



**College of Law and Governance Study Center for
Federal Studies**

**Conditional Grant Allocation and Its Implementation in the Ethiopia
Federal System: A Comparative Study of Afar, Amhara, Oromia and
Somali Regional National States**

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May, 2014

**CONDITIONAL GRANT ALLOCATION AND ITS IMPLEMENTATION
IN THE ETHIOPIA FEDERAL SYSTEM: A COMPARATIVE STUDY OF
AFAR, AMHARA, SOMALI AND OROMIA REGIONAL NATIONAL
STATES**

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the School of Graduate Studies Addis Ababa University, the Center for
Federal Studies in Partial Fulfillment of the Requirements for the
Degree of Master of Arts in Federal Studies**

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Declaration

Here, I announce that this thesis is original and the result of my own effort and all sources of materials used in this thesis have been sincerely acknowledged. The thesis is submitted in partial fulfillment of the requirements for MA degree at the Addis Ababa University and placed in the University Library to be reference for further work on the similar issue and other academic works in accordance with the rules and regulations of the University Library. I genuinely declare that this thesis was not submitted to any other institution for the award of any academic credentials. Brief or summarized quotations from this thesis are allowed without permission, bearing in mind that proper acknowledgement of the source is made.

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ABSTRACT

Conditional Grant Allocation and Its Implementation in the Ethiopia Federal System: A Comparative Study of Afar, Amhara, Oromia and Somali Regional National States

Duguma Fulea, MA Thesis

Addis Ababa University, 2015

Conditional grant allocation, distribution and utilization in Federal Democratic Republic of Ethiopia (FDRE) encountered various challenges which become obstacles to the intended objective (purpose) of the grant. This thesis is a comparative study that attempts to assess the mechanisms and/or formulas that are used for allocating; distributing and disbursing conditional grants through channel one and channel two federal transfers. Put differently, it devotes to examine the challenges faced and the impact of the distribution and disbursement of conditional grant on equity and budget autonomy of the Afar, Amhara, Oromia and Somali national regional states. The theoretical concepts of conditional grant, kinds, allocations and distributions were reviewed in line of this study problem. Methodologically, the study used both qualitative and quantitative eclectic approaches. The analysis part was supported by literature, legal and official documents by using instruments such as tables, percentages, averages and graphs. The findings of the study show that the allocation and distribution of conditional grant to the study areas was/is formula based but lacks fairness in its distribution while disbursement of conditional grants were made on performance (out-put) based. All regions examined did not receive the grant as scheduled due to their inefficient utilization of the budget and inefficient performance in meeting the objective of the project. The distribution of millennium Development Goal (MDG) uses the unconditional grant distribution formula which did not put in to consideration the unit cost of the projects among the regions examined. The General Education Quality Improvement Program (GEQIP) and Productive Safety Net program (PSNP) in per-capita distribution favors to relatively developed regions as compared to emerging regions. The selection of eligible states of Urban Local Government Development Program (ULGDP) has tended to favor the relatively developed regions as compared to emerging regions under examined. The channel one conditional grants have resulted in less negative impact on regional budget autonomy and on equity but channel two conditional grants (loans and assistances part of the subsidy) highly affects regional budget autonomy and equity as it makes some regions losers and the others gainers. Finally, the thesis provides possible policy recommendations.

Key words: Conditional grants, Allocation formulas, Distributions, Disbursements, Fairness

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List of Acronyms

AIBP	Accelerated Irrigation Benefit Program
APDRP	Accelerated Power Development and Reform Program
ACA	Additional Central Assistance
ABE	Alternative Basic Education
BoARD	Bureau of Agriculture and Rural development
BoE	Bureau of Education
BoFED	Bureau of Finance and Economic Development
BoUDC	Bureau of Urban Development and Construction
CIDA	Canadian International Development Agency
CBDS	Capacity Building Decentralized Service Delivery
CSA	Central Statistical Agency
DFID	Department for International Development
DP	Development Partners
EMIS	Education Management Information System
ESDP	Education sector Development Program
ESRD	Ethiopian Social Rehabilitation Development Fund
EU	European Union
FTI-CF	Fast Track Initiative Catalytic Fund
FDRE	Federal Democratic Republic of Ethiopia
FFC	Financial and Fiscal Commission
FM	Financial Management
FAO	Food and Agriculture Organization
GEQIP	General Education Quality Improvement Program
GCC	GEQIP Coordination Committee
HSDP	Health sector Development Program
HoF	House of Federation
HoPR	House of Peoples Representatives
IBEX	Integrated Budget and Expenditure Management
IFT	Intergovernmental Fiscal Transfers
IFR	Interim Financial Reports
IDA	International Development Agency
JNNURM	Jawaharlal Nehru National Urban Renewal Mission
KDAs	Kebele Development Agents
MAP	Management and Administration Program
MTEF	Medium Term Expenditure Framework
MDG	Millennium Development Goal
MoARD	Ministry of Agriculture and Rural Development

