.

1. Central governments are recognizing that it is impossible for them to meet all of the competing needs of their various localities, and they are attempting to build local capacity by delegating responsibilities downward to their subnational governments.
2. Central governments are looking to subnational governments to assist them on national economic development strategies
3. Subnational political leaders are demanding more autonomy and want the taxation powers that go along with them.

The potential benefit for devolving fiscal responsibility to subnational levels of government is mainly justified by allocative efficiency with the provision of public goods and services. Local preferences and needs are believed to be best met by local, rather than national governments. Information on these local preferences and needs can be extracted more cheaply and accurately by local governments which are closer to the people and hence more identified with local causes. In this respect, accountability and transparency in government actions can also be enhanced by bringing spending responsibilities closer to revenue sources (De Mello, 2000: 365).

Fiscal decentralization encompasses principles of fiscal relations between central and subnational levels of government. However, many believe that searching for the optimal level of decentralization is a complex matter. As regards to this, Ebel and Yilmaz, (2001:17) noted that

“the challenge is to design an intergovernmental system that can best achieve not only the general objectives of fiscal decentralization (efficiency, transparency, and accountability) but also maintain national integrity and political stability and equitable to different people and places”.

According to Bird (cited in Ebel and Yilmaz 2001:17), such a design is based on four pillars namely expenditure assignment, tax assignment, intergovernmental transfers /grants, and subnational borrowing / debt.

Expenditure assignment: both theory and practice strongly suggest that expenditure responsibilities need to be stated as clearly as possible to enhance accountability and reduce unproductive duplication of authority and legal challenges. On this side, decentralization draws its argument largely on efficiency grounds, though it is also argued that lower level governments have some degree of distributional and stabilization roles.

Tax assignment: Tax assignment considers which level of government should tax what (the tax base) and how. The decentralization of expenditure responsibilities brings with it the need to decentralize revenue raising responsibilities. Otherwise, as many agree, the lower levels of government would be dependent up on funding from the central government and the full benefits of decentralized decision making and political accountability would not be achieved. Kim (2000:282), for instance, argued “when major portion of the locally determined expenditures is financed by the local tax, accountability to their voters acts as a strong disciplinary primary force for rational decision making, and thus leads to efficient resource allocation.”

As the research is mainly related to this issue literature on the theory and practice of tax assignment will be reviewed in more detail in the next section

Intergovernmental transfer: An important reason for transfer is to enable subnational governments to undertake their functions satisfactorily when revenues assigned to them are found to be inadequate. The design of a transfer scheme depends on the purpose for which transfers are given. In a decentralized system the basic task of intergovernmental transfers include closing the fiscal gap, fiscal equalization, ensuring a minimum standard of public service, pricing externalities and achieving stabilization and political objectives. According to Hardy and Mihalijek, it is possible to have reverse flows i.e. from lower level governments to the center (mentioned in Eshetu, 1994:175). For various reasons, however, both political and economic, central governments usually have greater revenue raising capacity than lower level governments.

Subnational borrowing: Even with revenue and transfer arrangements in place, subnational governments may still find themselves with a short fall of revenue relative to expenditure. To bridge this gap the last resort is borrowing either in the open market or from governmental funds if such a pool is available. Subnational borrowing can be considered as an appropriate tool for subnational public finance because of three reasons: intergenerational equity, economic development, and synchronization of expenditure and revenue flows (Ebel and Yilmaz, 2001:24).

Subnational borrowing is an important component of the devolution of fiscal powers to local authorities. However, in some decentralized arrangements, borrowing is a power reserved for central governments, although some others allow subnational governments to borrow. For instance, in Czech Republic municipalities have wide discretion to borrow. They can get bank credits, loans, or issue bond while in Turkey local governments do not have borrowing power.

Based on country experiences some useful key issues are outlined. The underlying point of these issues is that central government should develop appropriate policies to ensure that financial discipline of subnational governments does not negatively influence the overall financial condition of the country. The policy may take into account the following considerations:

- Credit for projects should largely be for capital expenditure, should satisfy standard evaluation, and the implementation capacity of the concerned local government should be assessed.
- Consistency with overall total central credit should be maintained.
- Total debt outstanding as well as the amount of credit in any given year should be taken into account, and
- Debt servicing should be weighed against its average revenue (Kebre, 1994:14).

2.2 Tax Assignment

2.2.1 Tax Assignment in a Decentralized Fiscal Framework

Richard Musgrave (mentioned in McLure, 1999:14) suggests that for conceptual purposes, the functions of government should be separated into three functions or “branches”: macro economic stability, income redistribution and resource allocation. In this section we attempt to see the implications of the three-branch framework for the assignment of revenue sources among levels of government.

The stabilization function involves the use of fiscal policy or/and from the perspective of monetary policy in managing the overall level of economic activity. It is widely agreed that this macroeconomic function should be assigned to the federal government. This is true for several reasons. First, much of the stabilizing effects of policies implemented by a subnational government will “leak” out of the area. Second, subnational governments have limited power to borrow. Third, national governments generally have the power to issue money to finance deficit spending but subnational governments lack this power. This suggests that the national government must have a broad based tax suitable for this role; these are the corporate income tax and the progressive individual income tax. This is not to say, however, that there is no room for subnational governments to levy taxes on individual income (McLure, 1993:9).

Some recent studies, in developed economic settings, however, have raised some doubts on the validity of these traditional view. These studies suggest that decentralization has not undermined stability in the United States or Western European Countries. In Latin America sub national government’s contribution to the national deficit was negligible in most counties, except federal ones (World Bank, 2000a:111).

Income redistribution, like that of macroeconomic stabilization, is most effectively achieved by the central government. There are several reasons for this conclusion. (1) The national governments broad taxing can more easily redistribute income; and (2) the ability of tax payers to move from one jurisdiction to another to take advantage of more attractive spending and taxation policies weakens local governments ability to “soak the rich and redistribute to the poor” (Kee, 2003:5). The tax instruments that are most commonly used in the attempt to reduce differences in incomes are the corporate income tax and progressive individual income taxes. Subnational assignment of these taxes is not likely to achieve the intended goals of income redistribution, but distorts the geographical allocation of resources. This does not, however, imply that subnational governments should not share proportionate taxes on individual incomes (McLure, 1999:7).

Recent studies, as for stabilization purpose, have raised questions on the validity of these guidelines. Mentioned in Kim (1997:282), Good Speed, for example, argues that local governments can employ progressive income taxes to achieve some significant income redistribution with only minor loss. And Mieszkowski and Toder, claim that an energy resource tax can be employed by local government with an insignificant loss in efficiency.

The allocation function is governments’ role in deciding the mix of public and private goods that are provided by the economy or by government. Each level of government may be more efficient in delivering certain governmental goods and services.

The fiscal federalist approach assigns a significant role to subnational governments in allocating resources. This is because when the benefits of particular services are largely confined to local jurisdictions, the appropriate levels and mix of services can be set to suit local preferences.

Local consumers can express their preferences by voting or moving to other jurisdiction. In this respect, local politics can approximate the efficiencies of a market in the allocation of local public services.

To ensure accountability, it is argued that revenue means should be related as closely as possible to revenue needs. Thus tax instruments intended to further specific policy objectives should be used by the level of government that has the responsibility for such services. The central government should be responsible for expenditures having benefits that extend across subnational boundaries or that are characterized by economies of scale not realized at the subnational level. Subnational government comes into its own in the provision of goods and services characterized by limited economies of scale and limited spillover of benefits to other jurisdiction.

This framework is supposed to be most helpful in thinking about which taxes are levied at each level of government and the total tax authority of each level. It is believed that taxes are the principal source of “own source” revenue for governments at all levels. And many argue if tax collection or fiscal capacity falls short of expenditure responsibilities, then that level of government must have additional taxing authority, develop user fees, or rely on intergovernmental transfers to support its expenditures.

2.2.2 Conceptual Constraints on Tax Assignment

I. Tax Exporting

Some Taxes imposed by subnational governments are ‘exported’, that is they are borne by residents of other jurisdiction. The best examples of exported taxes are taxes on business that cannot be shifted to consumers or to labour and thus are borne by owners of business, many of whom may be non-residents. Tax exporting is generally undesirable because it imposes unfair burdens on non-residents and it also cheapens

the provision of public services in the taxing jurisdiction, encouraging over consumption (Courchene et al., 2000:97). An important exception involves taxation that is related to compensate for costs imposed on subnational governments levying the taxes (or on their citizens). In this case export taxes to users is appropriate. As to Mclure (1999:12) “under such circumstances, tax exporting is consistent with fairness and economic neutrality, as defined by the benefit principle.”

According to Bird and Vaillancort (1998:12) “‘tax exporting’ breaks the critical link between local spending decisions and the taxes borne by local residents”. Thus, they suggest, care should be taken to prevent subnational governments from exporting their tax burdens, for example, by limiting access to the taxation of business.

II Locational Distortion

If benefits of free markets are to be realized subnational governments should not impose taxes that distort the location of economic activity. The need to avoid distortions in the geographic location of economic activity places another important constraint on the assignment.

Decentralizing tax assignment as pointed out by Boadway et al. (2000: 177-178) can interfere with the efficiency of the economic union in two ways. First, uncoordinated taxation is likely to lead to distortions in markets for resources which are mobile across states, especially capital and tradable goods. Second, if subnational governments engage in socially wasteful beggar thy-neighbor policies to attract resources to their own states, the end result will simply be inefficient low taxes (or high subsidies) on mobile factors. But on the other hand, it is argued that agreements (through coordination) between jurisdiction to fix tax rates (or the imposition of uniform rates by a higher level of government) represent a form of centralization that encourages over expansion of the public sector and inefficiency. Competition among subnational

governments, it is argued, both prevents excess taxation of business and impedes inefficiency in government (Courchene et al., 2000:85). It is believed, however, benefit taxation by subnational governments does not distort the allocation of resources; indeed, it contributes to an economic allocation of resources.

2.2.3 Alternative Methods of Tax Assignment

The literature on tax assignment deals with several different tax assignment techniques. Possible techniques of tax assignment include independent legislation and administration by subnational governments, surcharges on the tax base of a higher level of government, and tax sharing. McLure (1999:20) noted that these techniques differ in the level of fiscal independence they provide subnational governments, their ease of compliance and administration, the fairness and neutrality they are likely to produce, and the degree of interjurisdictional redistribution they can provide.

Independent subnational legislation and administration. This technique provides subnational governments with the greatest sovereignty. Under this approach subnational governments choose the taxes they levy, define the tax base, set the tax rate and administer the taxes. This is essentially the situation in the United States, where neither the constitution nor federal law imposes important restrictions on the tax policy of subnational governments.

Many argued, inconsistent subnational laws and administrative practices raise the costs of compliance and administration and create inequity. Mclure (1999: 20-21), however, suggested that

“[w]ithin limits, these problems can and should be tolerated in the interest of gaining the benefits of decentralized government. But serious complexities, inequities, and distortions can and should be avoided. This objective can be achieved, without greatly compromising the fiscal autonomy of subnational

governments, through intergovernmental compacts among subnational governments or the imposition of uniform ground rules by a higher level government.”

He forwarded, as an example, rules for the definition and division of the corporate income tax base, and employment of subnational surcharge on national taxes as an alternative.

Subnational surcharge. It is considered to be an ideal system for many countries. Under this approach a higher level of government defines the tax base and collects both its own tax and surcharges set by subnational governments. This approach ideally avoids the problems of complexity, inequities, tax exporting, and locational distortions inherent in subnational choice of tax bases and administration of taxes. It is agreed that subnational surcharges appear to be the most appropriate means of providing subnational governments with own marginal revenues in many countries, especially developing countries and countries in transition, where administrative resources are scarce.

Tax sharing.¹ In this approach one level of government collects the revenue from a tax and shares it with one or more other levels of government. In tax sharing subnational governments have essentially no control over the choice of taxes, tax base, tax rates, or tax administration. This approach severely restricts fiscal autonomy of subnational governments.

2.2.4 Assignment by Type of Tax

The relevance of tax assignment principle varies from tax base to tax base. The following section looks into candidates or potential sources for subnational revenues more or less in order of preference.

¹ Tax sharing is different from revenue sharing. Unlike tax sharing, revenue sharing returns funds to subnational governments on the basis of formulas, instead of to the jurisdictions of origin. Like tax sharing, it provides no subnational autonomy over the choice of taxes, the definition of the tax bases, the setting of tax rates and tax administration (Courchene et al., 2000:102)

User Charges

There are powerful arguments for charging for services. Some of the arguments include better links can be achieved between consumption and cost through cost recovery charging systems; user charges may contribute to simplifying mainly of the present intergovernmental problem partly because user charges are applicable at all levels of government; responsiveness to customers may be achieved through cost recovery mechanisms (Fjeldstad, 2001:7). It is also argued that user charges may have the following potentials (Ibid).

- improving resource allocation;
- controlling the possibility of ‘crowding out’ by imposing a uniform basis for competition which allows alternative suppliers in the non governmental area to develop and survive;
- stimulating a closer response of service producers to customer demands which in turn should raise quality and remove unnecessary production; and
- improving social equity and environmental policy by incorporating the social costs of externalities.

There are, however, serious problems with establishing and increasing user charges for public services. These include political sensitivity; difficulty of choosing among marginal cost, average cost and by bride pricing schemes that have different implications for cost recovery and efficient resource use; a reluctance to raise charges over time, such that revenues may fall below costs in times of inflation; and equity concerns about the effects of changes on the poor (smoke, 2001:25). Based on successful reforms in a number of countries smoke (Ibid) suggests the following principles for user charges to provide substantial resources to support fiscal decentralization programs in efficient way. First, it is most appropriate and easiest to charge for services that have some private characteristics. Second, even for more “public” goods, some level of charges can be appropriate to establish a link between consumption and

costs and to efficient use of scarce resources. Forth, public education and consultation schemes are normally required to get people to accept new and increased user charges. Fifth, user charges invariably need to be phased in over time to prevent harsh equity effects, undesirable charges in patterns of service use, administrative and political resistance and so on.

Property Tax

Taxes on real property are most appropriate sources of local government revenue. The major reasons for this conclusion are real property is immobile across jurisdictions so the efficiency costs of using it as a tax base are low; many benefits of local public services accrue to property owners, so it is a kind of benefit tax; the burden of the tax is not easily exported; it is a tax on wealth and is highly visible in the local area; and a local assessors have a comparative advantage in identifying local property wealth (Bahl, 1999:9).

It is, however, agreed that property tax is known to suffer from a variety of obstacles, inequities and inefficiencies, particularly in developing countries. Even though property tax can potentially be a major revenue producer, it rarely produces significant revenue because of some problems. The property tax base is inelastic, despite growth in the physical size or value of property, because old valuations are not updated and new properties not identified. The administration is costly and inefficient.

The assignment of property taxes varies across developing countries. In Indonesia, property taxes are central government responsibility, whereas in Brazil, china and Philippines the responsibility is shared among federal, state and local governments. In most other developing countries such as Bangladesh, Colombia, Mexico Nigeria papua New Guinea and Thailand it is a solely local responsibility.

Developing countries also frequently levy agricultural land taxes. Taxes based on land area, the market value of agricultural land, the productivity potential and market access of the land have been used as a source of central government revenues in many developing countries. These taxes are more suitably assigned to local governments (Boadway et al., 2000:188).

Excises

Excise taxes are argued to be a good candidate for assignment to the states. Different reasons are given for this argument. Excises are reasonably assigned to the states under the principle of subsidiary in taxation and because they are relatively visible, they would help ensure accountability of state officials (Diaz et. al., 2000:185-186). As to McLure (1999:16) since the consumption of certain goods and services that are commonly subject to excises are closely related to benefits of public services or to public costs imposed by private actions, these taxes are sometimes agree with the implementation of the benefit principle. Another argument forwarded by Boadway et. al. (2000, 184) is that specific taxes are unlikely to cause serious disruption to the efficiency of the internal economic union or major misallocations of labour and capital if they are levied on a destination basis. If they are levied on an origin basis, businesses can avoid the tax by moving else where, unless the product taxed depended up on a local resource, for example, taxes on oil and gas. In relation to this Diaz et. al. (2000:183) also indicated that taxation by producing states is likely to result in inappropriate exporting of tax burden to residents of other states.

Smuggling from states with low excises to states with high excises is presented as a primary administrative problem. It is likely to be problematic in the case of high value low volume products. As a solution to this problem Diaz et. al. (Ibid) suggested the federal government to impose floors, below which excise rates can not go, caused by

competition among states seeking to attract sales of products they know are intended for smuggling to other states and to protect local sellers from the onslaught of products smuggled from other states, where they are subject to lower taxes.

Personal Income Tax

In lower income countries, the coverage of the personal income tax is quite limited and its role as a redistributive element of the fiscal system is further clouded by wide spread tax evasion (Boadway et al., 2000:180). So it is argued by the authors, under such circumstances, an exclusive federal role for personal income tax is difficult to justify. And they suggested that while the federal government may impose a progressive income tax structure, access to flat charges on the federal base should be given to subnational governments. Bahl (1999:7) also argues that it would be sufficient for the local government to choose an add-on to central government tax rate, because to achieve the advantages of decentralization, the local government need not set the base of the tax.

As many agreed, in the case of individuals who do not work where they live, it seems that assignment to the location of residence is generally more appropriate than assignment to the place of employment. The justification for this argument is that most services provided to households are consumed where people live, not where they work. However, it may be difficult to implement residence based subnational income taxes. First, subnational governments where income originates have little incentive to implement such taxes on behalf of jurisdictions of residence. Second, if income tax rates differ greatly across nearby jurisdictions there is an incentive to report residence in a low tax area. Of course these could be avoided if all jurisdictions were required to levy similar tax rates. But, as some argue, this would defeat one of the

objective of fiscal decentralization, the ability of subnational governments to determine their own tax rates.

General Sales Tax

Policy analysts agree that sales taxes are much better candidates for decentralization to the states especially if significant revenue sources are required. This is because of different reasons. First, given the relatively low degree of mobility of households, sales taxes (levied on destination basis) are likely to be much less distorting than taxes on mobile bases like capital. Second, since sales taxes are not significant instruments for redistribution, little equity is lost from decentralizing them to the states (Boadway et al., 2000:182)

These days the value added tax (VAT) is the most important form of general sales tax found in most countries (including Ethiopia). Until very recently a central VAT is considered to be the only good VAT by many tax analysts. Independent subnational VATs were considered infeasible and/or undesirable because of various reasons. As mentioned by Bird (1999:13) some emphasized the possible loss of macro economic control and the general reluctance of central governments to share VAT room; still others emphasized the problems arising from cross boarder trade. With respect to such trade the argument was that subnational VATs were, if levied on an origin basis, distortionary, and if levied on a destination basis, unworkable. The experience of Brazil was cited to appreciate these problems.

Bird (Ibid), however, questioned this opinion from different perspectives. First, it seems highly desirable to decentralize some important revenues in order to break the two sides of the budget, since there appears to be a worldwide trend towards decentralizing some important governmental expenditure function. Second, sales tax is in principle a perfectly logical revenue source for regional governments. And third, in a number of

countries, sales taxes already constitute the major source of finance of intermediate governments.