MoE	Ministry of Education
MoFED	Ministry of Finance and Economic Development
MoUDC	Ministry of Urban Development and Construction
MDTF	Multi Donor Trust Fund
NBE	National Bank of Ethiopia
NREGA	National Rural Employment Guarantee Assistance
NGO	None Governmental Organization
NCA	Normal Central Assistance
OR	Other Resources
PCDP	Pastoral Communities Development Program
PSNP	Productive Safety Net Program
PAD	Program Appraisal Document
PIM	Program Implementation Manual
PBS	Protection for Public Services
PFM	Public Financial Management
PSCP	Public Sector and Capacity Building
REBs	Regional Education Bureaus
RR	Regular Resources
RSA	Republic of South Africa
RPF	Resettlement Policy Framework
SIP	School Improvement Program
SNNP	Southern Nations, Nationalities and Peoples
SPG	Specific Purpose Grant
SNG	Sub-National Government
TDP	Teacher Development Program
UNAIDS	United Nations AIDS
UNICEF	United Nations Children's Fund
UNDP	United Nations Development Program
USAID	United States Agency for International Development
ULGDP	Urban Local Government Development Program
ULGs	Urban Local Governments
WaSH	Water and Sanitation Hygiene
WEOs	Woreda Education Offices
WOFEDs	Woreda of Finance and Economic Development
WFP	World Food Program
WHO	World Health Organization

CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

It is now more than two decades since the federal structure is set up in Ethiopia by the adoption of the Transitional Charter in 1991 and the subsequent ratification of the Federal Democratic Republic of Ethiopia (FDRE) Constitution in 1995. According to FDRE constitution of 1995 article 46(1) (2), the FDRE has comprised of 9 regions¹. Pursuant to article 49(3) of this Constitution, the city of Addis Ababa is one of the two federal cities that are accountable to the federal government of Ethiopia. The other city with the same status is Dire Dawa. The Ethiopian Constitution adapts a distinct federal system and the mechanisms for intergovernmental fiscal relations. As it is stipulated under article 96, 97 and 98 of the 1995 constitution the fiscal decision making powers has distributed between the federal government and the nine regional states.

In line of this, fiscal federalism is essentially the choice and distribution of fiscal decision making power across multi leveled governments and encompasses four major pillars; such as assignment of expenditure, assignment of Revenue, intergovernmental transfer and borrowing (Endaweke, 2009; Ghebrehiwet, 2014).

The fiscal federalism literatures provide broad guidance in delineating expenditure and regulatory responsibilities among member units in a federation. The allocation of expenditure, regulatory, and tax functions to various orders of government is the most fundamental issue in a federation (Shah, 2007). However, it is usually contended that the expenditure responsibilities imposed up on sub-national governments far more exceed their revenue power which puts them in disadvantageous position by letting them substantially dependent on the central government at

¹. Nine member states of the federation as stated under 1995 FDRE constitution (Art.47) are: 1) Tigray, 2) Afar,3) Amhara, 4) Oromia, 5) Somali (The Amharic version of the constitution used the name of the fifth region by saying “ክልል ሱማሌ”); the English version of the constitution the state of “Somalia”; while some literatures say “Ethiopian Somali” but different literatures and the region itself use the name of the state “Somali” so that this study also used the name of the fifth state of the member of the federation by saying “Somali), 6) Benshangul-Gumuz, 7) SNNP, 8) Harari and 9) Gambela. The constitution justified about Addis Ababa administration city under article 49. The constitution remains silent about Dire Dawa city administration. But it established by proclamation No.416/2004. In this thesis region(s) is /are used interchangeably with state(s).

the expense of prejudicing their autonomy. Though, due to this fact the compensatory grants warranted in the provision of services and some considerations apply are economies of scale, fiscal efficiency, regional (horizontal) equity and the redistribution of the public sectors.

The revenue assignment is the allocation of revenue-raising power among multiple tiers of governments of federal system. The notion of revenue assignment consists of the power to legislate laws on some determined sources, the power to collect and the power to administer revenues (Endaweke, 2009; Getachew, 2011) accordingly. Governments in general raise revenue from two basic resources. Taxes are the major and the substantial source of government revenue. The non-tax sources are the other sources of government revenue. The non-tax revenues accrue from administrative income is fees, charges, fines, penalties, and etc. In addition, price capital receipts, grants, loans and assistances constitute the substantial part of non-tax revenues. Taxes with their category as direct and indirect play a vital role in government financing. They finance the government expenditure responsibilities, stabilize economic fluctuation, distribute wealth of the state and encourage investment (Endaweke, 2009).

In Ethiopia devolution of power of taxation by specific method is the basic task of federal constitutions. Accordingly, the FDRE Constitution under article 96, 97 and 98 derives specific methods of division of taxation between the federal government and the states. The Constitution addresses the division by setting “federal power of taxation”, “state power of taxation” and “concurrent power of taxation”. It also provides under article, 99 the residual (undesigned) taxation to be dealt by the joint meeting of the two federal houses.

The other pillar of fiscal federalism is Intergovernmental fiscal transfer. The design of fiscal transfer is critical to ensuring the efficiency and equity of local service provision and the fiscal health of sub national governments (Boadway and Shah, 2007). Intergovernmental fiscal transfer is the basic measure to alleviate the problems emanate from the distribution of the tax base (revenue power) of sub-national governments and the demand for public goods (their expenditure duties) does not follow equal pattern and this gives rise to the emergence of fiscal imbalances, vertical or horizontal (Getachew, 2011). Vertical fiscal imbalance occurs when own revenue and expenditure capacity of various levels of government within a federation are unequal.

It is the result of an allocation of expenditure responsibilities with higher cost than the source of revenue assigned to sub-national governments. Horizontal fiscal imbalance, on the other hand, occurs when the own fiscal capacities of sub-national governments of the same level differ (Abu, 2003). It emerges usually as a result of tax base due to uneven distribution of economic resources and activity across regions where as expenditure requirements are spread more evenly (Anwar Shah, 2007).

After devoting considerable attention to revenue assignment, expenditure assignment and the transfer of revenue, we should, for the sake of completeness, make a slice of notes on borrowing. Borrowing is the other possibility by which states may supplement their financial constraints. The major issues concerning borrowing are the adoption of appropriate criteria for acquiring the loans, setting the upper limit to be borrowed, interest obligations, the repayment period and debt servicing capacity. Unlike the centre, sub-national governments are mostly restricted to domestic borrowing and they may even be subject to direct control by the central government. The main reason for participation and control by the centre is that monetary and fiscal policies are centralized as Oats and King cited in Ghebrehiwet (Ghebrehiwet, 2014).

In Ethiopia, according to Proclamation No. 57 /1996 article, 59(1) (2) (3) internal borrowing is allowed for regional governments but External borrowing is do not allowed. The proclamation justified that Regional Governments have provide the Ministry of Finance and Economic Development (MoFED) with all information required to allow it to determine the amounts to be borrowed by individual Regions, taking into account national fiscal policy and borrowing limitations imposed by law or agreements. The proclamation also set those Disbursements on borrowings of Regional Governments to be managed by the National Bank of Ethiopia, unless these borrowings are from entities other than the National Bank of Ethiopia (NBE). If Regional Governments borrow from entities other than the NBE, the respective Regional Government and the ministry shall jointly agree on the administrative arrangements related to such borrowings.

For the sake of information if the author said about the pillars of fiscal federalism as such, though because of the study has focused on fiscal transfer particularly on the conditional grant in Ethiopia thus the discussion has devote on it as following.

The transfer system in Ethiopian federation operates within its local context. Transfer in rudimentary sense is a mechanism which involves a vertical flow from the center to lower governments and horizontally from wealthier regions to poorer regions in order to maintain fiscal stability that creates broad correspondence between revenue resource availability and expenditure functional responsibility; although, to provide minimum national standard public services.