The first country to introduce a full flaged VAT was Brazil (Guerard, mentioned in Bird, 1999:15). In Brazil the federal government levies a manufacturer level sales tax, states are assigned a broad based credit method VAT, and municipalities administer a service tax. Under the credit method VAT inter state sales are taxed on the origin principle (at a 12 percent rate for north-south and 7 percent for south-north transactions) and international trade is taxed on a destination basis. However, Brazil encountered problems with this subnational application of a restricted origin-principle VAT. In international trade as imports enter through the south and a disproportionate amount of exports exit through the poor northeast states, most of the revenues are collected by the richer states and export rebates are given by the poorer states. The use of the credit method VAT as a tool for state industrial development also is an emerging area of major potential interstate conflict. Some northeastern states are offering a 15 year tax deferral to industry. Unless such tax liabilities are indexed, it is argued, they could wipe out all tax liabilities in a highly inflationary environment such as Brazil (Boadway et. al., 2000:183). To solve these problems an extremely complicated system of differential rates, depending on the destination of trade with in a country, and compensating payments between states has been developed by Brazil. As quated by McLure (1999:27) poddar concludes most of the complications in the Brazilian VAT system relate to the origin principle of the tax.

To solve these problems Boadway et al. (2000: 183) suggested single stage state sales tax. However, some analysts agree that a properly structured dual VAT of the type being used in Canada and the province of Quebec, in which the central and subnational governments both rely on the VAT is feasible for implementation in most countries (see McLure,

1999; Bird, 1999). The Quebec Sales Tax (QST) and the federal VAT (Goods and Services Tax or GST) as they now exist in Canada constitute an operational “dual VAT” system with essentially none of the problems usually associated with such systems. According to Bird and Gendrom (cited in McLure, 1999:29) the tax of the federal government serves as a cross check to ensure that QST has not been evaded on interprovincial trade.

Based on a Canadian experience Bird (1999:22) suggested that with good tax administration it is perfectly feasible to operate a VAT at the sub national level on a destination basis, at least for large regional governments. As to him what is critical is either a unified audit or a very high level of information exchange. But when there is no good tax administration, a promising approach suggested by him is to impose what is in effect a supplemental central VAT which is labeled as “compensating” VAT or CVAT. This proposal is believed to have an advantage of protecting the revenue when tax administration is far from well developed. Because it reduces the risk that house holds (and unregistered traders) in any state can dodge VAT by pretending to be registered traders located in other states.

The CVAT is supposed to be implemented as follows. States would zero rate not only international but interstate sales, but the inter state sales would be subject to be central CVAT (as well as the central VAT).² Domestic sales would thus be subject to central VAT and either state VAT or central CVAT. In this case it is assumed that generally there would be no need for inter state clearing of tax credits. Registered purchasers in the other states would of course be able to credit CVAT against central VAT. The results of this system are considered to be the

² This implies the central government would collect a CVAT in addition to the central VAT. The rate of the CVAT might be the weighted average of the subnational VAT rates (McLure; 1999:29)

same as in the GST/QST case because a destination subnational VAT is applied, but the CVAT now, it is argued, acts to protect state revenues from some obvious frauds.

Corporate Income Tax

Many tax analysts forward a strong case for making corporation income tax a federal responsibility. Several difficulties are mentioned in allocating the tax base of corporations among the jurisdictions where they operate. The first one is that the company income tax base is cyclical and therefore not suitable for financing essential services (Bahl, 1999:7). Second, as long as the income tax of the states are not uniform corporations have an incentive to have their income taxed in the jurisdiction where it is treated most favorably. There are well known techniques for shifting income between jurisdictions. A firm may well have an incentive to engage in transfer pricing or financial and book transactions to shift its profits around to reduce its tax burden (Boadway et al., 2000:181). Third, the allocation of profits between affiliated firms or parts of firms, and therefore between jurisdictions, is to some extent arbitrary. This also leaves room for tax payers to choose the solution most favorable to themselves (McLure, 1993:12).

Choosing a common definition of income, a common formula, common ways to measure the factors in the formula, and a common definition of taxable entity could be taken as a solution to eliminate much of the problem. However, McLure recommended that “[g]iven all this uniformity, it makes no sense to have totally decentralized administration; centralized administration is far more sensible” (Ibid)

The determination of the corporate tax base and rate structure in most developing countries is a central government responsibility. But in china it is a joint responsibility of the center and the provinces. Administration of the corporate tax is the sole responsibility of subnational governments

in this country; it is a joint responsibility of national and subnational governments in Pakistan and Russian federation.

2.3 Practices of Tax Assignment

As indicated by Ebel and Yilmaz (2004:3) Bird noted that despite variations in the historical, social and cultural evolution of the society, the arrangement of intergovernmental financial system in many countries reveals certain broad patterns, such as the existence of inadequate “own resources” of subnational governments to finance the expenditure functions, and the lack of subnational sovereignty to levy taxes that are capable of yielding enough revenue to satisfy local needs.

Subnational governments don't have adequate level of “own revenue sources”. The revenue which is under direct control of local governments is invariably less than their expenditure needs. This is the case in both unitary and federal countries. The vertical imbalance is financed by intergovernmental transfers. On the other hand, striking variations appear in the size and capacity of subnational governments in all countries. This variation includes big differences interms of revenue sources across subnational units in almost every country. Additionally, subnational revenues are not adequately responsive to changing needs and subnational governments lack the legal authority to levy some taxes that yield enough revenue to meet their needs. For instance, income and property taxes are usually seen as major sources of revenue for subnational governments. However, since it is costly and difficult to administer well, the collection of property tax is problematic in most developing countries. Even well administered local property tax can not finance major social expenditures such as education and health except perhaps in the richest communities. Furthermore, taxes that expand with economic activity and spending needs is entirely assigned to central governments in many countries (Ebel and Yilmaz, 2001:6).

Interms of revenue shares high income countries are more decentralized than others. Shah (2004:18) noted that in developing and transition economies centralization of taxing power is much more seen than would be based on economic considerations. In some countries such as Mexico and Pakistan, as he stated, the national government raises more than 90% of consolidated public sector revenues. Subnational governments in sub Sahara African countries have the lowest level of revenue shares compared to other regions of the world (Ebel and Yilmaz, 2001:12). This creates a variety of problems. The first problem is that there is a significant vertical imbalance between expenditures and revenues at all levels of government, with consequent implications for autonomy, efficiency and accountability. The second problem is that the present system results in considerable costs of administration, costs of compliance, and costs arising from tax-induced inefficiencies in the allocation of scarce resources (Bird, 1999: 8-9)

Shah (2004:19) indicated that subnational own revenues constitute about 7.9% of GDP in transition economics and 5.5% of GDP in developing countries in 1999. In transition economies on average sub national governments raise 18.4% public sector revenues and in developing countries they raise slightly less above 16.6% in 1997. Subnational revenues financed 55% of subnational operating expenditure in transition economies and 40% of the same in developing countries. The rest of financing is covered by shared taxes, transfers and borrowing. Finally he concludes that in these countries “overall tax decentralization remains an unfinished agenda” (Shah, 2004:19).

Chapter Three

Fiscal Decentralization in Ethiopia

After the fall of the “Derg” regime in 1991, the EPRDF (Ethiopian People Revolutionary Democratic Front) led government of Ethiopia established a federal system of governance, which is built along ethnically based regions. Along with the alignment of duties and responsibilities between the tiers of government, the new government rearranged the fiscal system. This chapter tries to examine the practice of the fiscal system since the beginning of decentralization in 1991. But to have a better understanding on the fiscal system the existing government inherited when it assumed power, the first part of the chapter briefly looks into the pre-1991 fiscal system of the country.

3.1 Pre- 1991 Fiscal System

In Ethiopia fiscal policy is said to have been instituted when the ministry of finance was established in 1908 under the Minelik era. However, a relatively comprehensive and modern fiscal system was introduced by Emperor Haile Sellasie after his restoration to power in 1941 (Eshetu 1994:167). This section attempts to review the pre-1991 fiscal system in Ethiopia starting from the Imperial regime when modern fiscal system is believed to be introduced.

3.1.1 Fiscal System in Haile Sellassie Regime

As stated above modern fiscal system was introduced in Ethiopia at the time of Emperor Haile Sellasie. The necessity of modernizing the country entailed a need to exploit available and additional sources of revenue. That need has been expressed and realized by the issuance of subsequent laws that required citizens to pay their share of the cost of the modernization. The statutory basis for all the tax proclamations during

this period were the 1931 constitution of Ethiopia, which later on was revised and became the revised constitution of Ethiopia in 1955; and the power being given to the ministry of finance. Of the articles of the revised constitution, article 88 was most frequently cited one as to tax proclamations. According to this article, all laws duly approved by both chambers of parliament shall receive the approval and signature of the Emperor (Ministry of Finance, 1997:2).

Of the various duties and responsibilities the ministry of finance had, the following were important in matters related to taxes:

- a) ensure that tax laws were properly enforced and that all revenues due from different types of taxes were properly assessed, collected and accounted for;
- b) ensure that the fiscal system of the government was appropriate, and was regularly reviewed to make sure that it met the needs of economic and social development.

During this regime developments in tax system and structure had taken place. Tax laws changed over time with changes in the development of the economy. Income tax, land tax, education tax, health tax, road tax, stump duty, and customs and export duties were types of taxes that were levied during this period.

As regards to expenditure, the allocation of public resources to the various functions of government and to the different regions of the country had been decided at the center. The ministry of finance did have branches in the regions, but these were merely its administrative branches essentially to facilitate its tasks of revenue collection and expenditure administration.

In some areas, however, it is reported that decentralized system of governance was attempted during this period. The first one was

municipal-related governance. The second area of decentralization refers to a proclamation that allowed establishing a local education board in each province (except Addis Ababa) to let the provinces manage the development of elementary schools through bearing their expenditure from their own education tax. The third attempt was to decentralize local government, i.e, to empower Awrajas to make decisions and to carry out functions in the field of education, public works, water supply, agriculture and community development, trade and commerce and other fields in their jurisdiction. But all these decentralization attempts were hardly implemented (Gebrehiwot, 2000:2, 3)

3.1.2. Fiscal System in the “Derg” Regime

Although Derg operated in a significantly different political framework from that of the imperial regime, the practice of centralism continued to even greater lengths. Even regions that were established to be autonomous in the last few years of the Derg era were not designed to bring in meaningful devolution of power from the center to regions. Both autonomous and administrative regions were not created in a way to have broad political administrative and fiscal decentralization. They were given limited powers and functions.

During this period, the taxes were similar to those imposed during the imperial regime except that the proclamations related to different components of taxes were the amendments of the previous laws. However, during the ‘Derg’ regime as a whole there was an increase in the coverage of tax bases and tax rates owing to the need to raise more revenue to support war efforts and to finance the ever growing public sector and needs of the society for public goods and services.

Though laws changed over time, they applied uniformly to all regions of the country and were largely implemented by branch offices of the ministry of finance. The allocation of resources to the various public

functions and to the different regions of the country had also been decided at the center like that of the previous regime.

Table 1 below shows share of revenue collected from various regions of the country and share of expenditure spent in each of the regions of the country during the year 1979-1989.

Table 1:- Share of the central government and regions in national revenue and expenditure (1979-1989).

Region	Percentage share in national	
	Revenue	Expenditure
Addis Ababa	70.60	85.33
Shoa	3.90	2.11
Harar	3.72	1.54
Eritrea	9.00	2.00
Keffa	0.69	0.82
Ellubabor	0.33	0.52
Arsi	0.54	0.56
Gonder	0.55	0.89
Bale	0.26	0.58
Tigrai	0.31	0.89
Sidamo	1.13	1.11
Gojjam	1.02	1.00
Gamo Gofa	0.31	0.53
Welega	0.70	0.84
Wello	1.13	1.11
Assab	5.81	0.18

Source:- Wegene, 1994: 39, 45.

As can be seen from Table 1 of the total revenue collected by the government between 1979-1989, about 70.6 percent was collected by the central government in Addis Ababa. Eritrea and Assab collected 14.6 percent which is half of the revenue collected by all regions (excluding the center).

Shoa and Harar collected 3.9 and 3.7 percent of the total revenue, respectively, followed by Sidamo, Wello and Gojjam whose revenue share of the total was not that far from one percent each. Kaffa, Gonder and Arsi located between 0.5 and 0.7 percentage share. The rest, Illubabor,

Tigrai and Gamo Gofa contributed 0.33, 0.31 and 0.26 percent respectively to the total government revenue in this period.

On average out of the total government expenditure made between the years 1979-1989, 85.33 percent was spent by the central government. As regards to regions, the larger share of public sector spending was received by Eritrea and Shoa whose share for each was more than 2 percent. Harar, received 1.54 and Sidamo and Wello received 1.1 percent each, while Gojjam received 1 percent of the total. The rest received less than 1 percent each, Arsi being the least receiving only 0.56 percent.

Table 2:- Average ratio of revenue collection to recurrent expenditure of regions (1979-1989).

Region	Share (in %)	Region	Share (in %)
Shoa	1.18	Tigrai	0.26
Harar	1.66	Sidamo	0.73
Eritrea	3.09	Gojjam	0.75
Keffa	0.61	Gamo Gofa	0.41
Illubabur	0.39	Welega	0.60
Arsi	0.65	Wello	0.76
Gondar	0.43	Asseb	45.24
Bale	0.31		

Source:- Wegene, 1994:47.

Table 2 above shows percentage share of regionally collected revenue to recurrent expenditure. As it is shown in table 2, Assab, Eritrea, Shoa and Harar were able to cover their total recurrent expenditure and transfer to the central treasury. The revenue collected from the other regions was insufficient. Therefore, during those ten years Sidamo, Wello and Gojjam were subsidized 27, 24 and 25 percent of their expenditure (on average) respectively. During this period Tigrai received 74 percent of its expenditure which is the highest.

3.2 Post-1991 Decentralized Fiscal System in Practice

As indicated in the previous section it was highly centralized model of territorial government prevailing in Ethiopia before 1991. Therefore, after the fall of the Derg regime when it assumed power in 1991, the transitional government of Ethiopia inherited highly centralized system of administration and finance. However, starting early in its rule and continuing thereafter the EPRDF-led government has been pursuing a policy of decentralization.

Some conceive government's decentralization policy as a novel undertaking. For instance, it was argued that

“[g]iven the diversity of our people and the recent turbulent history of our country, the logic of decentralization is a compelling one. Ethiopian society must construct a political framework that provides sufficient space to all its constituents. This is an objective which excessive centralism cannot fulfill.” (Eshetu, 1994:iii).

As regards to the political model the government implemented, i.e., the ethnic based decentralization is not free from criticism. In relation to this, comparing Ethiopia's demarcation of regional governments which follows a clear ethnic basis with that of South Africa's which were instead created to dilute the power of central government Brosio (2000: 14,15) commented that the close link between states and local governments in the Ethiopian system may make secession easier. Supporters of the government, however, argued such right guarantees the unity of the country. Gebrehiwot (2002:39) also tried to strengthen this argument by saying “the one-decade ethnic based federalism experience has so far neither produced new tendency to nor proved the disintegration of the country.”

Putting these as an introduction, the next sub sections try to examine the practice of fiscal decentralization focusing on the four pillars of intergovernmental fiscal relations. First, an attempt will be made to

assess the legal framework for fiscal decentralization and governance structure of the country.

3.2.1 Legal Framework for Fiscal Decentralization

The first legal framework for a decentralized system of governance was the Charter which set up the Transitional Government of Ethiopia (TGE, 1991). The Charter guaranteed the right of nations, nationalities and people to self determination; the right to administer own affairs within defined judiciary; meaningful participation and fair representation in the central government. The next significant legislative act was proclamation No. 7/1992 which provided for the setting up of national regional self governments (TGE 1992). This law provided for a new administrative structure made up of a central government and regional states. It also defined the powers of three-tiered government-central, regional and woreda.

In addition to the above proclamations, the most important legal instrument in connection with fiscal decentralization is proclamation No. 33/1992 (TGE, 1992). This proclamation defines the sharing of revenue between the central government and regional governments. It also sets the objectives of revenue sharing and the principles used in the sharing of revenue sources. Finally, it categorizes revenue sources as central, regional and joint (shared between the center and regions). The assignment of functions and revenue sources are also restated in article 51, 52, 96, 97 and 98 of the federal constitution.

To ensure direct participation of the people, in 2001 the government of Ethiopia reorganized its structure to deepen and broaden the decentralization process to woredas and kebeles by transferring a number of responsibilities including fiscal empowerment from regional governments to woredas and kebeles. The recently amended

constitutions of regional states have paved the ground to undertake the decentralization process at local level.

3.2.2 Governance Structure

For Brosio (2000:12) the potentialities and the problems of a decentralized system derive from the specific territorial structure of government. As to him, if too many layers of government are created, political and administrative costs will sour.

The decentralized system has created a four-tier government in Ethiopia: the federal government, regional states, and zonal and woreda administrations. At the regional level the country is divided into nine states and two special city administrations. Zones, the level of government below the region, are mentioned in the constitution as structure to be used for “administrative convenience”. They are deconcentrated units of regional governments (except SNNP region). They have no elected councils and depend on regional governments.

Woredas, the lowest level of elected and full-time government structure are considered to be the key local units of government. They are considered to be the key local units of government because they are central in prioritizing and provision of public services at the local level. Below woreda, communities further organize themselves in smaller electoral units known as Kebeles.

In some federal systems municipalities are creatures of the provinces or states and are not even mentioned in the constitution (Courchene et al 2000:85). The constitution of Ethiopia also makes no mention of the municipal level. It is the regional states that define and govern municipalities. So they constitute a separate system in Ethiopia. This governance structure of Ethiopia is criticized by Brosio (2000:14). As to him, the structures in Ethiopia form a rather complex system, which is

clearly quite expensive and cumbersome, given the lengthy command channel.

3.2.3 Intergovernmental Fiscal Relations

As Bird and vaillan court (1999:15) noted, the way in which any country organizes its public sector invariably reflects its history, its geography, its political balance, its policy objectives, and other characteristics that vary sharply from country to country. Nonetheless, since almost all countries have more than one level of government, they necessarily have some kind of intergovernmental fiscal system. This sub-section tries to assess the intergovernmental fiscal relations prevailing in Ethiopia.

3.2.3.1 Expenditure Assignment

In unitary system of governance subnational governments are not constitutionally empowered to make decisions over a specified range of government functions and services. Federal governments on the other hand have constitutionally protected subnational levels of government. Accordingly the pre-1991 fiscal system featured a rigidly centralized system of public spending authority in the hands of the central government. Even functions of a purely local nature such as rural infrastructure and education were financed and carried out from the center. In marked contrast to this, the new federal arrangement, calls for the transfer of expenditure responsibility to the regional government in a way consistent with the decentralization trend.

Choosing the mix of public sector activities that best suit the taste and needs of citizens in a local area, providing the services in a more cost effective way by adopting the method of delivery to local circumstances, and allowing citizens to express more directly their concerns about service provision are some of economic benefits decentralization is expected to provide in the areas of spending and service delivery (Guigale

et al., 2000:11). To realize these benefits both theory and experience strongly suggest that expenditure responsibilities need to be stated as clearly as possible to enhance accountability and reduce unproductive duplication of authority and legal challenges. In this regard, the federal constitution assigns expenditure responsibilities to the regional states and central government (see annexes 1 and 2). Article 94 of the constitution also mentions the following three guidelines for public expenditure policy.