The (HoF 2007, 2009 and 2012) subsidy formula showed that the practice in Ethiopia was that regions able to finance, on average, about 30 percent of their expenditures from their own revenue sources; the remaining about 70 percent was financed by the federal government in the form of a transfer. Ethiopia's intergovernmental fiscal transfers include unconditional and conditional transfers. The FDRE constitution clarified that, the subsidy that appropriated to the regions shall be based on the formula that developed by House of Federation (HoF). In Ethiopian context (Ghebrehiwet, 2014) the major part of the Ethiopian fiscal transfer is the subsidy which has both elements of unconditional and conditional grants covered from the sources of federal treasury, external loans and external assistances. The federal treasury part of the federal subsidy is an unconditional grant that the states spent, audit and inspect the proper utilization of subsidies by their discretion. In another direction part of the federal subsidy which has conditional elements is the one which covered by external loans and external assistances. This part of subsidy is determined by external grantors and it is less predictable, utilization of the resources was verified by the development partners and states have no discretion on it.

Ethiopia's policy of fiscal transfer works as follows. First, the (MoFED) propose annual budget allocation to federal institutions and federal transfers to the nine regional states and Dire Dawa up on the approval of House of Peoples Representatives (HoPR). Second, the Bureau of Finance and Economic Development (BoFED) prepares annual budgets to regional institutions and (district) woreda² block grants to districts and the respective state councils ratify budget bills. Finally, the District Finance and Economic development office submits budget draft to District Councils.

² . Note: in this thesis district and woreda are used interchangeably

The Ethiopian system of unconditional grant transfers is based on the objective to provide minimum national standard public services at the same tax rate and free to spend according to their own choices and preferences. Clearly the transfer formula is currently one of the most important policy variables at work in the Ethiopian public finance system. It means that by determining the total expenditure envelope first (the federal government decides the total expenditures of the federal and regional governments), and then giving gap-filling grants to cover expenditures not financed by the grantee's own revenues based on the subsidy distribution formula which is developed by HoF. After that in practice MoFED has off-set the budget from the part of subsidy to the regions which are made for an amount that is equal to external assistances and loans which are placed in the regions during the transfers' fiscal year³ and after this it shall be approved by HoPR with incorporating to in the federal subsidy.

After the approval of HoPR, this subsidy is dispersed to the regions through two Channels. The federal subsidy that appropriated from federal treasury or domestic source to the regions disbursed through MoFED to BoFED without any preconditions set for it is termed as Channel One. But loans and assistances part of the subsidy (the off-set one) which is categorized under conditional grant shall be disbursed through line ministries which are termed as Channel Two. The off-set budget is incorporated in unconditional grant during allocation and distribution but it has been executed for specific purpose based on the preconditions set by the grantors out of government treasury. In other direction besides these the federal government also allocates, distributes and disburses the budget of conditional grant to the constituent regions and city administrations for the implementation of federal programs and also for other activities through channels one⁴. From the programs some of them are the Protection for Public Services (PBS), Millennium Development Goal (MDG) (HoF, 2012), General Education Quality Improvement Program (GEQIP)⁵, Productive Safety Net Program (PSNP), water and Sanitation Hygiene (WaSH), Ethiopian Social Rehabilitation Development Fund (ESRDF), Public Sector and Capacity Building (PSCAB), Health sector Development Program (HSDP), Education sector Development Program (ESDP), Pastoral Communities Development Program (PCDP) and urban

³ . Discussion made with Ato Henok an expert at Ministry of Finance and Economic Development , October, 2014

⁴ . Ibid

⁵ .It is taken from MoFED channel one coordination team, during preliminary observation, October, 2014

local Government Development Program (ULGDP). Except PSNP, PCDP and ULGDP all are currently state inclusive.

In Ethiopia conditional grants appropriated or allocated to the constituent regions accounts above 54% of the subsidy (unconditional grant) appropriated to the regions. For understanding the four conditional grants from channel one (MDG, GEQIP, PSNP and ULGDP) and from channel two loans and assistances part of the subsidy appropriated to the regions in 2008 up to 2014 has described in table 1, below.