- (a) “The federal government and the states shall respectively bear all financial expenditures necessary to carry out all responsibilities and functions assigned to them by law”
- (b) “The central government may grant the state emergency, rehabilitation, and development assistance and loans, due care being taken that such assistance and loans do not hinder the proportionate development of states” and
- (c) “The federal government shall have the power to audit and inspect the proper utilization of subsidies it grants to the states.”

The first guideline gives the states the duty and the right to plan and implement their own development policies, while the last two establishes the federal governments role as supporter and mentor of regional states.

Table 3 presents the share of federal and regional states in total expenditures during 1993/94-2003/04. These data show that Ethiopia has undergone decentralized spending over the past eleven years. Although the federal government still claims the lion’s share of consolidated expenditures, its share decreased from around 63.8 % in 1993/94 to 59.8 percent in 2003/04. The trend was not monotonic. The expenditure share of regional states increased over time, but in unsteady fashion. The regional states share was close to 40.7 in 1996/97 up from 36.2 percent in 1993/94. But the share declined in the next two

consecutive years. This is due to a significant rise in defense expenditure as Ethiopia was at war with Eritrea. The regional expenditure share started to recover immediately after the war ended.

Table 3:- Federal and regional shares in public expenditure

Year	Expenditure (in mln Birr)			Expenditure (% share)	
	National	Federal	Regions	Federal	Regions
1993/94	6,427.6	4,102.6	2,325.0	63.8	36.2
1994/95	8,868.1	5,656.9	3,211.2	63.8	36.2
1995/96	9,456.8	5,659.7	3,797.1	59.8	40.2
1996/97	12,050.9	7,727.5	4,323.4	64.1	35.9
1997/98	11,373.3	6,740.2	4,632.8	59.3	40.7
1998/99	14,262.0	9,499.3	4,762.7	66.6	33.4
1999/00	16,951.9	12,416.6	4,535.3	73.2	26.8
2000/01	16,295.3	10,764.8	5,530.5	66.1	33.9
2001/02	18,175.3	12,240.4	5,934.9	67.3	32.7
2002/03	15,577.5	9,351.7	6,225.8	60.0	40.0
2003/04	18,461.2	11,037.8	7,423.4	59.8	40.2

Data Source: MoFED

As can be seen from Table 4, the composition of regional governments recurrent expenditure indicates much of the regions spending have been allocated for social services sector particularly education and health both in 1993/94 and 2003/04 followed by administrative and general services sector (the share of which increased from 21.5 percent in 1993/94 to 31.0 percent in 2003/04) and economic service which accounted for 15.5 percent in 1993/94 and 19.4 percent in 2003/04. As regards to capital expenditure more than half of it has gone to the economic development sector followed by social development sector. In 1993/94 these two sectors together accounted for more than 94 percent. But in 2003/04 their share declined to 77.4 percent.

Table 4:- Distribution of recurrent and capital expenditure of regions and federal government, 1993/94 and 2003/04 (in %).

	Regions		Federal	
	1993/94	2003/04	1993/94	2003/04
Recurrent expenditure	100.0	100.0	100.0	100.0
Administration and general ser	21.5	31.0	35.1	61.7
Economic services	15.5	19.4	6.5	6.3
Social services	53.8	46.1	10.8	11.4
Other expenditure	9.2	3.5	47.6	20.6
Capital expenditure	100.0	100.0	100.0	100.0
Economic development	50.6	51.0	83.8	64.4
Social development	43.5	26.4	12.4	29.3
General development	5.9	22.6	3.8	6.3

Data source: MoFED

In the case of the federal government considerable amount of the recurrent expenditure had gone to other expenditures in 1993/94 (47.6%), followed by administration and general service which accounted for 35.1 percent. When we come to capital expenditure, much of the federal spending earmarked to economic development both in 1993/94 and 2003/04 (though the share decreased from 83.8 percent in 1993/94 to 64.4 percent in 2003/04), followed by social development (the share of which increased from 12.4 percent in 1993/94 to 29.3 percent in 2003/04).

Table 5:- Per capita public expenditure by regions for selected years

Region	Per capita expenditure (in Birr)	
	1994/95	2003/04
Tigray	94.98	104.91
Afar	69.26	154.89
Amhara	49.88	66.15
Oromia	48.41	90.97
Somali	34.64	72.43
Benishangul	151.31	308.86
SNNP	54.03	84.71
Gambela	274.68	488.72
Harari	286.57	466.11
Addis Ababa	183.59	518.60
Dire Dawa	105.36	177.62

Data Source: MoFED and CSA

Data in Table 5 reveal wide per capita expenditure variations among regions, ranging from Birr 34.64 for Somali to Birr 286.57 for Harari in 1994/95. The variation has been more widened in the year 2003\04 ranging from 66.15 Birr for Amhara to 488.72 Birr for Gambella. The recent year figure implies the transfer of considerable amount of national resources to the emerging regions with the objective of narrowing socio-economic disparities.

3.2.3.2 Revenue Assignment

There is a strong argument that if fiscal decentralization is to be a reality, subnational governments must control their own sources of revenue. Accordingly, the 1995 federal constitution and proclamation No. 33/1992 provide regional governments taxation power. This proclamation, which is the most important legal instrument in connection with fiscal decentralization, defines the sharing of revenue between the central government and regional states. It also sets the objectives of revenue sharing and the principles used in the sharing of revenue sources. Finally it categorizes revenue sources as central, regional and joint (shared between the center and regions). The assignment of revenue sources is also restated in article 96, 97 and 98 of the constitution with minor adjustments. According to the laws, the federal government and regional states are levying and collecting revenues from their own sources.

When we come to local level governments below regional states, though they (particularly woredas) are empowered to control the expenditure side of their fiscal resources, they are not empowered to control their own sources of revenue yet.

Being the main theme of this research, the next chapter is entirely devoted to thoroughly discuss policies and practices of tax assignment between levels of government. For detailed discussion on this issue see the next chapter.

3.2.3.3 The Federal Grant System

Virtually all countries have intergovernmental transfer programs. This is because almost without exception countries assign more expenditure functions to subnational governments than can be financed from the revenue sources allocated to them (Fjeldstad, 2001:8). In the case of Ethiopia too, given the deficiency of regional own source revenues relative to assigned regional expenditures, federal transfers play a critical role in closing the fiscal gap, as well as in alleviating interregional resource disparities.

I. Evolution of the Grant System

In Ethiopia intergovernmental transfer has been started since 1992/93. The formula determined federal transfer, however, was introduced in 1994/95. Till then the practice was ad-hoc in nature. Box 1 on the next page shows the evolution of grants from federal government to regions in Ethiopia during 1992/93- 1997/98.

The grant formula designed to serve for three consecutive years (2000/01- 2002/03), following the 1997/98 formula, is composed of four indicators: 55% population, 10% for poverty, 20% for expenditure need, and 15% for revenue raising effort and sector performance (11 and 4 percent respectively). The prime objective of the revision was to cover the portion of each region's expenditure needs that cannot be covered with its own revenue source (Melkamu, 2004:54).

Following the 2001 formula, a new one was designed that was intended to serve only for the year 2003/04 as a transition period. This was done with the expectation of applying a new formula, then after, based on the assessed data of regions fiscal capacity and their expenditure needs (based on Australian experience). The formula served for the transition period, however, continued serving for the next fiscal year (2004/05).

Box 1. Evolution of Intergovernmental Transfer in Ethiopia: 1992/93-1997/98

Central government transfer to regions in Ethiopia first begun in 1992/93, when grants were ad hoc in nature, based on approved projects of the regions and an assessment of required assistance for the individual projects. Formula determined grants date back only to 1994/95, when a fairly complicated formula was used to allocate grants among the regions. Grants for capital expenditures of the regions were determined on the basis of the five indicators: population (30 percent); I-distance representing a region's relative development based on eight factors against a hypothetical regions (25 percent); tax efforts (20 percent); capital expenditure in the previous year (15 percent) and area (10 percent). Recurrent expenditures grants were determined on the basis of the number of administrative units at the sub-regional levels, the structure of bureaus and offices, and own revenues of the regions.

1995/96 saw considerable simplification of the formula to determine the total expenditure enveloped for the regions. Only three factors population, I-distance and budgeted state revenues were used, each having equal weight.

In 1996/97, the formula substituted the I-distance with a development index comprising five indicators (number of health clinics, number of primary schools, number of telephone lines, electricity consumption and road length).

In 1997/98, the formula was changed in terms of weighting, with population given a weight of 60 percent, development index a weight of 25 percent and the revenue effort variable a weight of 15 percent. The development index was re-estimated on the basis of six underlying factors: education level, health sector indicator, road density, electricity consumption, water supply and telephone coverage.

The formula then reads:

$$TR_i = TR \times (0.60 \times POP_i / POP + 0.25 \times D_i / D + 0.15 \times [(REV_i, t-1 / BUD_i, t-1) / (REV_{t-1} / BUD_{t-1})])$$

Where;

TR _i	= Transfer to region i
TR	= Total of transfer over all regions
POP _i	= Population of region i
POP	= Total population over all regions
D _i	= A composite inverted development index, which for region i is equal to 6/ (E _i +H _i +R _i +E _{li} + TE _i +W _i). The official title for this index is "Index for the combined indicators of the level of development of a region"
D	= sum of the values of the D _i over all regions
E _i	= Index for the combined indicators for the education in region i (made up of three equally weighted sub-components: average class size, pupil-teacher ratio, and primary and secondary school participation rate as percentage of age cohort)
H _i	= Index for combined indicators for health in region i (made up of six equally weighted sub-components: number of clinics, number of doctors, number of nurses, number of health assistants, number of hospital beds, and mortality rate under-fives)
R _i	= Index of road density in region i (road length per km ²)
E _{li}	= Index of electric power sales in region i (KWH per thousand people)
TE _i	= Index of telephone lines density in region i (telephone lines per thousand people)
W _i	= Index of coverage of safe drinking water in region i (percentage of people with safe drinking water)
REV _i , t-1	= Planned own revenue raised by region i in prior year (since it is "own" revenue it excludes the region's share of joint revenue with the federal government)
BUD _i , t-1	= Planned budget for region i in the year prior to the year
REV _{t-1}	= Sum of planned own revenue of all regions in the prior year
BUD _{t-1}	= Sum of planned budget of all regions in the prior year.

Source: - World Bank (2000b:29)

II Distribution of Grant Transfers Among Regions

Although the shares are not completely equivalent to their share in the total population, as can be seen from Table 6 below, the formula allocates higher shares to those states with large population size such as Amhara, Oromia, and SNNP.

Table 6:- Shares of regions in federal transfer payments

Regions	% of population 1	Shares of regions		
		1993/94 2	1997/98 3	2003/04 4
Tigrai	5.8	8.83	7.66	7.63
Afar	1.8	3.70	5.04	3.62
Amhara	25.6	22.12	19.20	22.38
Oromia	35.2	28.14	25.29	31.34
Somale	5.8	4.36	7.57	6.32
Benishangul Gumuz	0.8	2.70	3.63	3.05
SNNP	19.8	15.41	15.90	20.28
Gambela	0.3	2.05	2.80	2.25
Harari	0.3	0.77	1.78	1.45
Addis Ababa	3.9	10.99	10.04	-
Dire Dawa	05	0.93	1.08	1.58
Total	100.00	100.00	100.00	100.00

Source:- 1,2,3 Vander ed. (2002:52), 4 own computation based on MoFED data base.

Table 7 presents the transfer of grant in 2004/05 on per capita basis. The table shows the less developed or 'emerging' regions receive higher subsidy on per capita basis. For example the per capita share of regions such as Afar, Benishangul, Gambela and Harari are the highest. This indicates that the grant system has a substantial redistributive effect.

Table7:- Total and per capita transfer payments to regions for the year
2003/04.

Region	Federal transfer (mln Birr)	Per capita transfer (Birr)
Tigray	318.0	92.9
Afar	180.8	139.1
Amhara	1,116.9	61.6
Oromia	1,564.0	62.3
Somale	315.7	76.8
Benishangul Gumuz	152.3	258.2
SNNP	1,012.1	71.9
Gambela	112.4	480.3
Harari	72.5	392.1
Addis Ababa	3.5	1.3
Dire Dawa	79.1	213.9
	4,990.3	70.2

Data source: MoFED and CSA

III. Shortcomings of the Federal Grant System

The federal grant system in Ethiopia has been criticized for having the following limitations.

1. The allocation of grants is relatively equity biased. With regard to managing to narrow the horizontal fiscal imbalance among regions, there should be a shift to efficiency based grant system (Gebrehiwot 2002: 60, 61). Tegegn (cited in Vander (ed), 2002:54) also suggested that in the long run it is better to develop the regional and local capacities by developing their own resource base and granting them full rights to mobilize and utilize resources and reduce the degree of dependence in resource generation.
2. The grant formula which was intended to provide the regions as incentive to their revenue effort instead were creating disincentive for better revenue effort, because regions' revenue had been deducted from the gross subsidy so as to determine the net transfer (World Bank, 2000b:30).
3. The grant formula has followed a less transparent system. Direct foreign assistance, which is extensive in some jurisdictions is not included when the size of the grant is determined (Fieldstad,

2001:10). Regions' participation in designing grant formula is also minimal, though it is argued that they have representation through the house of federation.

4. The grant formula and the variables included in the components have been changed frequently. Frequent changes in the formula for allocation without provisions for compensating those sub national governments whose allocation decreases in absolute terms as the result of the change will result in a difficulty to draw up medium and long term socio-economic plans by regions.
5. Electric consumption per '000 in KW, telephone line subscribers and asphalt road area density as elements of development level indicator (in 1994/98) is criticized for having nothing to do with expenditure needs of regions, such public utilities being carried out by the federal government. Many need based indicators such as educational and health related variables (secondary school students participation, primary and secondary school students ratios to teachers and sections, drinking water coverage etc) are excluded. The argument here is more inequality and need indicators should have been incorporated (Gebrehiwot, 2000:63).
6. The size of federal grant pool is determined on ad-hoc basis. The federal government decides the amount of grant distributed to regions every year. This method of determining the size of grant pool has different disadvantages. Regions could not predict and plan their expenditure budget properly, and it gives the federal government more freedom to influence on regions.

3.2.3.4 Borrowing

Even with transfer mechanisms indicated above, to fill the revenue expenditure gap, subnational governments may still find themselves with inadequacy of revenue relative to expenditure. The last resort is borrowing either from domestic and/or foreign sources.

In Ethiopia regional governments are granted the right to borrow from domestic sources. Domestic borrowing by regional governments, however, has been under conditional based control. The conditionality based control is clearly articulated in proclamation No. 33/1992. The proclamation indicates that regional governments can exercise their right to borrow from domestic sources according to the following procedures. Regions submit to the ministry of finance and economic development the loan amount they would want to borrow along with statements showing the relation of the requested amount to their revenue forecast, economic indicators of their region, their consolidated budget and the feasibility study of the project for which the loan is required.

The next procedure is assessment of the loan request submitted by regions. The ministry to which the request is submitted evaluates the request based on the debt payment capacity of regions and the impact of the regions borrowing on the overall national deficit.

A number of questions, however, are raised on the clarity of the proclamation. For instance, the law failed to address issues like who the final decision maker would be, who the borrower is (whether the loans would be finally made available by the National Bank of Ethiopia or passed to other banks and other financial institutions). The other problem of the proclamation is the failure to mention the instrument of debt-treasury bill or bond (Befikadu, 1994:74).

Though it is advisable, given the weak fiscal position of regions, to use borrowing as a means of supplementary source of fund for the investment of important projects, regions have not made use of their borrowing right so far. However, some regions have provided credit-the concurrence of the federal ministry of finance-to farmers in the form of loan guarantees to commercial banks using their borrowing right in indirect way (World Bank, 2000b:33)

Chapter Four

Tax Assignment to Subnational Governments in Ethiopia

Once functions are assigned between the central and subnational governments, the primary task is one of distributing to each level of government revenue sources that will enable it to discharge the functions it has been assigned. The question, then, is which revenue sources can and should be assigned to subnational levels of government and how these assignments are to be effected. This group of questions is commonly called “the tax assignment problem”.

Despite the fact that the theoretical backgrounds and general principles of tax assignments are useful in intergovernmental fiscal relations, practical experience shows that country specific factors have a significant role to play. In the case of Ethiopia, proclamation No. 33/1992, which defines the sharing of revenue between the central government and regional states was replicated in articles 96, 97 and 98 of the constitution with minor adjustments. These laws make no mention of subnational governments below region. But this is taken to mean that regional states define and govern levels of governments below them. For instance, article 79 (2) (h) of the constitution of Oromia regional state provides woredas to utilize their own revenue sources.

This chapter attempts to evaluate the tax assignment among the levels of government in Ethiopia. The discussion will be presented in two parts. The first part looks into the assignment of revenue sources between the federal government and regional states. And the second part examines the assignment of revenue sources between regional states and local (particularly, woreda) governments. The second part of our discussion focuses on two regional states-SNNP and Oromia.

4.1 Tax Assignment Between the Federal Government and Regional States.

The 1995 federal constitution and proclamation No. 33/1992 define the sharing of revenue between federal government and regional states. Proclamation No. 33/1992, the major legislative act to define revenue assignment between the federal government and regional states, deals with both tax base sharing and revenue sharing. According to the proclamation, the objectives considered by the government are enabling the regions to carry out the responsibilities assigned to them, encouraging regional initiatives, narrowing the development gap between regions, and promoting activities that are of common interest to regions. The proclamation also stated the criteria employed in assigning revenue sources. They are ownership of sources of revenue, the national or regional character of the revenue sources, convenience of tax levying and collection, levels of development and considerations of the integrated and balanced development of the economy. The proclamation and the constitution also categorized revenue sources as federal, regional and joint as indicated below.

Revenue sources of federal government

Revenue sources of federal government include:

- Duties, taxes and other charges levied on the importation and exportation of goods;
- Personal income tax collected from employees of the central government and international organizations;
- Profit tax, personal income tax and sales tax collected from enterprises owned by the central government;
- Taxes collected from national lotteries and other chance winning prizes;
- Taxes collected on income from air, train and marine transport activities;

- Taxes collected from rent of houses and properties owned by central government; and
- Charges and fees on licenses and services issued or rendered by the central government.

Revenue sources of regional states

The following are revenue sources assigned to the regional states:

- Personal income tax collected from employees of the regional government and employees of private enterprises;
- Rural land use fee;
- Agricultural income tax collected from farmers not incorporated in an organization;
- Profit and sales tax collected from individual traders;
- Tax on income from inland water transport;
- Taxes collected from rent of houses and properties owned by the regional governments;
- Profit tax, personal income tax, sales tax collected from enterprises owned by the regional governments;
- Income tax, royalty and rent of land collected from mining activities; and
- Charges and fees on licenses and services issued or rendered by the regional governments; and
- Forest royalty.

Shared revenues between the federal government and regional states

Joint revenues that are shared between the federal government and regional states are:

- Profit tax, personal income tax and sales tax collected from enterprises jointly owned by the federal government and regional states;
- Profit tax, dividend tax and sales tax collected from organizations that carry out business activities; and
- Profit tax, royalty and rent of land collected from large scale mining, any petroleum and gas operations.

In reviewing the literature we have discussed different methods of tax assignment: independent subnational legislation and administration, tax sharing and subnational surcharge. Each of these techniques differs one with the other in the level of independence it provides subnational governments, its ease of compliance and administration, the fairness and neutrality it is likely to produce, and the degree of inter jurisdictional redistribution it can provide. It is observed that the first two techniques are applied in the assignment of taxes between the federal government and regional state.