Table 1: Sample of Conditional grant accounts relative to Unconditional grant in 2008 up to 2014

Grant		2008	2009	2010	2011	2012	2013	2014	Average
1	2	3	4	5	6	7	8	9	10
Subsidy	Budget	14,261,220,000	17,438,270,000	20,932,960,000	24,158,950,000	31,393,412,000	36,558,838,331	43,051,558,548	26,827,886,983
MDG	Budget	-	-	-	-	15,000,000,000	20,000,000,000	15,000,000,000	16,666,666,667
	%	-	--	--	-	47.78%	54.70%	34.84%	45.77%
GEQIP	Budget	-	-	615,544,772	710,589,012	985,830,874	2,316,315,296	473,300,646	1,020,316,120
	%	-	--	2.94%	2.94%	3.14%	6.33%	1.09%	3.29%
PSNP	Budget	2,184,800,020	2,526,187,447	4,923,212,500	4,531,448,890	7,976,943,505	6,563,958,879	7,376,756,643	5,154,758,269
	%	15.32%	14.49%	23.52%	18.76%	25.41%	18%	17.13%	5.68%
ULGDP	Budget	-	not available	not available	1,403,168,019	1,201,805,926	1,392,783,834	907,292,645	1,332,585,926
	%	-	not available	not available	5.81%	3.83%	3.81%	2.11%	3.89%
L & A	Budget	705,420,000	882,470,000	1,377,160,000	603,150,000	837,612,000	1,003,038,331	586,258,548	856,444,126
	%	4.95%	5.06%	6.58%	2.50%	2.67%	2.74%	1.36%	3.69%
Total	Budget	2,890,220,020	3,408,657,447	6,915,917,272	7,248,355,921	26,002,192,305	31,276,096,340	24,343,608,482	14,583,578,255
	%	20.27%	19.55%	33.04%	30%	82.83%	85.56%	56.55%	54.36%

Source: based on FDRE budget proclamation of each fiscal year and MoFED channel one conditional grant team, February, 2015

Note:

- ✓ Budget under column 2 implies that the allocated unconditional grant under row 3 and conditional grant under row 4,5,6,7, and 8.
- ✓ % under column 2 implies that the coverage of conditional grant from subsidy of under row 3.
- ✓ L & A under column 1 row 8 stands for external loans and assistances part of subsidy.
- ✓ Total under column 1 row 9 implies that the total budget of those under row 4, 5, 6, 7 and 8.

In Ethiopia the grant allocation system experienced an evolution from Ad-hoc (1993/4-1994/5) to a formula one since 1995/6. The formula approach focuses on minimizing risks by respecting equity or fairness improving program performance and ensuring efficient grant monitoring and follow ups. The FDRE constitution article 62(7) states that “*the HoF shall determine the subsidies that the federal government may provide to the states*”. In principle subsidy may imply unconditional and conditional grant. But in this provision it is not clear whether the subsidy implies both conditional and unconditional grants; on the other hand the federal constitution article 89(4) states that “*government shall provide special assistance to nations, nationalities and peoples least advantaged in economic and social development*”.

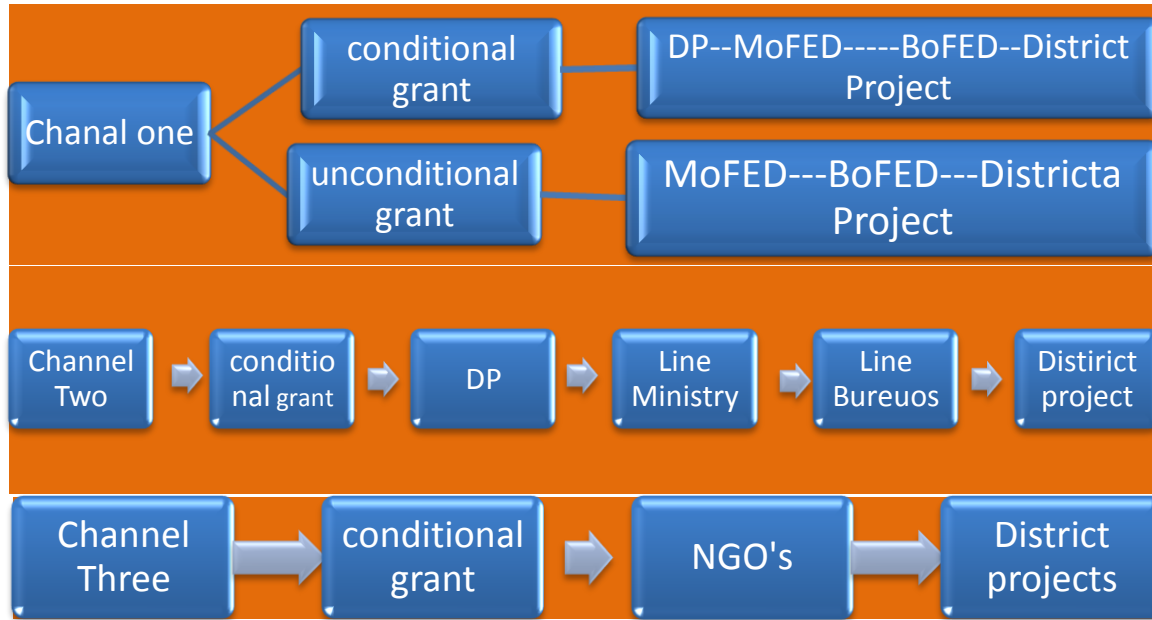
In Ethiopia conditional grant allocation and transfer system has three main channels. Channel one refers to direct budgeting and transfer through federal financial institution to sub-national financial institutions and from there to lower level of government. This funding channel is considered ‘on-budget’, as resources are part of the planning and budgeting process of public resources and are accounted for in the relevant budgets⁶. The Channel One system has an advantage that it enables proper knowledge of and control over resources and disadvantage it can entail long bureaucratic procedures. Channel Two involves budgeting and transfer through sector ministries, and transfer through their respective budget implementation units located at regional and woreda level. Channel two allocations target beneficiaries more exactly but such targeting may be donor targeting rather than nationally aligned; in addition, such support may risk leading to the establishment of a parallel system, given that it may not be captured within national systems (Bladon, 2007; Ghebrehiwet, 2014). A Channel Three channeling funds implies transferring financial resources from the donor or None Governmental Organization (NGO) either directly to the regional sector bureaus or through a project implementation unit. MoFED considers Channel Two and Channel Three ‘off-budget’, as donor and NGO support remains outside the planning and budgeting process of public resources⁷.

⁶ . Through preliminary observations from MoFED manuals

⁷ . Discussion made with Ato Henok an expert at Ministry of Finance and Economic Development, October, 2014

This study is aimed at assessing the equitability of allocation, distribution and disbursement of conditional grant; challenges and impact of conditional grant allocation, distribution and disbursement from the center to Afar, Amhara, Oromia and Somali regional states.

Diagram 1.1: Conditional grant Channels



Source: Author based on MoFED Financial Manuals.

✚ (DP) in the diagram above indicates Development Partners' (Bilateral or multilateral i.e., Assistance or loan givers).

1.2. Statement of the Problem

In principle, unconditional (general purpose or non-earmarked) grants are used to provide broad support in a general area of sub-national expenditures while allowing recipients discretion in allocating the funds among specific uses. Such transfers are intended to preserve local autonomy and enhance an inter-jurisdictional equity (Shah, 2007). Barati and Szalai, (2000: 21) also argue that unconditional grant do not affect “the basic freedom of local authorities to exercise policy discretion within their own jurisdiction”.

Conditional (specific purpose or earmarked) grants are transfers intended to provide incentives for governments to undertake specific programs or activities. Out-put based conditionality is

required for the attainment of certain results in service delivery. It allows grantors to achieve their objectives to promote accountability mechanisms and to improve service delivery performance (Shah, 2007).

In Ethiopia federal system, in its allocation, distribution and disbursement some parts of conditional grants are allocated and distributed incorporating into the unconditional grant to the regions affects negatively budget discretion. Unconditional grants in Ethiopia are allocated by determining the total federal expenditure and to gap-filling the expenditure needs of the states (HoF, 2007; 2009 and 2012). It also involves a "budget off-set" provision. The budget offset provision implies reductions of certain amount of external assistances and loans from federal budget subsidy mechanism. Unconditional grant in Ethiopia has equalization nature. It is allocated, distributed and disbursed without setting any preconditions on using it. It does not undermine local discretion. According to Ghebrehiwet (2014), the external loans and assistances part of the unconditional grant are uncertain, less predictable and less transparent; hence, they violate the principle of equity or fairness budget allocation and distribution among the states.

In addition to this, in Ethiopia the other parts of conditional grants are allocated, distributed and disbursed to the regions and the city governments for specific purposes associated with meeting national goals through channel one. Only few of conditional grants in Ethiopia are state inclusive; states are selected arbitrarily so that eligible states are selected by the discretion of line ministries (Ghebrehiwet (2014). Conditional grants are less transparent and less predictable because the selection criteria of the states are based up on political decision with the consent of grantors. As it was discussed in background part, **conditional grants are allocated to meet national objective, so that if they are not inclusive, if their allocation mechanism is not transparent, and if the allocated budget is not disbursed in scheduled time to the recipients, then the national goal achievement would be at risk.** In Ethiopia, conditional grants vary less states resources, because much of conditional grants in Ethiopia are non-matching grants but in principle conditional grants specifically matching funds alter states resources that by using local priorities (World Bank, 2008; Ghebrehiwet, 2014). All these problems raise the question of

equitability or fairness allocation, distribution and disbursement of conditional grants among the states.