Regional states have independent legislation and administration power on agricultural income tax and rural land use fee. This shows the application of the first technique. This technique provides regional states with the greatest power, so that they have defined the tax bases, set the tax rates and administer the taxes. Regions enjoyed this power because these sources of revenue are exclusively assigned to them. But revenue from these sources is not expected to grow significantly without increases in productivity and raising the rate at which agricultural income is taxed. So the full power of regions on these taxes has no significant effect in determining the level of spending.

Their power on other taxes such as personal income tax, business profit tax etc, however, is limited by the constitution and other laws.³ The reason for this is the assignment on other taxes between the federal government and regional states is, to a considerable extent, structured according to tax payer categories (by splitting tax bases) rather than by types of taxes. For instance, as stated above personal income tax is assigned to the regional states and the federal government based on type of employers. Income tax from employees of the federal government and federal public enterprises is taxed by the federal government. On the

³ Article 58 of the financial administration proclamation No. 57/1997 of the Federal Government of Ethiopia states "Tax systems at the federal and regional levels shall have harmonized and standardized tax bases."

other hand employees of private enterprises and employees of regional states are taxed by regions. Limiting regional states to define tax bases and set tax rates is justified by the need to harmonize the tax system between the federal government and regional states.

From interviews and discussions made with MoFED and regional (SNNP and Oromia) BoFED officials it is learnt that currently bases and rates of taxes, whose base is splitted between the federal government and regional states, is decided by the federal government. But before decision has been made discussion with regional states is made on draft policies to incorporate views and opinions of the regions. Policies or laws issued by the federal government through such a process are also legislated by the regional councils without any significant changes. In this case the possibility of imposition of the federal interest over the regions is very high. Besides, it is hardly possible to produce a tax policy that fits all the regions which are found in different socio-economic situations.

Independent legislation and administration of subnational government, however, is not recommended. It complicates the tax system in a country because inconsistent state laws and administrative practices raise the costs of compliance and administration and create inequity. Use of source based taxes such as the corporate income tax distorts the geographic allocation of resources and may result in tax exporting (Courchene et. al., 2000:102).

The other tax assignment technique applied in Ethiopia is tax sharing. In this approach one level of government collects the revenue from tax and shares it with one or more levels of government. In the case of Ethiopia the federal government (through FIRA) is responsible to collect and transfer the share of regions. As regards to these taxes, individual regional states of Ethiopia have autonomy over how to spend a given amount of revenue, but not the power to alter the amount of revenue

they receive from these taxes: thus, they cannot control the level of public spending. This is because regional states have no control over the choice of tax rates and administration. This approach, as a result, severely restricts fiscal autonomy of the regional states.

According to the constitution, the power to decide on the share of federal and regions from shared taxes is the House of Federation. Accordingly, the House of Federation has decided that of the total collection from these taxes, direct taxes are shared between the regions and the federal government on a 50:50 basis, while for indirect taxes the ratio is 30:70, respectively. However, according to the information given by Oromia and SNNP regional BoFED revenue from joint taxes has not been properly transferred to regional states. Related to such problems McLure (1999:9) commented where there is subnational risk that the higher level of government collecting revenues will not remit them to the subnational government, effective ownership is reduced. Regions also blame FIRA for inefficient tax collection. FIRA is carrying out its tasks in the whole country with only five branches (Addis Ababa, Dire Dawa, Nazereth, Awassa and Bahir Dar). Officials of FIRA didn't deny the existence of the problems in the collection and transfer of shared taxes. According to them FIRA is now undertaking different activities as part of the tax reform program that strengthens its capacity. These activities include opening of new branches in different areas of the country. Regions also have not still established any mechanism to control the transfer of their share.

The other tax assignment technique, which is considered an ideal system for many countries but not applied in the assignment of taxes between the federal government and regional states in Ethiopia is subnational surcharge. Under this approach a higher level of government defines the tax base and collects both its own tax and surcharges by subnational governments. This minimizes the costs of administration

and compliance. In this method, subnational governments would exercise the all important choice of tax rates, but most of the complexity, inequalities tax exporting and location distortions inherent in subnational choice of tax bases and administration of taxes would be reduced (Courchene, 2000:201). Subnational surcharges provide the optimal combination of subnational autonomy and simplicity. But independent legislation and administration are too complicated, and tax sharing eliminates all subnational autonomy.

Therefore, Ethiopia should gradually move toward subnational surcharge for this approach appears to be the most appropriate means of providing subnational governments with own marginal revenues where administrative resources are scarce. Furthermore, because of their power to set surcharge rates, subnational governments also retain the most important attribute of fiscal sovereignty in the tax field. A combination of surcharges with revenue sharing from federal taxes can be implemented since tax surcharges may produce horizontal fiscal disparities and vertical fiscal imbalance.

4.1.1 Trend and Composition of Regions and Federal Government Revenue

As indicated in Table 8, for both the federal government and regional states, tax revenues are the major sources of revenues. In 1993/94 these revenues accounted for 79.2 percent for the federal government and 76.4 to regional states. In 2003/04 these revenues contributed 80.6 percent to the federal government total revenue and 70.1 percent to the total revenue of regional states. However, the components of the tax revenues show different pictures for both the federal government and regional states. Foreign trade taxes are most important to the federal government, contributing about 40% in 1993/94 and 48.6% in 2003/04. Direct taxes which include personal income tax, rental income tax, business profit tax, agricultural income tax and rural land use fee are important sources

of revenues to the regions, accounting for 60.5 percent in 1993/94 and 58.2 % in 2003/04.

Table 8: Trends in the composition of revenues with in federal government and regions 1993/94 and 2003/04 (in %)

Types of Revenue	1993/94			2003/04		
	Regions	Federal	National	Regions	Federal	National
Tax Revenues	76.4	79.2	78.7	70.1	80.6	78.3
Direct Taxes	60.5	16.3	24.2	58.2	15.0	24.6
Personal income tax	16.0	5.4	7.3	20.7	2.8	6.8
Rental income tax	0.3	-	-	1.6	-	0.4
Business profit tax	29.9	10.9	14.3	11.2	8.8	9.3
Agricultural income tax	7.7	-	1.4	4.5	-	1.0
Rural land use fee	6.6	-	1.2	3.7	-	0.8
Tax on chart	-	-	-	4.5	-	1.0
Other direct taxes	-	0.1	0.1	12.0	-	5.2
Indirect taxes	14.2	22.9	21.3	11.9	17.0	15.8
Excise tax	-	8.5	7.0	0.2	3.8	3.0
Sales tax on goods	7.9	11.9	11.2	3.6	9.3	8.0
Services sales tax	1.2	1.1	1.1	4.8	3.4	3.7
Stamp sales and duty	4.9	1.4	2.0	3.3	0.6	1.2
Foreign trade taxes	1.8	40.0	33.2	-	48.6	37.9
None tax revenues	23.6	20.8	21.3	29.9	19.3	21.7
Total	100.00	100.00	100.00	100.00	100.00	100.00

Data source: MoFED

The share of indirect taxes which comprise excise taxes on locally manufactured goods, sales tax on goods and services, and stamp sales and duties declined for both levels of government. The share of these taxes for the federal government dropped from 22.9 percent in 1993/94 to 17 percent in 2003/04. The share of these taxes for regional states also declined from 14.2 percent to 11.9 percent over the same period of time.

Non-tax revenue which consists of charges and fees, sales of public goods and services, government investment income, pension contribution (only for 1993/94) and other miscellaneous revenue of regions increased

from 23.6 percent in 1993/94 to 29.9 percent in 2003/04 while that of the federal government decreased from 20.8 to 19.3 over the same period of time.

The importance of different types of taxes varies across regions. For instance of all the tax revenues that regions generate on their own, personal income tax was most important source of revenue to Amhara, Afar, Benishangul Gumuz and Gambella in 1993/94. In 2003/04 too, this source of revenue was the largest source to Tigriai, Afar, Oromia, SNNP, Benishangul Gumuz, Gambella and Harari. In 1993/94 Oromia, Somali, SNNP, Harari, Addis Ababa and Dire Dawa generate most of their revenues from business profit tax. This source of revenue continued to be most important to Somali and Dire Dawa in 2003/04. Sales tax on goods, exceptionally, accounts for the largest part (27%) to Tigrai in 1993/94. Currently tax on chat is becoming important source of revenue to some regions of the country. For instance, in 2003/04 this tax was the second largest source of revenue to Oromia (17.7%) and Harari (23.7), and the third largest revenue source to SNNP (12%). If agricultural income tax and rural land use fee are taken together they were the largest source of revenue to Amhara region in both years. These sources of revenue also contribute significant share of revenue to Oromia, SNNP and Tigrai regions. Taking all regions together business profit tax (29.9%) and personal income tax (20.7) were the largest sources of revenue in 1993/94 and 2003/04 respectively (for details see annex 5).

4.1.2 Revenue Share and Financing Capacity of Regions

The regional states of Ethiopia have been levying and collecting revenues according to revenue source arrangements stated in proclamation No. 33/1992 and the 1995 constitution. It is commonly argued that the adequacy of revenue collected from the assigned sources will determine the fiscal position or autonomy of the subnational governments.

Table 9:- Revenue share of the federal government and regional states by sources, 1993/94 and 2003/04.

	1993/94			2003/04		
	National total(mln Birr)	Federal share (%)	Region' share (%)	National total (mln Birr)	Federal share (%)	Region' share (%)
Direct taxes	945.21	55.5	44.5	3430.51	47.6	52.4
Personal income tax	283.72	60.7	39.3	948.00	32.4	67.6
Rental income tax	1.98	-	100.0	52.81	3.9	96.1
Business profit tax	557.71	62.7	37.3	1303.04	73.5	36.5
Agricultural income tax	53.61		100.0	138.35	-	100
Dividend and lottery income tax	2.63	95.8	4.2	58.30	96.9	3.1
Royalty				6.50	-	100
Capital gains tax				16.75	-	100
Rural land use fee	45.56	-	100	114.08	-	100
Urban land lease				185.57	-	100
Chat tax				139.48	-	100
Withholding tax				447.56	64.4	35.6
Indirect taxes	834.11	88.2	11.8	2208.64	83.4	16.6
Excise tax on goods	274.28	99.9	0.1	419.14	98.8	1.2
Sales tax on goods	436.29	87.4	12.6	1114.94	90.1	9.9
Service sales tax	44.67	80.6	19.4	513.23	70.9	29.1
Stump duty and sales	78.87	56.5	43.5	161.33	37.3	42.7
Foreign trade taxes	1297.16	99.1	0.9	5275.90	100.0	-
Tax revenue	3076.48	82.7	17.3	10915.05	80.2	19.8
Non tax revenue	832.33	80.3	19.7	3021.56	69.4	30.6
Total domestic revenue	3909.31	82.2	17.8	13936.61	77.8	22.2

Data Source: MoFED

Table 9 shows the share of the federal government and regions in generating domestic revenue (tax and non-tax revenue). In 1993/94 the share of revenue collected by all regions was only 17.8 percent, 82.2 percent of the aggregate national revenue being collected by the federal government. In 2003/04 regional states revenue share reached 22.2 percent increasing by 4.4 percent. Due to the light change, the federal government still received the largest share by generating 77.8 percent of the national aggregate revenue. This is mainly because of the concentration of larger tax bases with in the federal domain. The federal

government dominates indirect taxes, the most lucrative sources of revenue. As can be seen from Table 8, indirect taxes constituted 54.5 percent and 53.7 percent of domestic revenue and 69.3 percent and 68.6 percent of tax revenue in 1993/94 and 2003/04 respectively, of which only about 11.8 percent and 16.6 percent is left to regions in the fiscal years indicated. Among the indirect taxes the entire revenue from foreign trade taxes (which constituted 37.9 percent of national domestic revenue and 48.4 percent of national tax revenue in 2003/04) accrues to the federal government. Besides, indirect domestic taxes that account for 15.8 percent of the national aggregate add up to the federal government, its share being 83.4 percent. The regions were left with a little more than 16 percent of this revenue.

Generally, the above discussion clearly indicates that the present distribution of tax revenue is heavily tilted toward the federal government. This shows the dominance of the federal government in revenue generation capacity, and hence led the regional governments to extensively rely on transfers from the federal government. Regional governments' own revenue is very limited to cover their expenditure needs.

Table 10 depicts financing capacity of regions. As the table shows, out of the total recurrent and capital expenditure by all regional states in 1993/94 only 29.9 percent was covered from their own revenue. In 2003/04, the figure rose by 11.2 percent which means 41.1 percent of the total expenditure by all regions was financed by regional states own revenue indicating slight improvement over eleven years time.

Table 10:- Financing capacity of regions: Ratio of regions revenues to regions expenditures, 1993/94 and 2003/04 (in %)

Regions	1993/94		2003/04	
	Ratio to regions revenue to		Ratio to regions revenue to	
	Recurrent expenditure	Total expenditure	Recurrent expenditure	Total expenditure
Tigrai	37.3	19.3	33.9	29.2
Afar	15.7	8.9	12.6	9.4
Amhara	25.7	20.1	31.9	26.6
Oromia	37.6	29.6	30.9	25.7
Somale	112.9	70.4	28.9	16.8
Benishangul G.	12.8	6.6	30.8	22.9
SNNP	25.1	20.1	25.1	20.6
Gambella	16.7	9.1	10.1	8.3
Harari	34.6	34.6	29.2	20.0
Addis Ababa	112.2	71.6	241.4	112.4
Dire Dawa	96.7	96.0	72.1	56.1
All regions	41.2	29.9	55.2	41.1

Data Source: MoFED

The position of regions in financing capacity is not the same. There are differences. For example, Afar and Gambella financed only less than 10 percent of their total expenditures from own revenue both in 1993/94 and 2003/04. Addis Ababa city administration covered its expenditure from its own, followed by Dire Dawa which financed 96 percent and 56.1 percent of its expenditure from its own in 1993/94 and 2003/04, respectively. The ratio for Somali, Dire Dawa Oromia and Harari in the first year exhibited high percentage points not because their revenue capacity was higher than ever, but their public expenditure was low (World Bank, 2000b:26). In 2003/04 revenue of Tigrai, Amhara, Oromia, SNNP, Harari and Benishangul Gumuz covered 20-30% of their expenditure. Most of the emerging regions (Afar 9.4%, Gambella 8.3%, and Somali 16.8%) exhibited least financing capacity.

The difference in financing capacity of regions can be explained by different reasons. First, there is a big variation in the level of economic and infrastructure development among regions. The availability of

revenue sources more or less depend on the level of industrialization and expansion of trade and urbanization. In general these are at low level in Ethiopia. In this regard regions like Tigray, Amhara, Oromia and SNNP are placed in a better position than other regions (particularly that of Afar, Benishangul Gumuz, Gambela and Somali). Secondly, though natural and human resource utilization of available resources is a common problem to all regions, the so-called emerging regions have relatively weak administrative capacity and institutions. Adequacy in the availability of professional and experienced manpower is more problematic to these regions than others. In general, those which have sufficient administrative and institutional capacity, relatively developed infrastructure and sufficient local resource base, enjoy a relatively better degree of autonomy and independence than those with serious shortages of trained manpower and resource.

4.1.3 Vertical Fiscal Imbalance

Vertical fiscal imbalance refers to the mismatch between the revenue raising capacity and the expenditure need of different governmental units. Assignment of expenditure and tax responsibilities is typically considered independently. Given that, the central government has a comparative advantage in raising revenues and the states are relatively better placed to deliver public services, vertical imbalance is implicit in the assignment itself (Rao, 1999:90). This tendency is strengthened in developing countries due to capacity limitations with respect to tax administration. Additionally, for the purpose of equity the federal government needs to hold some resources over and above those required for its own expenditures to distribute them among the subnational units in a way that would promote equity (World Bank, 2000b:24). These all leads to vertical inbalance.

Vertical imbalance is computed as⁴

$$1 - [(R^s/R) / (E^s/E)]$$

where R^s= State revenues

R= Aggregate revenues (federal plus states)

E^s = State expenditures

E = Total expenditure (federal plus states)

The value can be called coefficient of vertical imbalance or index of subnational autonomy. It measures the degree of control exercised by the federal government over subnational governments. The implication is that, a coefficient of zero i.e. low vertical imbalance shows that the regions are satisfactorily autonomous in their fiscal decision making. This occurs when the revenue and expenditure share of the regions becomes the same. On the contrary, a coefficient close to one indicates absolute federal control over regions. This takes place when the regions revenue share in the aggregate is extremely small in comparison to their expenditure share.

Table 11:- Trends of vertical fiscal imbalance in Ethiopia, 1993/94-2003/04.

Year	Revenue			Expenditure			Vertical fiscal imbalance
	Regions (mln Birr)	National (mln Birr)	Regions' share (%)	Regions (mln Birr)	National (mln Birr)	Regions' share (%)	
1993/94	695.48	3,909.31	17.8	2,324.97	6,427.64	36.2	0.51
1994/95	886.42	5,787.05	15.3	3,211.22	8,868.12	36.2	0.58
1995/96	1,129.24	6,822.58	16.6	3,797.03	9,456.76	40.2	0.59
1996/97	1,360.55	7,476.57	18.2	4,323.44	10,429.23	41.5	0.56
1997/98	1,593.24	7,856.73	20.3	4,633.08	11,373.33	40.7	0.50
1998/99	1,538.48	8,702.38	17.7	4,762.66	14,261.96	33.4	0.47
1999/00	1,767.97	8,953.79	19.7	4,535.36	16,951.92	26.8	0.26
2000/01	1,874.23	9,949.12	18.8	5,530.46	16,295.31	33.9	0.45
2001/02	1,875.44	12,058.94	15.6	5,934.93	18,175.32	32.7	0.52
2002/03	2,118.76	11,053.84	19.2	6,225.78	16,681.78	37.3	0.49
2003/04	3,088.25	13,936.61	22.2	7,515.25	19,712.85	38.1	0.42
average	17,928.06	96,506.92	18.6	52,794.18	148,634.42	35.1	0.47

Data Source: MoFED

⁴ The formula is adopted from world Bank (2000b: 25). Different formulas are used by different scholars to measure vertical imbalance. It is noted that vertical imbalance refers to only state/ provincial/ regional governments (Rao, 1999:91).

Table 11 presents the trend of vertical fiscal imbalance computed based on the above formula using data from 1993/94 -2003/04. The vertical imbalance on average is 0.47 for the time period indicated above. The vertical imbalance is considered high with regions being responsible on average for close to 35 percent of spending but raising only less than 19 percent of the domestic revenue.

A significant rise in defense expenditure led to a very large decline in the share of regional governments' expenditure in the total national expenditure and hence huge decline in vertical imbalance in 1999/2000. This is because Ethiopia was at war with the neighboring Eritrea at that time. The increment in defense expenditure decreased the payment of transfers that should have been distributed to the regional states. Therefore, it should be noted that the improvement in the coefficient of vertical imbalance is because of the decline in expenditure share (as the share in revenue is more or less constant) of regions. Though still high, vertical imbalance has been generally declining over time during 1993/94-2003/04.

It is argued that a high level of vertical imbalance could lead to different problems. One is the inefficiency problem. There is a reduced incentive to provide public services in an efficient manner since the costs of public expenditure are not fully internalized by the regions and are supported by transfers from other parts of the country. In this case, the tax burden of public services is usually lower than the cost of services supplied privately. This may, in turn, distort the public private mix of services (World Bank, 2000b:25).

The other problem is that since high degree of vertical imbalance implies low control of regions over financial resources, which leads to high fiscal dependency of lower government levels, it makes the political devolution nominal and dilutes regions' autonomy. Furthermore, high

level of vertical imbalance challenges the realization of economic efficiency, responsiveness and accountability because it weakens the capacity of subnational governments to provide relatively quality and adequate public services to their constituencies (Gebrehiwot, 2000:52).

4.2 Tax Assignment Between Regional States and Local Governments

One of the underlying arguments for fiscal decentralization is that local governments know the need of the local people and can efficiently identify and address their citizens needs. In particular those public functions which are limited to the boundary of the local government, should be managed more efficiently when the government is closer to the people.

To facilitate effective decentralized control of spending, therefore, local level governments need to control their own revenue sources. It is strongly argued that local governments that lack independent sources of revenue can never truly enjoy fiscal autonomy. If so, are local governments in Ethiopia controlling their own revenue sources to autonomously discharge their responsibilities? The following section attempts to examine this issue taking the case of two regions- SNNP and Oromia.

Since woredas are considered to be the key local units of government in prioritizing and provision of public services at local level, due attention will be given to this level of government in the discussion.

4.2.1 Governance Structure of SNNP and Oromia Regions

SNNP and Oromia regional states were established during the transition period, SNNP region being a coalition of five regions (region 7, 8,9,10 and 11). Their establishment later on has been enshrined in the 1995 federal constitution. In accordance with the power constitutionally devolved to

member states of the federal government of Ethiopia, the two regions proclaimed their regional constitutions. To indicate particularly the separation of power between state organs and make them more transparent and accountable the regions revised their constitution in 2000 and 2001.⁵

According to the revised regional constitutions the regions are structured in four tiers. The regional states are the highest hierarchy. And zonal (and special woredas in the case of SNNP), woreda and kebele administrations make up the second, the third and the fourth tiers of government in the regions respectively. The regional states councils (the legislative organs of the states) are also given power by their constitutions to establish other administrative structure if necessary.

The regional states in these regions have three state organs. The state council⁶ serves as the legislative body of the state. The executive power of the state vested in the administrative council which is accountable to the council of the state. The regions judiciary power is vested in courts of the regions.

In Oromia region zones, the level of government below the regional state, are structured for administrative convenience. They are the deconcentrated units of the regional state. They have no elected councils. In the SNNP region, however, zonal administration is an elected body. The three organs of the state are replicated at zonal and special woreda level.

Woredas are considered to be the key local units of government in both regions. They consist of an elected council (the highest authority of the

⁵ The revised constitutions are ratified by proclamation No. 25/2001 of the SNNP region and proclamation No. 46/2000 of Oromia region

⁶ In addition to the state council SNNP region has council of nationalities which has different functions of which interpreting the state constitution is one.

woreda), administrative council (the highest executive organ of the woreda) and woreda court. Below woreda communities are further subdivided in to smaller electoral units known as kebeles. This lowest level of government also comprises elected council, executive organ and social court.

4.2.2 Functions Assigned to Woredas

The powers and functions of SNNP and Oromia regions emanate from article 52 of the federal constitution (see annex 2) . All powers and functions including taxation power that are accorded by the federal constitution are restated in the constitutions of the two regions (see annex 3 and 4). The regional constitutions also accord local governments to exercise self rule. They have the right to form legislative, executive and judicial bodies, to decide on all matters that affect their destiny.

The main constitutional powers and duties of woredas in the two regions are:⁷

- Implement the policies, laws, directives, plans and programs of the state in the woreda;
- Preparing, approving and implementing plans and programs with regard to economic development, social services and public administration;
- Protect, preserve and develop the natural resources, mobilize the populace for development activities;
- Maintain peace and security in the woreda;
- Collect agricultural income tax, land use fee and other taxes;
- Utilize revenues other than those that fall with in the domain of regional state. Only the constitution of Oromia region provides this power to woredas. The constitution of SNNP is silent about this issue.

⁷ These powers and duties are stated in article 79 and 85 and article 93 and 98 of the revised regional constitutions of Oromia and SNNP respectively.

As indicated above the constitutions lack to define specific expenditure assignments to local governments. Problems may arise due to the failure to precisely define expenditure assignment between the regional and local governments. Some of the problems are: difficulty to formulate tax assignment between the regional state and woreda government, eroding accountability, crating confusion which level of government is responsible for which public service provision, leaving room to the regional states to interfere in local government internal affairs, and generally hindering local governments to play roles as an effective grass root development actors.

As woreda officials mentioned in discussions with me, in practice woreda governments do engage in social, economic, administrative, security and social court affairs. For instance in social sector woreda governments establish and administer primary and secondary schools; primary health care and clinical services in health posts and health centers. They provide extension services to farmers in relation to agricultural activities; develop small springs on spot, hand pump; construct community road and so on in the area of economic sector.

4.2.3 Source of Finance to Discharge Decentralized Functions to Woredas

Since decentralization activities started in 2001 to woredas, they have not been given power over revenue sources. Regional states control over all revenue sources available to the regions which mainly comprise revenue collected by the regions (including revenue collected by woredas) and grant transferred to the regions from the federal government. The budget ceiling for each woreda is approved by the regional states.

The sources of finance for woredas to run the decentralized functions are:

- Revenue collected by woredas: woredas are delegated to collect revenues as a budget source. Every woreda is forced to collect revenue planned to it by the regional states as part of its ceiling to cover the woreda budget. Planned revenue collected by woredas is included in the total regional budget envelope, and the revenue collected by woredas in excess of their ceiling is transferred to the regional states.
- Grant transferred from regional states: The difference between the total woreda budget ceiling and revenue planned to be collected by the woreda is transferred from the regional state to woredas as subsidy.

In the two regions finance to woredas is allocated using different methods. In Oromia region during the last fiscal years (2001/02-2003/04) subsidy to woredas has been distributed using three parameters. These are; size of population (60%) level of development 30% and effort made to raise revenue 10%. In addition, subsidy is also distributed to 20 municipalities of the region in 2004/05 based on (a) the assumption that 100% of existing state function offices are staffed with the required number of man power (b) expenditure made to school and health services in those towns for a month of Ginbot 2004 multiplied by 12 months was used as a basis to estimate 2004/05 budget for these sectors.

In the case of SNNP regional state after the total amount of money for each levels of government is decided, the total sum of woredas and municipalities is divided in to recurrent and capital. The recurrent budget is distributed among woredas (and municipalities) based on unit cost for services of each unit of out put. Data used as a bench mark for the calculation of unit costs, for instance, for 2005/06 are:

- 2003/04 expenditure of woredas
- 2003/04 existing commitments/sectoral physical data of woredas and municipalities

- 2005/06 sectoral targets of woredas and municipalities.

Capital budget, on the other hand, is distributed among woredas (and municipalities) based on development index comprising education level, extension service for agriculture, health sector indicator, road density and water supply.

Though, it is said that fiscal decentralizations to woredas has taken place in the two regions since 2001, the above discussion clearly indicates that woredas are empowered only the expenditure side of their budget, but not to control their own revenue sources. Even revenue collected by woredas is planned by regional states not by woredas themselves. Every Woreda is forced to realize revenue planned by regional states as part of its ceiling to cover the woreda budget. From this one can understand that planning and decision making process taking place in the regions is top down which is contrary to the principle of a decentralized decision making process.

Because of this woredas are practically facing different problems. Revenue planned by regional states mostly could not be realized. The reason for this, as discussants from all my interview woredas informed me, is that the planned revenue is beyond the capacity of woredas. As a result the woredas have failed to implement planned and budgeted programs and activities.

Other than planning there are also other problems in all woredas with regard to revenue collection. First, due to the low level of economic development of the country (particularly of rural areas) the potential of woredas to generate revenue is very limited. On the other hand, because of different administration and capacity problems woredas could not exploit the existing potential itself. As mentioned by most of the woreda

officials lack of trained manpower,⁸ inadequate finance and low level of tax payers' awareness on taxation are the major problems to raise the woredas revenues. To solve these problems some efforts have been undertaken as part of the tax reform program. Some of these are providing training to workers, increasing the awareness of tax payers using seminars and workshops, implementing new laws and directives etc--- .

To sum up, for woredas to generate a good deal of resources that enable them to discharge their assigned responsibilities, it is important to increase woredas role in the planning and decision making process and improve their revenue administration capacity. Above all if decentralized fiscal system is to be implemented at woreda level, woredas have to have power to control their own source of revenue. The next subsection deals with this issue.

4.2.4 Tax Assignment between Regional States and Local (Woreda) Governments

Regards to the transfer of power on taxation or control over revenue sources by woredas the constitutions of the two regions vary. The constitution of SNNP region is silent about this issue while article 79(2)(h) of Oromia regional constitution states that the woreda government utilizes revenues other than those that fall in the domain of the regional state. Based on this article of the constitution the Oromia regional state council approved the specific revenue sources assigned among the regional state, woredas and municipalities. The assignment of revenue sources to each level of government is as follows.

⁸ In Adea Woreda of Oromia region out of four persons working in the revenue team of woreda finance office only one has diploma, out of the rest three, two workers have not completed even secondary school.

Woreda revenues:

1. Personal income tax collected from employees of the woreda administration and private enterprises;
2. Agricultural income tax;
3. Rural land use fee;
4. Profit and turn over tax collected form individual traders;
5. Taxes collected from rent of houses and properties;
6. Profit tax, personal income tax and sales tax collected form enterprises owned by the woreda government;
7. Income tax, royalty and rent of land from minor mining activities undertaken in the woreda (out side municipalities);
8. Charges and fees on licenses and services issued or rendered by the woreda government;
9. Tax on capital gains;
10. Royalty on forests (limited to the woreda boundary).

Regional Revenues:

1. Personal income tax from employees of the regional state and private enterprises that have branches in different woredas and towns;
2. Profit tax, personal income tax and turn over tax collected from enterprises owned by the regional state;
3. Profit tax, turn over tax and excise tax collected from traders who have branches in different woredas and towns;
4. VAT from individual traders;
5. Tax on Chat;
6. Tax revenues shared with the federal government;
7. Charges and fees on licenses and services issued and rendered by the regional state.
8. Royalty on forests (not limited to the boundary of one Woreda).

Revenues of Municipalities:

1. Personal income tax from employees of the municipal administration and private enterprises (limited in the municipal area);
2. Profit income tax, turn over tax and excise tax from individual traders;
3. Income tax from rent of houses and properties
4. Income tax, royalty and turn over tax from minor mining activities undertaken in the boundary of the municipality;
5. Profit tax, personal income tax, turnover tax and excise tax collected from enterprises owned by municipalities;
6. Charges and fees on licenses and services issued and rendered by the municipal government;
7. Tax on capital gains;
8. Royalty from forest (limited in the boundary of the municipal area)

The approval of this revenue assignment among levels of government in the region is made recently in February, this year. And until now Woredas have not yet started exercising the power over revenue sources assigned to them.

According to the constitution and proclamation No. 33/1992 the two regions rely on different types of taxes for their revenue needs, including direct and indirect taxes, and non-tax revenues. As stated in the previous section of this chapter personal income tax, business profit tax, agricultural income tax, rural land use fee and tax on chat are the major sources of tax revenues of the regions. In addition to these, though their contribution is less, the regions collect revenue from rental income tax, stamp sales and duties, capital gains tax and royalty. Non-tax revenues also contribute a considerable amount of revenue to the regions.

The rest of this section tries to address the question of which types of taxes (from taxes assigned as regional revenue sources) are most suitable for local levels of government, particularly of woredas, and evaluate the tax assignment designed by Oromia region. Theoretically and from experiences of countries it is suggested that the assignment of revenues to local governments should consider the following.

- The revenue should be stable: local governments typically can not run deficits and have more limited ability to borrow. Since local governments concern with recurrent expenditure needs, revenue sources with a high degree of fluctuation from year to year are less suited for them.
- Equitable distribution among local governments
- The tax yield should be sufficiently buoyant i.e. the revenue source expand at least as fast as expenditures over time.
- The tax should be perceived to be reasonably fair by the payers.
- The tax should be easy to administer efficiently and effectively.
- It should not be possible to export much, if any, of the tax burden to non residents.
- The tax base should be visible to ensure accountability (Bird cited in Kibre, 1994:6-7).

To identify appropriate local taxes taking the above points into consideration it is important to look into the distribution of each of revenue sources of the regions and their contribution to the total revenue. Table 12 and 13 presents the distribution of each revenue sources among woredas (based on per capita revenue variation), and their contribution to regional total revenues in 2002/03. Based on the figures on the tables and the points mentioned above to be taken in to consideration an attempt is made to locate appropriate taxes to woredas below.

Table 12:- Revenue by source of Oromia and SNNP Regions,
2002/03(%)

Source of revenue	SNNP ₁	Oromia ₂
Personal income tax	29.1	23.6
Rental income tax	0.2	0.1
Profit to individuals	8.6	8.5
Capital gains	-	0.1
Agricultural income tax	12.7	10.1
Rural land use fee	10.3	9.8
Royalty	0.2	1.1
Tax on Chat	10.9	25.1
Excise tax	0.2	-
Sales tax on goods and services	12.1	9.1
Stamp sales and duties	0.5	0.1
Administrative fees and charges	2.2	2.9
Sales of public goods and services	8.7	4.3
Others	4.3	5.2
Total	100	100

Data source: 1 SNNP region BoFED, 2 Oromia region BoFED

Personal Income Tax

Regions are entitled to administer the income tax of employees of the regional state (including the sublevel authorities - zones and woredas), and employees of privately owned businesses and enterprises. Employees of the private sector include workers for traders, service rendering institutions and producers. In the year 2002/03 revenue from these source accounts for 23.6 percent to Oromia and 29.1 percent to SNNP. The distribution of this tax is some how equitable compared to other taxes such as business profit tax, tax on chat and sales tax. In the 104 woredas of SNNP 75 woredas have income tax per capita of 50 percent or more of the regional per capita. In Oromia too, out of 183 woredas (for which data for population is available) 118 woredas could collect more than 50 percent and only 6 woredas collect less than 25 percent of the regional per capita.

This source of revenue can be taken as appropriate to local governments because of different reasons. First, the tax can easily be administered by local governments. Second, as the figures in table 13 show revenue variations from this source among woredas are not that wide to affect equity. Third, it is unlikely to export the tax burden to non residents because in Ethiopia most people live where they work. Theoretically and from experiences of different countries surcharges or taxes piggybacked on a central tax base are recommended to be implemented to make administration easier and for better local autonomy. However, this method is not applied in the assignment of taxes between the federal government and regional states. Therefore, to make it consistent with this, the assignment to woredas can be made based on the type of employers of which the salary or income originates from. From this point of view the assignment of this source of revenue among government levels designed by Oromia region seems appropriate.

Table 13:- Regional per capita and distribution of major revenue sources among woredas of SNNP and Oromia regions,2002/03

Region	Amount of per capita revenue	Number of woredas							
		Personal income tax	Business profit tax	Agricultural income tax	Tax on chat	Rural land use fee	Sales tax	Fees and charges	Sales of public goods
O	Regional per capita (in Birr)	4.87	1.74	2.08	5.16	2.01	1.87	0.61	0.89
R	Greater than regional per capita	38	36	74	8	85	56	36	41
O	Greater than 75% of regional per capita	71	50	102	8	106	70	70	85
M	Greater than 50% of regional per capita	118	75	135	9	124	91	110	142
I	Greater than 25% of regional per capita	177	115	161	10	161	132	163	172
A	Less than 25% of regional per capita	6	66	22	173	22	51	20	11
S	Regional per capita (in Birr)	3.80	1.13	1.66	1.42	1.35	1.58	0.29	1.13
N	Greater than regional per capita	23	17	52	6	46	24	16	26
N	Greater than 75% of regional per capita	35	26	74	7	71	29	28	45
P	Greater than 50% of regional per capita	75	34	81	10	89	42	43	60
	Greater than 25% regional per capita	103	49	97	11	100	59	81	95
	Less than 25% of regional per capita	1	55	7	93	4	45	23	9

Source: Annexes 6 and 7

Business Profit Tax

The business profit tax is a tax levied against the estimated profit of all taxable businesses. This tax includes income from business, professional and vocational occupations. The regions are entitled to collect business profit tax from individuals or unincorporated bodies. The base for this tax is total taxable income of the tax payers generated within a year from their activity. Tax payers have now been divided into three main categories based on the amount of gross revenue generated by their firm. Category A tax payers are classified as those who earn more than 500,000 Birr annually and are subject to VAT tax codes. Category B are those with greater than 100,000 annual turnover but less than Birr 500,000 and category C are those firms with less than 100,000 Birr gross income.

Unless it is used as a last resort, this tax is not a particularly good way to finance local governments, for two reasons. The revenues are unevenly distributed between woredas and the revenue is not stable, so that it is difficult to plan. In SNNP region only 34 out of 104 woredas can generate 50% percent or more of the regional per capita and in Oromia only 75 out of 183 woredas reach 50 percent or more. In SNNP region more than half of the woredas could not collect even 25 percent of the regional per capita revenue. Taking administrative simplicity into consideration, revenue from small businesses that can be included in the category C tax payers can be assigned to woredas. This suggestion may also reduce the importance of revenue variations among woredas considerably. This recommendation is contrary to the assignment of this source by Oromia region which gives full control over this source of revenue to local level governments.

Agricultural Income Tax and Rural Land Use Fee

According to the federal constitution and proclamation No. 33/92 these revenue sources are fully assigned to regions. The regional governments have the right to design the system and set the level of rural land use fees and agricultural income tax by their own proclamations. Hence, the system of taxation varies between the two regions. For instance, both the income tax (to some extent) and the land use fee are determined based on the size of the plot of land in SNNP region. But in Oromia only the rural land use fee is paid according to the size of land.

Both revenue sources are quite evenly distributed across the woredas. In SNNP 74 woredas out of 104 (more than 70 percent of the total number of woredas) are able to collect 75 percent or more of the regional per capita revenue of the agricultural income tax, and in Oromia 135 woredas out of 183 generate more than 75 percent of the regional per capita of agricultural income tax. The same picture can be observed for rural land use fee (see table 13).

Agricultural income tax and rural land use fee have all the most important properties of good local revenue sources. The revenue bases and yield of these sources are stable and the revenue administration is handled well by the woreda administrations. It is also hardly possible to export these tax burdens to non residents. The properties of these revenue sources as regional taxes, allow for devolution of the setting of the rates partly or fully to woredas. The tax assignment designed by Oromia regional state provides only utilization of these revenue sources to woredas. But in the future to devolve the power to set the rate by woredas has to be considered.

Tax on Chat

Revenue from tax on chat has become important in both regions (particularly in Oromia). For example, in 2002/03 this source of revenue accounted for 25 percent (125 million Birr) of the total revenue of Oromia region which is the highest of all sources. In the same year its share was 11 percent of the total revenue of SNNP region. However, there is very wide variation in the distribution of this revenue among woredas in both regions.

In Oromia region one woreda (Haromaya) alone collects 68 percent (85.5 million Birr) of this tax revenue. More than 140 woredas collect nothing from this source. The same is true to SNNP region. Only 4 woredas out of 104 collect more than 90 percent (18.1 million Birr) of this source of revenue.

The other feature of this tax is that revenue generated from this source fluctuates over time. For instance, in Oromia revenue from Chat tax declined from 125.9 million Birr in 2002/03 to 103.7 million Birr in 2003/04. In SNNP on the contrary, the revenue rose from 19.9 million Birr in 2002/03 to 29.6 million Birr in 2003/04.

From the above discussion it can be understood that from local government perspective tax on chat has two major disadvantages. The revenues are very unevenly distributed among woredas and the revenue is unstable and difficult to plan because it fluctuates over time. Based on this argument the assignment of this source of revenue to regional states as designed by Oromia region is justifiable. But since the collection of this revenue needs strong effort of local governments the full assignment to the regional states may create a disincentive to woredas. Therefore, some percentage has to be shared to woredas from this source.

Sales Tax on Goods and Services

Sales tax refers to those taxes levied on the sale of goods or services. There are a variety of sales taxes in Ethiopia including the new VAT and turn over tax. VAT collected from individual traders and unincorporated bodies, though collected by FIRA, is regions own revenue. The VAT was designed to replace the various sales taxes of larger business (over 500,000 birr annual turn over) in the country. Smaller businesses (less than 500, 000 birr annual turnover) are now subject to a turn over tax. The distribution of this tax revenue is not as equitable as that of agricultural income tax, rural land use fee and personal income tax. In both regions more than half of the woredas do not reach 50 percent of the regional per capita sales tax. This tax is more suitable to regional states than lower level governments below them.

User Fees and Charges

User fees and charges are seen as a type of local government own source revenue with a considerable potential. Some of the powerful arguments for charging services include the potential benefits of creating a close connection between consumption and cost; ease of collection due to the direct nature of charges; and for excluding non payers (smoke, 2001:25). In Ethiopia it is the power of regional states to set the rate of fees and charges for services and production rendered by them. For instance, in the case of SNNP region the regional state administrative council has the power to issue regulation with respect to fees and charges levied by public bodies for providing goods, services or use of facilities. Under this category of revenue sources administrative fees and charges accounts for the total revenue around 2.2 percent and 2.9 percent; and sales of public goods and services contribute a share of 8.7 percent and 4.8 percent to the total revenue in 2002/03 of SNNP and Oromia regions respectively. These revenues are distributed, some how, evenly among woredas compared to some other revenue sources such as sales tax, tax on chat,

and business profit tax. As for the assignment of fees and charges to the woreda by Oromia region, it is appropriate in the essence of fiscal decentralization that the revenues derived from services and administrative fees and charges rendered by the woreda is assigned as woreda revenue.

Sales of stamp and duty, though categorized under tax revenue, it has some relation with provision of services. So revenue derived from this source can be assigned to the level of government that provides the service

Other Tax Revenues

Even though they constitute very low to the regional revenues, the regions collect revenues from other sources such as rental income tax, capital gains income tax, royalty and excise taxes. Most of these sources constitute on average less than 0.5 percent (each) to the regional revenue. So the variation among woredas in generating revenue from these sources may not have much impact on equity. Therefore, these sources can be assigned to the appropriate levels of government taking administrative simplicity and other factors in to consideration.

Chapter Five

Conclusion and Recommendation

5.1 Conclusion

There have been widespread attempts to redefine the potential role of the public sector and improve its performance to achieve economic stability, sustainable growth and provision of public services. An important component of these reforms is the introduction of policies to decentralize government functions. Most often emphasis is given to the fiscal dimension of decentralization since intergovernmental fiscal relations is foundation of the rationale for decentralization in general. Today, many developing countries, including Ethiopia, are experimenting with fiscal decentralization as a means of improving governance and economic growth. Ethiopia has developed and defined constitutional and legal provisions to support decentralization and the strengthening of decentralized levels of government.

The potential benefit for devolving fiscal responsibility to subnational levels of government is mainly justified by allocative efficiency with the provision of public goods and services. Local preferences and needs are believed to be best met by local, rather than national governments. However, searching for the optimal level of fiscal decentralization is a complex matter. The design of fiscal decentralization is based on four pillars (expenditure assignment, tax assignment, intergovernmental transfers/grants and subnational borrowing), of which tax assignment is the particular emphasis of this research paper.

If certain expenditure roles are assigned to a level of government, it is believed, that level must have the resources to meet those responsibilities. However, there is no ideal assignment of taxes between central and lower levels of government. But a set of 'tax assignment

rules' has been developed in the traditional fiscal federalism theory. These principles relate to the respective responsibilities of central and subnational governments in macro-economic stabilization, income redistribution and resource allocation. Furthermore, capabilities of subnational governments and tax harmonization are issues to be considered when assigning taxing powers.

In the current practice of fiscal decentralization in Ethiopia, the tax base assigned to the regional governments is very weak and generates revenue far below the level required to fulfill the objectives of fiscal independence. The share of domestic revenues collected by all regions is on average 18.6 percent while 81.4 percent is collected by the federal government for the year 1993/94-2003/04. Because of this, financing capacity of regions is very low. With the exception of Addis Ababa and Dire Dawa, no region could finance 34 percent of its recurrent expenditure and 30 percent of its total expenditure from own revenue. Afar and Gambela could finance only less than 10 percent of their total expenditures from own revenue.

This mismatch between the revenue raising capacity of the regions and their expenditures indicates wide vertical imbalance. Over the period 1993/94-2003/04 coefficient of vertical imbalance, on average, was 0.47 which is fairly high. Higher level of vertical imbalance has negative implications on the realization of economic efficiency, responsiveness and accountability because it weakens the capacity of subnational governments to provide quality and adequate public services to their constituencies.

The result of this mismatching of functions and finances is that regional governments are generally dependent up on transfers from the federal government. Methods used to close the fiscal imbalances of regional governments also have an objective to reduce imbalances among regions.

Grant has been used as the only mechanism to resolve vertical and regional imbalances. Other mechanisms such as revenue sharing have not been implemented. The size of federal grant pool is determined on an ad-hoc basis. The federal government decides the amount of grant distributed to regions every year. This method of determining the size of grant pool has different disadvantages. Regions could not predict and plan their expenditure budget properly, and it gives the federal government more freedom to make influence on regions.

With respect to the distribution of grant among regions a formula based grant method has been adopted since 1994/95. Grant is the most important source of regions revenue. Some regions such as Gambela and Afar depend on grant transfer from the federal government up to 90 percent of their expenditure. But large transfers from the federal government may cause regional governments to underutilize their own tax bases. Furthermore, the grant system in Ethiopia is criticized for creating a disincentive for better revenue effort. To avoid this, the grant system needs to be designed in such a way that it encourages local governments to put more effort into tax administration and collection.

In addition to grant transfers, subnational governments may still find themselves with inadequate revenue relative to expenditure. In this case borrowing can be taken as a last resort to fill the expenditure gap. However, though regional governments are granted the right to borrow from domestic sources, the room for borrowing is limited.

Although one observes the regions undertake significant roles in administering themselves, devolved power had not moved down to lower tiers such as woredas, until 2001, which are considered to be centers of socio-economic development. In 2001 some regional states in Ethiopia have started to deepen and broaden the decentralization process particularly to woredas. However, as experiences of SNNP and Oromia

regions revealed currently woredas control only the expenditure side (via block grant) of their fiscal resources. Woredas in the two regions have not been empowered to control their own revenue sources. All finance sources are under the control of the regional states.

Finding appropriate tax sources for woredas is one of the most urgent and challenging task to deepen the decentralization process. However, regional states seem reluctant to devolve taxing powers. This reduces accountability at the local level. Woredas do not have own revenue sources and are forced to rely on transfers from the regional states.

5.2 Recommendations

It is obvious that extensive expenditure responsibilities have been assigned to regions without adequate arrangements for effectively carrying out the assignments through tax assignment and transfers. Despite the fact that regional governments have the power to raise some taxes and to perform vast spending activities, the predominant taxing powers rest with the federal government. As regions are required to meet objectives set for them, their expenditures are expected to increase. Hence the need to design a system of tax assignments and transfers that takes into account the requirements of regions is pertinent.

Therefore, it would be advantageous to take measures in a way that can enhance revenue effort of the regions by identifying more adequate bases. Furthermore, for allocation efficiency and accountability regional states should have sufficient discretion on “own source” taxes. If regional states rely on transfers for the larger part of their expenditures from the federal government there is less incentive to develop their own tax resources and more incentive to over spend with money other than their own. This discretion should be broad enough to allow regions some power of choosing on rates. Transfer formulas also need to be constructed in a

fashion that encourages (or at least does not discourage) subnational governments from developing their own source revenue.

Revenue from shared taxes to be seen as regions own revenue, the risk of not remitting these revenues from the federal government to regions should be avoided. In this case to set some mechanism that enable regional states to know the amount of their share, follow and control its transfer to them is necessary.

Currently the fiscal decentralization process to woredas is limited to the expenditure side of their fiscal resources. Deepening the process to woredas requires giving them control of appropriate taxes. Based on considerations of stability, equity and administrative simplicity user fees and charges, rural land use fee, agricultural income tax and personal income tax are recommended as appropriate sources of revenues for woredas.

At the same time, to improve fiscal autonomy of both regional and local governments, the capacity of the revenue collecting authorities at all levels should be strengthened by implementing the on-going tax reform program properly and effectively.

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Annexes

Annex 1:- Powers and Functions of Federal Government

- Protect and defend the constitution.
- Formulate and implants the country's policies, strategies and plan in respect of overall economic social and development matters.
- Establish and implements national standard and basic policy criteria for public health, education Science and technology as well as for the protection and prevention of cultural and historical legacies.
- Formulate and executes the country's financial, monetary and foreign investment policies and strategies. It enacts laws for the utilization and conservation of land and other natural resources, historical sites and objects.
- Establish and administers national defense and public security forces as well as a federal police force.
- Administer national defense and public security forces as well as a federal police force.
- Administer the National Bank, print and borrow money, mint coins, regulate foreign exchange and money in circulation; it determines by law the conditions and terms under which states can borrow money form international sources.
- Formulate and implements foreign policy; it negotiates and ratifies international agreements.
- Be responsible for the development, administration and regulation of air, rail waterways and sea transport and major roads linking two or more states, as well as for postal and telecommunication services.
- Levy taxes and collects duties on revenue sources reserved to the federal government; it draws up, approves and administers the federal government's budget.
- Determine and administer the utilization of the waters or rivers and lakes linking two or more states or crossing the boundaries of the national territorial jurisdiction.
- Regulate inter state and foreign commerce.
- Administer and expand all federally funded institutions that provide services to two or more states.
- Deploy, at the request of a state administration, federal defense forces to arrest a deteriorating security situation within the requesting state when its authorities are unable to control it.
- Enact, in order to give practical rights provided for in the constitution, all necessary laws governing political parties and elections.
- Declare and lifts natural state of emergency and states of emergencies limited to certain parts of the country.
- Determine and administer matters relating to nationality, immigration, granting of passports, entry into and exist from the country, refugees and asylum.
- Patent inventions and protect copyrights. It establishes uniform standards of measurement and calendar.
- Enact laws regulating the possession and bearing of arms.

Source:- FRDE's Constitution, 1995.

Annex 2:- Powers and Functional of Regions.

- All power not given expressly to the federal government alone or concurrently to the Federal Government and the states are reserved to the states.
- Consistent with sub-article 1 of this Article, states shall have the following powers and functions.
 - a) To establish a state administration that best advances self government, a democratic order based on the rule of law; to protect and defend the federal constitution;
 - b) To enact and execute the state constitution and other laws;
 - c) To formulate and execute economic, social and development policies, strategies and plans of the state;
 - d) To administer land and other natural resources in accordance with federal laws;
 - e) To levy and collect taxes and duties on revenue sources reserved to the states and to draw up and administer the state budget;
 - f) To enact and enforce laws on the state civil services and their condition of work; in the implementation of this responsibility it shall ensure that educational; training and experience requirements for any job title or position approximate national standards;
 - g) To establish and administer a state police force, and maintain public order

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1. All state powers and functions not expressly given to the Federal state or to both Federal and Regional state by the constitution of the Federal Democratic Republic of Ethiopia shall be assumed by the Oromia Regional State.
2. Without prejudice to sub Article (1) of this Article, the Regional state shall:-
 - a) Formulate and implement policies, strategies and plans for economic and social development;
 - b) Enact and enforce the constitution and other laws of the region;
 - c) Administer the lands and other natural resources of region in accordance with the laws enacted by the Federal States;
 - d) Establish a regional state structure, build a democratic order under the rule of law and preserve uphold and defend the Constitution of the Federal Democratic Republic of Ethiopia and the Constitution.
 - e) Enact and implement laws on matters pertaining to the administration and conduction of work of civil servants of the Region taking into account the Federal state standards on education, training and experience required for any public position.
 - f) Establish and administer a state police force and maintain public order and peace within the region;
 - g) Without prejudice to Article 28 sub Article 1 of the Constitution of the Federal Democratic Republic of Ethiopia and Article 28 of this Constitution grant pardon and/or amnesty according to the law.
 - h) Levy and collect taxes on revenue sources allocated to the Region as well as draw up approve and administer the regional state's budget;
 - i) Levy and collect income taxes on employees of the state and of private enterprises.
 - j) Determine and collect fees for land usufructuary rights.
 - k) Levy and collect taxes on income derived from private dwelling houses and other private properties in the region as well as collect rent on houses and other properties owned by the Regional Government;
 - l) Levy and collect taxes on income derived from private dwelling houses and other private properties in the Region as well as collect rent on houses and other properties owned by the Regional Government;
 - m) Levy and collect profit, sales excise and personal income taxes on income of enterprises owned by the state.
 - n) Jointly with the Federal Government;
 - i. levy and collect profit in come and sales and excise taxes on enterprises they jointly establish;
 - ii. levy and collect taxes on profits of corporations and on dividends paid to share holders;
 - iii. levy and collect taxes on incomes derived from large scale mining petroleum and gas operations as well as royalties,
 - o) Determine and collect fees and charges relating to licenses issued and services rendered by state organs
 - p) Fix and collect royalties for use of forest resources.
 - q) Proclaim a state of emergency in the region, when natural disaster or epidemics that jeopardize the well being or the health of the people occur.

Duties of Oromia Region

Source:-The revised constitution of Oromia region (2000)

Annex 4:- Powers and functions of SNNP region

1. All powers and functions which are not given expressly to the federal government in accordance with the constitution of the federal democratic republic of Ethiopia shall be vested in the regional state
2. Consistent with sub article of this article the regional state shall:
 - a. Formulate and execute the regional policy strategy and plan with respect to economic and social development ;
 - b. Issue and implement the states constitution and other regional laws;
 - c. Administer land and other natural resources in accordance with the Laws issued by the federal government;
 - d. Establishes state administration that best advances self rule, build a democratic order the supremacy of the laws prevail , protect and defend the federal and the state constitution;
 - e. Based on the nationally recognized standards qualification, training and experience enact laws concerning the administration of the regions civil servants and their working conditions and implement the same;
 - f. Establish and administer the state police force, maintain peace and security with in the state.
 - g. Given amnesty based on law;
 - h. Levy taxes and collect duties on the revenue sources guaranteed to the regional state and administer the state budget;
 - i. Levy and collect income taxes on civil servants and employees of enterprises with in the region;
 - j. Determine and collect payment on the use of land;
 - k. Levy and collect agricultural income tax;
 - l. Levy and collect taxes on income of houses and other properties owned by private, fix and collect rents on the income of houses and properties owned by the regional state;
 - m. Levy and collect income profit, sales and excise taxes on enterprises owned by the state;
 - n. Levy and collect profit and sales taxes on individual traders carrying out a business within the state;
 - o. Levy and collect taxes on income from transport services rendered on waters within the state;
 - p. Consistent with the provisions of subarticle 3 of article 98 of the federal constitution the state shall levy and collect taxes on income derived from mining operations and royalties and land rentals on such operations;
 - q. Jointly with the federal government:
 - a) in accordance with the law, share profit tax personal income tax, sales and excise taxes on enterprise they jointly establish;
 - b) in accordance with the law share taxes on the profits of companies and on dividends of share holders;
 - c) in accordance with the law, share taxes on incomes derived from large scale mining and all petroleum and gas operations, and royalties on such operations;
 - r. Determine and collect payments on licenses and services approved by the state administrative organs;
 - s. Fix and collect royalty for use of forest resources;
 - t. It shall decree a state wide state of emergency when a natural disaster or an epidemic occur.
3. The regional state where it deems necessary, may delegate its power and functions to the next administrative hierarchies.

Source:- The revised constitution of SNNP region (2001).

Annex 8:-Points for Interview Questions and Discussions

Interview Questions to Federal level Informants

1. Principles and criteria used in the assignment of revenue sources (tax and non tax) between the federal government and regional states
2. Relationship between the federal government and regional states in relation to tax administration and policy
3. The role of regional states in setting tax bases and tax rates
4. Administration of joint taxes and transfer of revenues collected from joint taxes
5. The role of regional governments in designing grant (provided to regions by federal government) formula

Interview Questions to Regional Level Informants

1. Functions (expenditures) assigned to regional states
2. Sources of finance available for the regional states, particularly 'own sources of revenue'
3. The exercise of financial power by regional states particularly in setting tax bases and rates, and borrowing
4. The role of regional states in designing grant (provided to regions by the federal government) formula
5. Adequacy of revenue sources to discharge responsibilities of the regional state
6. Problems encountered and measures taken to raise revenue capacity of the regional state
7. Relationship between the federal government and the regional state, and between the regional state and woreda government on fiscal issues, particularly on tax administration and policy
8. Problems encountered in enhancing the on-going fiscal decentralization process in the region
10. Proposals by the respondents to overcome the problems

Interview Questions to Woreda Level Informants

1. The existence of regional policy on decentralization that defines responsibilities and sources of finance to woreda governments
2. Functions (expenditures) assigned to woreda governments
3. Available sources of finance for the woreda government particularly 'own sources of finance' to discharge its responsibilities
4. Power of the woreda government to set tax /revenue base and / or rate
5. The role of woreda government in designing grant (provided to the woreda by the regional state) formula
6. Adequacy of revenue sources to discharge the responsibilities of the woreda government
7. Problems encountered and measures taken to raise revenue capacity of the woreda
8. Relationship between the woreda government and the regional state on fiscal issues particularly on tax administration and policy

Annex 9:- Profile of Selected Key informants

No	Organization	Position
1	Oromia BoFED	Deputy head for revenue sector
2	Oromia BoFED	Deputy head for planning sector
3	Adea woreda finance and economic development office	Office head
4	Adea woreda finance and economic development office	Revenues administration team leader
5	Adama woreda finance and economic development office	Office head
6	Adama woreda finance and economic development office	Revenues administration team leader
7	SNNP region BoFED	Budget department head
8	SNNP region BoFED	Expert on revenue administration
9	Shebedino woreda Finance and economic development office	Office head
10	Shebedino woreda Finance and economic development office	Revenue administration section head
11	Wenago woreda Finance and economic development office	Office head
12	Wenago woreda Finance and economic development office	Revenue administration section head
13	FIRA	Expert in planning and research service.
14	MoFED	Senior expert in legal department
15	MoFED	Expert on regional affairs

Annex 7:- Per Capita Revenue of Oromia Region by Source and Woreda, 2002/03

Zone /woreda	Direct Tax										Indirect Tax			Non Tax Revenue					Total revenue	
	wages & salaries	Rental income	Profit to ind.	Profit to corp.	Divi dend	Cap. Gains	Agr. Income	Roya lities	Chat	Total	Sales tax	Stamp duty & sales	Total	Adm. fees, charges	Sales of Public g & s.	Rural land use	Others	Total		
TOTAL	4.87	0.0	1.74	0.00	0.00	0.01	2.08	0.23	5.16	14.11	1.87	0.16	2.04	0.61	0.89	2.01	0.92	4.43	20.58	
Finfine																				
Arsi	3.85	0.0	0.91	0.00	0.00	0.00	3.19	0.00	0.00	7.96	1.57	0.08	1.66	0.34	0.70	2.93	0.47	4.45	14.06	
Zonal Offices																				
Tiyo	12.34	0.0	6.42	0.00	0.00	0.00	2.27	0.01	0.00	21.09	4.21	0.81	5.02	0.82	0.37	2.90	1.12	5.24	31.35	
Limu bilbilo	2.75	0.0	0.76	0.00	0.00	0.00	2.97	0.00	0.00	6.49	1.28	0.05	1.33	0.19	0.45	4.15	0.25	5.07	12.90	
Munesa	2.70	0.0	0.44	0.00	0.00	0.00	2.61	0.00	0.00	5.77	1.94	0.04	1.98	0.13	0.78	3.14	0.26	4.33	12.08	
Gedeb	3.61	0.0	0.72	0.00	0.00	0.00	2.63	0.00	0.00	6.98	2.42	0.05	2.47	0.29	0.80	4.20	0.19	5.52	14.97	
Serka	2.46	0.0	0.35	0.00	0.00	0.00	4.24	0.00	0.00	7.08	0.84	0.03	0.87	0.12	0.62	1.90	0.17	2.84	10.79	
Robe	3.39	0.0	0.91	0.00	0.00	0.00	5.71	0.00	0.00	10.04	1.91	0.05	1.97	0.30	0.48	2.87	0.15	3.83	15.84	
Dodota sire	4.22	0.0	0.96	0.00	0.00	0.00	0.64	0.00	0.00	5.82	2.27	0.11	2.38	0.25	0.49	2.13	0.46	3.35	11.55	
Merti	4.38	0.0	0.75	0.00	0.00	0.00	3.73	0.00	0.00	8.89	2.07	0.10	2.17	0.96	0.80	2.32	0.29	4.40	15.46	
Sude	1.64	0.0	0.14	0.00	0.00	0.00	4.05	0.00	0.00	5.86	0.28	0.02	0.30	0.16	0.15	3.61	0.20	4.14	10.30	
Gololcha	1.31	0.0	0.16	0.00	0.00	0.00	1.34	0.00	0.00	2.81	0.95	0.01	0.96	0.13	0.60	1.85	0.93	3.55	7.32	
Amigna	3.70	0.0	0.29	0.00	0.00	0.00	4.30	0.00	0.00	8.35	0.81	0.13	0.95	0.19	1.72	3.55	0.25	5.78	15.08	
Kofele	2.33	0.0	0.40	0.00	0.00	0.00	1.87	0.00	0.00	4.61	1.03	0.00	1.03	0.03	0.48	3.14	0.73	4.40	10.05	
Digelu tijo	3.38	0.0	0.78	0.00	0.00	0.00	5.02	0.00	0.00	9.22	2.44	0.02	2.46	0.54	0.51	3.40	0.12	4.61	16.29	
zeway dugda	2.94	0.0	0.13	0.00	0.00	0.00	1.71	0.00	0.00	4.80	0.29	0.01	0.30	0.09	0.49	2.29	0.24	3.14	8.24	
Hitosa	2.50	0.0	0.68	0.00	0.00	0.00	3.13	0.00	0.00	6.33	1.41	0.02	1.43	0.24	0.20	0.93	0.58	1.97	9.72	
Jeju	2.61	0.0	0.36	0.00	0.00	0.00	3.56	0.00	0.00	6.56	0.55	0.03	0.58	0.30	0.57	2.96	0.14	4.00	11.14	
Chole	2.65	0.0	0.31	0.00	0.00	0.00	2.85	0.00	0.00	5.85	0.91	0.03	0.94	0.29	0.77	2.66	0.08	3.84	10.63	
Asako	2.40	0.0	0.15	0.00	0.00	0.00	2.33	0.00	0.00	4.92	0.10	0.03	0.13	0.34	0.71	1.79	0.23	3.11	8.16	
Seru	2.37	0.0	0.22	0.00	0.00	0.00	4.33	0.00	0.00	6.96	2.30	0.03	2.33	0.17	0.86	2.41	0.11	3.59	12.88	
Tena	2.30	0.0	0.14	0.00	0.00	0.00	2.22	0.00	0.00	4.68	0.53	0.02	0.55	0.18	0.24	1.28	0.16	1.88	7.11	
Diksis																				
Lode Itosa																				

Bale	4.95	0.0	0.93	0.00	0.00	0.00	2.41	0.01	0.01	8.34	1.65	0.06	1.71	0.54	1.07	2.24	0.69	4.55
Sinana	4.85	0.0	2.27	0.00	0.00	0.00	3.80	0.02	0.00	10.97	2.56	0.14	2.70	0.74	1.03	3.16	1.28	6.24
Dodola	4.74	0.0	0.91	0.00	0.00	0.00	2.70	0.02	0.00	8.39	1.67	0.06	1.73	0.56	0.59	3.08	0.46	4.71
Agarfa	4.73	0.0	0.89	0.00	0.00	0.00	2.11	0.00	0.00	7.76	0.87	0.05	0.92	0.76	1.36	2.68	0.08	4.93
Nensebo	3.42	0.0	0.23	0.05	0.00	0.00	3.89	0.00	0.00	7.66	0.97	0.02	0.99	0.68	1.14	2.14	0.53	4.56
Meda	2.11	0.0	0.14	0.00	0.00	0.00	0.74	0.00	0.00	3.00	0.48	0.00	0.48	0.28	0.83	0.41	0.02	1.55
Mena	3.08	0.0	0.94	0.00	0.00	0.00	1.44	0.00	0.00	5.49	4.91	0.15	5.06	0.37	1.25	0.73	0.40	2.77
Gura	6.46	0.0	0.86	0.00	0.00	0.00	0.81	0.00	0.00	8.20	0.00	0.00	0.01	0.23	0.46	0.56	0.61	1.92
Goro	3.16	0.0	0.71	0.00	0.00	0.00	2.28	0.00	0.05	6.22	3.69	0.01	3.70	0.57	0.95	1.39	0.57	3.50
Rayitu	3.72	0.0	0.41	0.00	0.00	0.00	0.37	0.00	0.24	4.77	0.00	0.00	0.00	0.26	0.81	0.47	1.90	3.53
Ginir	4.96	0.0	0.79	0.00	0.00	0.00	1.51	0.00	0.00	7.28	1.83	0.04	1.87	0.44	0.68	4.46	0.84	6.47
Legeg	2.71	0.0	0.11	0.00	0.00	0.00	0.78	0.00	0.00	3.62	0.00	0.00	0.01	0.10	0.91	0.61	1.27	2.95
Gololcha	2.12	0.0	0.17	0.00	0.00	0.00	2.58	0.00	0.00	4.88	0.46	0.04	0.51	0.19	0.36	1.76	0.12	2.44
Gasera																		
Adaba	3.80	0.0	1.16	0.00	0.00	0.00	2.66	0.00	0.00	7.65	1.51	0.06	1.57	0.50	1.31	2.92	0.37	5.13
Kokosa	2.31	0.0	0.05	0.00	0.00	0.00	2.84	0.00	0.00	5.23	0.04	0.00	0.04	0.27	0.66	1.47	0.75	3.18
Berbere	3.77	0.0	0.42	0.00	0.00	0.00	2.43	0.00	0.00	6.67	2.51	0.01	2.52	0.22	1.20	2.04	0.92	4.46
Goba	10.16	0.1	2.13	0.00	0.00	0.00	2.37	0.00	0.00	14.78	2.28	0.21	2.49	0.65	0.71	1.59	0.57	3.55
Sewena	2.83	0.0	0.10	0.00	0.00	0.00	0.87	0.00	0.00	3.81	0.00	0.00	0.00	0.22	0.71	0.43	0.67	2.06
Zonal Offices																		

Guji	5.97	0.1	0.96	0.00	0.00	0.01	1.00	0.03	0.51	8.58	1.42	0.03	1.45	0.25	0.68	0.94	0.41	2.29	12.32
Liben	4.73	0.1	2.08	0.00	0.00	0.00	0.10	0.07	2.59	9.67	1.88	0.03	1.91	0.36	0.35	0.16	0.69	1.56	13.14
Wadera	3.90	0.0	0.79	0.00	0.00	0.00	0.74	0.00	0.00	5.49	0.69	0.00	0.69	0.23	0.71	0.50	0.67	2.15	8.33
Odo Shakiso	19.55	0.6	1.17	0.00	0.00	0.00	0.58	0.12	0.01	22.04	0.53	0.03	0.56	0.38	0.38	0.63	0.26	1.66	24.27
Bore	2.64	0.0	0.47	0.00	0.00	0.00	1.41	0.00	0.01	4.54	1.16	0.03	1.19	0.19	0.67	1.05	0.28	2.20	7.94
Uraga	1.25	0.0	0.12	0.00	0.00	0.00	1.20	0.00	0.01	2.59	0.11	0.00	0.11	0.06	0.48	1.18	0.20	1.93	4.63
Adola	3.78	0.0	1.30	0.00	0.00	0.03	0.79	0.00	0.19	6.12	1.21	0.08	1.30	0.32	0.45	0.69	0.43	1.90	9.31
Zonal Offices																			
Kercha																			
Borena	2.18	0.0	0.92	0.00	0.00	0.00	0.27	0.01	0.23	3.64	1.82	0.03	1.85	0.19	0.40	0.33	0.57	1.50	6.99
Yabelo	5.01	0.0	1.81	0.00	0.00	0.00	0.45	0.00	0.20	7.56	1.23	0.12	1.35	0.31	0.68	0.89	3.29	5.22	14.13
Gelana																			
Teltele	2.98	0.0	0.50	0.01	0.00	0.00	0.58	0.00	0.00	4.08	0.44	0.00	0.45	0.43	0.54	0.68	1.28	2.98	7.51
Bule Haro																			
Arero	3.03	0.2	0.04	0.00	0.00	0.00	0.08	0.00	0.01	3.37	0.08	0.00	0.08	0.24	0.94	0.30	0.42	1.95	5.40
Dire	2.21	0.0	0.29	0.00	0.00	0.00	0.24	0.00	0.05	2.81	1.53	0.00	1.54	0.16	0.28	0.37	0.05	0.86	5.21
Moyale	2.55	0.1	1.64	0.02	0.00	0.00	0.03	0.00	1.02	5.38	1.68	0.06	1.74	0.13	0.33	0.05	0.67	1.19	8.30
Abaya	0.76	0.0	0.21	0.01	0.00	0.00	0.30	0.00	0.00	1.28	1.11	0.00	1.11	0.03	0.13	0.03	0.15	0.35	2.74
Zonal Offices																			

East Harerge	2.73	0.0	0.68	0.00	0.00	0.00	0.91	0.00	41.09	45.44	0.94	0.04	0.98	0.47	0.84	0.73	0.25	2.28
Zonal Offices																		
Gola Oda																		
Kombolcha	3.39	0.0	1.13	0.00	0.00	0.00	1.49	0.00	52.56	59.11	2.78	0.01	2.79	0.84	0.49	0.95	0.21	2.50
Jarso	1.86	0.0	0.30	0.00	0.00	0.00	0.98	0.00	22.03	25.38	0.14	0.01	0.15	0.34	0.90	0.64	0.01	1.90
Fedis	1.08	0.0	0.22	0.00	0.00	0.00	0.65	0.00	0.00	1.95	0.49	0.00	0.49	0.07	0.24	0.46	0.20	0.97
Haromaya	4.60	0.0	1.70	0.00	0.00	0.00	0.43	0.00	393.35	401.90	0.76	0.10	0.86	1.34	0.53	0.70	0.46	3.04
Kersa	2.17	0.0	0.35	0.00	0.00	0.00	0.90	0.00	0.00	3.43	0.69	0.00	0.69	0.27	0.87	0.60	0.09	1.84
Meta	1.88	0.0	0.56	0.00	0.00	0.00	1.16	0.00	0.00	3.60	1.50	0.01	1.51	0.25	0.75	0.76	0.06	1.83
Deder	2.65	0.0	1.17	0.00	0.00	0.00	1.11	0.00	0.00	4.94	0.69	0.09	0.78	0.44	1.12	0.77	0.16	2.50
Goro Gutu	5.23	0.0	0.52	0.00	0.00	0.00	1.36	0.00	0.00	7.12	0.26	0.02	0.28	0.27	0.89	0.92	0.08	2.16
Melka Belo	1.36	0.0	1.10	0.00	0.00	0.00	1.20	0.00	0.00	3.67	2.01	0.00	2.01	0.35	0.55	0.83	0.08	1.83
Kurfa Hele	3.08	0.0	0.29	0.00	0.00	0.00	1.43	0.00	0.00	4.84	0.39	0.01	0.40	0.53	2.57	0.96	0.32	4.46
Gurewa	1.52	0.0	0.22	0.00	0.00	0.00	0.87	0.00	0.00	2.61	0.27	0.01	0.27	0.14	0.54	0.57	0.04	1.29
Bedeno	1.24	0.0	0.37	0.00	0.00	0.00	0.65	0.00	0.00	2.27	0.90	0.00	0.90	0.35	0.50	0.95	0.04	1.85
Babile	3.74	0.0	1.08	0.00	0.00	0.00	0.64	0.11	0.00	5.59	3.20	0.00	3.20	1.16	1.29	0.67	0.85	4.01
Gursum	1.74	0.0	0.49	0.00	0.00	0.00	0.44	0.00	16.79	19.56	0.61	0.01	0.62	0.16	0.67	0.65	0.13	1.62
Meyu	1.44	0.0	0.00	0.00	0.00	0.00	0.10	0.00	0.00	1.54	0.00	0.00	0.00	0.13	0.51	0.06	0.02	0.73

West Harerge																			
Chiro	2.17	0.0	1.08	0.00	0.00	0.00	0.21	0.00	0.00	3.48	0.42	0.15	0.58	0.42	0.14	0.31	0.16	1.03	
Kuni	2.90	0.0	1.64	0.00	0.00	0.00	0.30	0.00	105.36	110.94	1.18	0.02	1.20	0.33	0.17	0.42	1.49	2.41	
Mieso	5.77	0.0	0.73	0.00	0.00	0.00	0.04	0.00	39.69	46.56	0.37	0.00	0.37	0.15	0.62	0.02	1.71	2.53	
Doba	2.23	0.0	0.20	0.00	0.00	0.00	0.17	0.00	23.48	26.29	0.61	0.00	0.61	0.05	0.13	0.14	0.02	0.34	
Mesela	1.73	0.0	1.51	0.00	0.00	0.00	1.45	0.00	0.00	4.71	2.42	0.00	2.42	0.21	0.33	0.82	0.07	1.44	
Habro	3.09	0.0	1.71	0.00	0.00	0.00	0.22	0.00	0.00	5.05	2.40	0.03	2.43	0.43	1.07	0.17	0.63	2.32	
Darolabu	2.28	0.0	2.36	0.00	0.00	0.00	0.05	0.00	0.00	4.71	8.60	0.01	8.61	0.24	0.63	0.06	0.11	1.06	
Tulo	4.22	0.0	2.48	0.00	0.00	0.00	1.24	0.00	0.00	8.00	3.23	0.05	3.28	0.36	0.36	0.81	0.44	1.99	
Boke	2.22	0.0	0.85	0.00	0.00	0.00	0.91	0.00	0.00	4.00	0.79	0.00	0.79	0.16	0.70	0.60	0.42	1.89	
Guba Koricha	1.44	0.0	0.02	0.00	0.00	0.00	0.06	0.00	0.00	1.52	0.06	0.00	0.06	0.05	0.25	0.08	0.14	0.52	
Anchar	2.08	0.0	0.11	0.00	0.00	0.00	0.62	0.00	0.00	2.82	0.00	0.00	0.00	0.16	0.27	0.59	0.71	1.76	
Zonal Offices																			
Elu Ababora	5.94	0.0	1.76	0.00	0.00	0.00	1.85	0.00	0.01	9.58	2.33	0.06	2.39	1.04	1.32	2.56	0.39	5.31	
Metu	8.81	0.0	4.11	0.00	0.00	0.00	1.96	0.00	0.05	14.98	8.05	0.16	8.21	2.62	0.61	2.29	0.15	5.69	
Bedele	6.99	0.0	3.35	0.00	0.00	0.01	1.45	0.00	0.00	11.85	2.68	0.18	2.86	1.30	0.68	2.55	1.27	5.83	
Gechi	5.28	0.0	0.62	0.00	0.00	0.00	1.35	0.00	0.01	7.30	1.83	0.02	1.85	0.57	0.59	1.74	0.18	3.12	
Borecha	2.57	0.0	0.38	0.00	0.00	0.00	2.01	0.00	0.06	5.07	0.69	0.03	0.72	0.44	0.59	1.98	0.23	3.30	
Bure	4.79	0.0	0.45	0.00	0.00	0.00	1.49	0.00	0.00	6.76	0.25	0.00	0.25	0.77	1.14	2.09	0.47	4.52	
Chora	3.88	0.0	1.90	0.00	0.00	0.00	2.66	0.01	0.01	8.49	2.01	0.02	2.02	0.31	0.53	2.29	0.23	3.39	
Darimu	2.29	0.0	0.52	0.00	0.00	0.00	1.93	0.00	0.00	4.76	0.25	0.01	0.26	0.25	0.24	2.12	0.15	2.79	
Dedesa		0.0	1.97	0.00	0.00	0.00	1.94	0.00	0.02	4.00	2.71	0.02	2.73	0.58	1.81	2.32	0.35	5.14	
Dega	4.31	0.0	0.43	0.00	0.00	0.00	1.92	0.00	0.00	6.70	0.34	0.05	0.40	0.51	1.44	2.47	0.42	4.90	
Dido																			
Yayu Hurum	5.59	0.0	1.55	0.00	0.00	0.00	2.02	0.01	0.02	9.22	3.03	0.01	3.05	0.57	1.07	3.04	0.09	4.82	
Nono	5.50	0.0	0.33	0.00	0.00	0.00	1.86	0.00	0.00	7.78	0.22	0.01	0.23	1.12	1.94	2.86	0.38	6.51	
Sechi	4.41	0.0	1.24	0.00	0.00	0.00	1.53	0.00	0.00	7.22	1.24	0.03	1.28	0.42	1.65	2.74	0.20	5.07	
Zonal Offices																			

Jimma	5.76	0.0	1.61	0.00	0.00	0.00	2.27	0.02	0.02	9.69	1.77	0.12	1.89	0.48	0.57	1.41	0.60	3.06
Kersa	11.92	0.1	6.84	0.00	0.00	0.00	1.01	0.04	0.00	19.91	4.69	0.93	5.62	1.91	0.38	1.23	0.44	3.97
Dedo	1.13	0.0	0.21	0.00	0.00	0.00	1.72	0.00	0.02	3.09	0.25	0.00	0.25	0.10	0.06	1.17	0.11	1.46
Gera	2.62	0.0	0.79	0.00	0.00	0.00	3.77	0.00	0.01	7.24	0.68	0.01	0.69	0.24	0.76	1.89	1.21	4.15
Goma	3.33	0.0	2.48	0.00	0.00	0.00	3.26	0.02	0.02	9.14	3.89	0.05	3.94	0.55	0.38	2.24	1.55	4.73
Limu Kosa	1.72	0.0	1.77	0.00	0.00	0.00	2.60	0.00	0.00	6.11	1.60	0.00	1.61	0.08	2.13	0.67	0.55	3.45
Mena	2.99	0.0	1.05	0.00	0.00	0.00	3.65	0.00	0.13	7.86	2.61	0.02	2.63	0.14	0.12	1.61	0.14	2.02
Omo Nada	1.01	0.0	0.21	0.00	0.00	0.00	1.98	0.00	0.04	3.25	1.16	0.00	1.17	0.29	0.19	0.91	0.05	1.44
Seka Cheko	1.90	0.0	0.36	0.00	0.00	0.00	2.15	0.00	0.03	4.45	0.50	0.00	0.50	0.18	0.22	1.90	0.15	2.45
cetema	2.24	0.0	0.34	0.00	0.00	0.00	2.22	0.00	0.00	4.83	0.47	0.01	0.48	0.29	0.62	1.41	1.20	3.55
Sigmo	2.08	0.0	0.26	0.00	0.00	0.00	2.63	0.00	0.00	5.00	1.08	0.01	1.09	0.08	0.65	0.74	0.08	1.57
Secoru	17.57	0.0	0.56	0.00	0.00	0.00	0.98	0.00	0.00	19.12	2.02	0.03	2.05	0.31	0.72	1.15	1.50	3.70
Toro Afeta	30.16	0.0	0.20	0.00	0.00	0.00	1.14	0.00	0.00	31.51	0.33	0.00	0.33	0.22	0.39	1.61	0.10	2.34
Limu Seka	1.65	0.0	1.53	0.00	0.00	0.00	3.40	0.00	0.00	6.61	0.33	0.01	0.34	0.15	0.55	1.43	0.09	2.23
Zonal Offices																		
East Shoa																		
Zonal Offices																		
Adama	14.76	0.1	13.44	0.00	0.00	0.07	0.49	0.08	0.00	28.93	7.35	3.06	10.42	2.00	0.56	3.23	2.20	8.01
Fentale	9.97	0.0	4.24	0.00	0.00	0.00	0.10	0.00	0.02	14.41	3.26	0.19	3.45	0.52	0.44	10.34	1.05	12.50
Boset	7.26	0.0	1.23	0.00	0.00	0.00	0.27	0.00	0.00	8.79	1.44	0.05	1.50	0.21	0.79	0.65	0.28	1.94
Lome	6.09	0.0	3.68	0.00	0.00	0.00	6.61	0.00	0.00	16.46	3.17	0.19	3.37	1.08	1.91	3.20	0.69	6.92
Adea	7.48	0.0	3.35	0.00	0.00	0.00	1.93	0.00	0.00	12.79	3.02	0.48	3.51	0.41	0.63	2.27	1.00	4.32
Akaki	14.99	0.0	8.07	0.00	0.00	0.00	5.73	0.00	0.00	29.00	3.38	0.16	3.55	0.54	1.16	25.88	0.68	28.67
Ginbicho	2.75	0.0	0.52	0.00	0.00	0.00	7.01	0.00	0.00	10.37	0.41	0.05	0.45	0.51	1.56	4.81	0.43	7.39
Dugdebora	2.23	0.0	2.15	0.00	0.00	0.00	0.09	0.00	0.00	4.48	1.81	0.08	1.89	0.36	0.36	0.26	0.42	1.40
Adami Tulu	5.34	0.1	2.99	0.00	0.00	0.00	0.63	0.01	0.00	9.11	2.17	0.18	2.35	0.46	0.72	1.31	1.50	4.02
Aesi Negele	3.30	0.0	1.84	0.00	0.00	0.00	1.12	0.00	0.00	6.28	4.08	0.15	4.24	0.39	1.60	1.64	0.40	4.06
Shashamane	5.48	0.1	6.50	0.00	0.00	0.02	0.47	0.01	0.00	12.59	3.59	0.83	4.43	0.71	1.04	0.46	2.04	4.26
Siraro	1.01	0.0	0.31	0.00	0.00	0.00	0.88	0.00	0.00	2.21	0.25	0.01	0.26	0.11	0.82	1.60	0.15	2.70

North Shewa	4.15	0.0	1.05	0.00	0.00	0.00	3.72	0.00	0.00	8.93	1.22	0.11	1.33	0.86	0.81	2.83	0.51	5.02
Girar Jarso	5.92	0.0	3.50	0.00	0.00	0.00	3.64	0.00	0.00	13.13	1.70	0.59	2.29	2.25	0.37	2.17	0.11	4.92
Dera	2.03	0.0	0.47	0.00	0.00	0.00	2.73	0.00	0.00	5.24	0.48	0.04	0.52	0.18	0.65	2.31	0.06	3.20
Hdabu Abota	2.68	0.0	0.43	0.00	0.00	0.00	4.02	0.00	0.00	7.18	0.76	0.04	0.81	0.48	0.67	2.97	0.26	4.42
Wera Jarso	2.15	0.0	0.54	0.00	0.00	0.00	3.82	0.00	0.00	6.54	0.53	0.05	0.58	0.71	0.45	2.05	0.25	3.48
Kuyu	3.02	0.0	1.22	0.00	0.00	0.00	3.01	0.00	0.00	7.29	1.32	0.08	1.40	0.62	0.78	4.03	0.29	5.76
Degem	11.14	0.0	0.48	0.00	0.00	0.00	3.92	0.00	0.00	15.59	0.86	0.05	0.91	0.49	0.79	2.70	0.75	4.77
Yayu Gul/D/Lb	2.36	0.0	0.66	0.00	0.00	0.00	2.73	0.00	0.00	5.78	1.06	0.05	1.11	0.94	0.68	4.28	0.21	6.17
Wichale Jida	4.31	0.0	0.50	0.00	0.00	0.00	5.06	0.00	0.00	9.91	0.96	0.05	1.01	0.88	0.60	2.54	0.43	4.47
Mulo Sululta	3.12	0.0	1.16	0.00	0.00	0.00	4.79	0.00	0.00	9.10	1.73	0.06	1.79	0.79	0.70	1.88	0.50	3.89
Bereh Aleltu	3.85	0.0	1.63	0.00	0.00	0.00	3.43	0.00	0.00	8.94	2.53	0.22	2.75	1.19	0.66	3.21	1.60	6.70
Kimbibit	3.33	0.0	1.39	0.00	0.00	0.00	2.21	0.00	0.00	6.98	1.34	0.07	1.40	0.69	0.61	3.80	0.43	5.58
Abichu Gnea	2.86	0.0	0.56	0.00	0.00	0.00	5.73	0.00	0.00	9.23	1.07	0.09	1.17	0.80	0.35	3.20	0.54	4.95
Zonal Offices																		
West Shewa	3.66	0.0	0.95	0.00	0.00	0.16	3.25	0.00	0.15	8.17	1.14	0.20	1.34	0.55	0.98	2.98	0.42	4.94
Ambo	7.99	0.0	1.82	0.00	0.00	0.00	2.29	0.01	0.00	12.12	2.42	0.38	2.80	0.82	0.14	4.29	0.45	5.72
Dendi	2.03	0.0	0.94	0.00	0.00	0.00	6.64	0.00	0.00	9.64	1.21	0.05	1.26	0.43	0.32	0.00	0.26	1.01
Cheliya	1.88	0.0	0.66	0.00	0.00	0.00	1.57	0.00	0.00	4.12	0.62	0.05	0.67	0.32	0.42	2.12	0.09	2.96
Ejere	3.58	0.0	1.57	0.00	0.00	0.00	2.88	0.00	0.00	8.08	1.04	0.06	1.10	0.38	0.50	4.38	0.16	5.47
Tikur Hinchini	2.32	0.0	0.35	0.00	0.00	0.00	2.00	0.00	0.00	4.70	0.18	0.03	0.21	0.24	0.33	1.91	0.25	2.76
Jeldu	1.44	0.0	0.50	0.00	0.00	0.00	1.89	0.00	0.00	3.84	0.30	0.06	0.36	0.46	0.79	3.09	0.18	4.54
Nono	2.51	0.0	0.33	0.00	0.00	0.00	4.12	0.00	0.00	7.01	0.61	0.02	0.63	0.53	2.48	3.42	0.30	6.77
Gideberet	1.55	0.0	0.40	0.00	0.00	0.00	2.64	0.00	0.00	4.61	0.68	0.03	0.71	0.17	0.38	2.09	0.28	2.92
Deno	1.77	0.0	0.30	0.00	0.00	0.00	2.67	0.00	0.00	4.77	0.39	0.04	0.44	0.45	0.58	3.35	0.42	4.85
Bako	3.14	0.0	1.55	0.00	0.00	0.01	2.29	0.00	0.00	7.02	1.17	0.08	1.25	0.39	0.35	3.10	1.31	5.19
Welmera	7.52	0.0	2.45	0.00	0.00	2.08	3.16	0.00	2.04	17.32	3.82	1.49	5.32	1.18	0.98	3.47	0.37	6.03
Adea Berga	2.38	0.0	0.67	0.00	0.00	0.00	6.40	0.00	0.00	9.52	0.64	0.04	0.68	0.48	0.98	5.76	0.25	7.53
Meta	1.41	0.0	0.19	0.00	0.00	0.00	1.36	0.00	0.00	2.97	0.51	0.03	0.53	0.29	2.39	3.15	0.40	6.29
Mida Kegne																		
Zonal Offices																		

S/W Shewa	4.52	0.0	1.13	0.00	0.00	0.01	4.13	0.04	4.47	14.30	1.55	0.16	1.71	1.04	0.73	2.92	1.24	5.93	21.9
Ameya	1.89	0.0	0.29	0.00	0.00	0.00	2.94	0.00	0.00	5.14	0.54	0.01	0.55	1.13	0.66	5.26	0.08	7.18	12.3
Becho	5.48	0.0	2.29	0.00	0.00	0.00	3.74	0.00	0.00	11.59	2.18	0.12	2.29	1.01	0.78	2.58	1.48	5.91	19.7
Elu	5.96	0.0	1.53	0.00	0.00	0.00	6.55	0.00	0.00	14.18	2.00	0.21	2.21	1.09	0.91	4.52	0.34	6.95	23.3
Tole	2.38	0.0	0.24	0.00	0.00	0.00	9.23	0.00	0.00	12.00	0.43	0.03	0.46	1.35	0.81	3.29	0.32	5.85	18.3
Dawo	2.28	0.0	0.26	0.00	0.00	0.00	7.25	0.00	0.00	9.89	0.54	0.03	0.57	0.61	3.30	0.00	0.17	4.13	14.3
Alemgena	8.83	0.0	2.24	0.00	0.00	0.09	4.50	0.18	30.25	46.32	2.75	0.32	3.07	1.34	0.38	3.03	0.52	5.30	54.6
Kersa	1.80	0.0	0.37	0.00	0.00	0.00	4.15	0.00	0.00	6.37	3.65	0.42	4.08	1.78	0.50	4.03	0.69	7.04	17.4
Kokir	2.06	0.0	0.25	0.00	0.00	0.00	3.08	0.00	0.00	5.44	0.15	0.01	0.15	0.55	0.49	3.84	0.43	5.38	10.9
Wenchi	2.63	0.0	0.15	0.00	0.00	0.00	2.85	0.00	0.00	5.66	0.35	0.00	0.36	0.43	0.24	2.11	0.09	2.90	8.9
Weliso	5.09	0.0	1.85	0.00	0.00	0.00	2.58	0.00	0.00	9.54	1.28	0.15	1.43	0.78	0.44	1.76	0.50	3.49	14.4
Zonal Offices																			

East Welega	5.53	0.0	1.13	0.00	0.00	0.00	2.05	0.01	0.00	8.73	0.96	0.23	1.20	0.61	0.89	2.73	0.33	4.56	14.49
Abay Chomen	8.47	0.0	1.56	0.00	0.00	0.00	1.30	0.00	0.00	11.40	1.02	0.16	1.18	0.45	1.30	3.75	0.05	5.66	18.24
Horo	4.63	0.0	0.91	0.00	0.00	0.00	1.26	0.02	0.00	6.83	0.90	0.13	1.03	0.40	0.65	1.28	0.23	2.57	10.43
Gida Kiremu	3.95	0.0	0.63	0.00	0.00	0.00	1.63	0.00	0.00	6.23	0.75	0.04	0.79	0.49	1.02	2.26	0.30	4.10	11.12
Limu	2.25	0.0	0.11	0.00	0.00	0.00	2.45	0.00	0.00	4.84	0.26	0.01	0.27	0.20	0.48	2.72	0.06	3.49	8.59
Diga	2.06	0.0	0.18	0.00	0.00	0.00	0.82	0.00	0.00	3.06	0.50	0.01	0.51	0.21	0.21	1.03	0.06	1.52	5.09
Guto Wawayu	9.43	0.1	4.34	0.00	0.00	0.00	1.55	0.07	0.00	15.47	3.48	1.41	4.90	1.84	0.56	3.12	0.64	6.18	26.55
Jima Arjo	4.58	0.0	0.38	0.00	0.00	0.00	1.72	0.00	0.00	6.71	0.16	0.17	0.33	0.18	0.92	1.83	0.30	3.26	10.30
Sigu Sire	4.39	0.0	1.02	0.00	0.00	0.00	1.53	0.00	0.00	6.97	0.73	0.06	0.79	0.50	1.10	2.63	0.37	4.65	12.41
Guba Sayo																			
Guduru	2.01	0.0	0.55	0.00	0.00	0.00	2.30	0.00	0.00	4.87	0.47	0.05	0.52	0.43	0.53	2.96	0.13	4.07	9.46
Ebentu	4.47	0.0	0.38	0.00	0.00	0.00	1.69	0.00	0.00	6.61	0.06	0.03	0.09	0.48	1.18	1.70	0.56	4.03	10.73
Sasiga	4.11	0.0	0.40	0.00	0.00	0.00	1.44	0.00	0.00	5.99	0.48	0.02	0.50	0.23	0.74	4.79	0.32	6.18	12.67
Wama Bonaya	2.02	0.0	0.31	0.00	0.00	0.00	1.58	0.00	0.00	3.93	0.32	0.01	0.33	0.53	0.69	2.09	0.18	3.53	7.79
Abe Dongoro	3.17	0.0	0.34	0.00	0.00	0.00	3.15	0.00	0.00	6.73	0.73	0.01	0.73	0.32	0.96	4.50	0.25	6.15	13.62
Jima Rare	3.36	0.0	1.10	0.00	0.00	0.00	3.78	0.01	0.00	8.36	0.40	0.03	0.44	0.39	0.58	3.29	0.11	4.45	13.25
Nunu	3.08	0.0	0.24	0.00	0.00	0.00	1.63	0.00	0.00	4.98	0.21	0.06	0.28	0.26	1.10	1.47	0.27	3.15	8.41
Jima Genet																			
Amuru Jarte	2.64	0.0	0.22	0.00	0.00	0.00	0.75	0.00	0.00	3.62	0.45	0.01	0.45	0.19	0.62	0.71	0.28	1.81	5.89
Jarte Jardega																			
Leka Dulacha																			
Gudeya Bila																			
Zonal Offices																			

West Welega																		
Gimbi	7.19	0.0	3.81	0.00	0.00	0.01	1.33	0.00	0.00	12.38	7.44	0.41	7.85	3.60	1.45	0.73	0.23	6.
Haru	3.12	0.0	0.92	0.00	0.00	0.00	1.35	0.00	0.00	5.43	5.50	0.02	5.53	0.60	0.69	1.87	0.18	3.
Lalo Asebe	3.84	0.0	2.15	0.00	0.00	0.00	1.42	0.00	0.00	7.47	4.59	0.09	4.68	0.37	0.62	0.98	0.13	2.
Genji	2.92	0.0	0.86	0.00	0.00	0.00	2.21	0.00	0.00	6.05	0.05	0.04	0.09	0.46	0.66	1.53	0.46	3.
Nole Kaba	1.82	0.0	0.70	0.00	0.00	0.00	1.80	0.00	0.00	4.34	0.16	0.01	0.17	0.29	0.62	3.19	0.09	4.
Yubdo	4.26	0.0	0.79	0.00	0.00	0.00	1.55	0.00	0.00	6.66	0.11	0.01	0.12	0.68	0.83	1.84	0.29	3.
Ayira Guliso	5.96	0.0	2.43	0.00	0.00	0.00	1.77	0.00	0.00	10.19	11.30	0.08	11.38	0.52	1.00	0.04	0.22	1.
Boji	4.50	0.0	0.54	0.00	0.00	0.00	0.96	0.00	0.00	6.01	0.33	0.03	0.36	0.44	0.45	0.91	0.15	1.
Nejo	4.45	0.0	1.16	0.00	0.00	0.00	0.88	0.00	0.00	6.50	1.39	0.05	1.44	0.28	0.71	0.59	0.10	1.
Jarso	2.37	0.0	0.39	0.00	0.00	0.00	1.14	0.00	0.00	3.93	0.01	0.00	0.01	0.60	0.68	1.22	1.52	4.
Menasibu	2.82	0.0	1.99	0.00	0.00	0.00	0.97	0.00	0.00	5.80	1.98	0.02	2.00	0.22	0.28	0.85	0.54	1.
Lalo Kile	3.08	0.0	0.98	0.00	0.00	0.00	1.82	0.00	0.00	5.94	0.20	0.04	0.23	0.45	0.42	2.66	0.34	3.
Dale Sedi	3.29	0.0	0.65	0.00	0.00	0.00	1.98	0.00	0.00	5.96	0.27	0.01	0.28	0.67	1.33	3.26	4.87	10.
Gidame	1.75	0.0	1.50	0.00	0.00	0.00	1.61	0.00	0.00	4.90	6.75	0.03	6.77	0.51	3.43	1.97	1.14	7.
Hawa Welel	2.28	0.0	0.39	0.00	0.00	0.00	1.47	0.00	0.00	4.15	0.85	0.02	0.86	0.50	0.61	1.48	0.31	2.
Sayo	5.89	0.0	2.63	0.00	0.00	0.00	1.63	0.00	0.00	10.17	3.76	0.15	3.91	0.67	0.67	1.72	0.17	3.
Anfilo	3.97	0.0	2.65	0.00	0.00	0.00	2.07	0.00	0.00	8.76	9.61	0.06	9.67	0.45	1.25	2.39	0.28	4.
Begi	1.55	0.0	0.35	0.00	0.00	0.00	1.25	0.00	0.00	3.16	1.62	0.01	1.64	0.13	0.74	0.91	0.08	1.
Gawo Dale	2.06	0.0	1.27	0.00	0.00	0.00	1.28	0.00	0.00	4.62	2.64	0.01	2.66	0.54	0.61	2.51	0.54	4.
Jima Horo	7.84	0.0	1.05	0.00	0.00	0.00	2.05	0.00	0.00	11.02	2.49	0.05	2.54	0.69	0.85	2.54	0.31	4.
Zonal Offices																		

Data source: Oromia region BoFED

Note

Out of 197 only for 187 weredas data for population is available to calculate per capita revenue