Therefore, external loans and assistances have their own barriers, because of some bureaucratic delay of grantors they do not reach to the states on time. It could also be argued, that due to this fact there is also some loss of sub-national budget autonomy when expenditures are dependent upon transferred resources. Too large a deviation from the grantor's preferences might cause hesitation in adopting such policies on the part of the grantee (regional governments) and it has its own impact on achieving national goal, equity and regional budget autonomy.

These all show that in Ethiopian context, Conditional grants are facing several challenges. Studies on conditional grant allocation and implementation in Ethiopian federal system are scanty. So that it needs further studies to bridge these gaps. Because of this fact, the study aims to assess the mechanisms and formulas that the federal government uses in allocating, distributing and disbursing conditional grant to the Afar, Amhara, Oromia and Somali regional states. In addition to this, this study examines and compares the equitability⁸ of conditional grant allocation, distribution and its disbursement from the center to the SNGs, and the impact of conditional grant on equity and regional budget autonomy. For this comparison, the specific variables that the study employs are that the Federal government uses for allocation and distribution of conditional grants among the regions. It also investigates the equitability or fairness, distribution and disbursement of conditional grant from the center to SNGs. Finally, the impacts of the conditional grant on equity and on the regions budget autonomy, and the associated challenges have been studied.

⁸ . Equity has different meanings in different disciplines, but here in this study particularly it describes the concept or idea of fairness in regard to allocation, distribution and disbursement of budget for regions to provide all citizens with a basic and equal minimum of income, goods, and services or to increase funds and commitment for proportional redistribution.

1.3. Objectives of the Study

1.3.1. General objective

- ❖ As a general objective, this study assesses the equitable or fairness allocation and its implementation of conditional grants from the FDRE to the four constituent regions and the impact of conditional grant on equity and regional budget autonomy.

1.3.2. Specific objective

As part and bundle of the general objective, this study will achieve the following specifically designed objectives. These are:

- ❖ To assess the mechanisms and formulas that the FDRE has used to allocate, distribute and disburse conditional grants to regions through channel one and two.
- ❖ To describe the challenges faced in allocating, distributing and disbursing conditional grants of channel one and channel two.
- ❖ To identify the impact of allocation, distribution and disbursement of channel one and channel two conditional grants on equity and regional budget autonomy.

1.4. Research Questions

1. What are the mechanisms and formulas that the federal government used to allocate distributes and disburse conditional grants to the regions through channel one and channel two?
2. What are the challenges in allocation; distribution and disbursement of conditional grants through channel one and channel two?
3. What are the impact of conditional grants of channel one and channel two have on equity and regional budget autonomy?

1.5. Research Methodology

1.5.1. Research Design

Selecting an appropriate research design to gather sufficient and significant information for the study is very important. So to make the research yield maximum information and to have relevant evidence information about the study area comparative and analytical type of research design was employed.

A comparative study was determined because it enables the researcher to obtain information concerning the current status of the phenomenon and to describe and explain “what exists” with respect to variables or conditions in a situation. It can yield rich data that lead to important recommendations. This design helps to analyze and explain the existing situation with regards to conditional grant allocation and distribution, grant disbursement implementation in the selected regional states. In addition, this design helps to analyze and explains the major challenges of the grant. It also helps to describe the existing situation with regards to respondents view about the variables mentioned in the study.

The experience of commonwealth of Australia, Republic of India and Republic of South Africa on intergovernmental fiscal transfers especially on conditional grant transfers has given special emphasis. From federal countries the Commonwealth of Australia, the Republic of India, and the Republic of South Africa has selected because of the following reasons which could be retrieve as a good lesson. Whereby they have established independent institutions for IFT system, experts of the institutions are given by the task independently for determining the grant formula for equalization and redistribution as recommendation to the central government. The Australian federalism is a long aged federalism that has experienced with grant system. Since its establishment in 1933, the Australian grant commission is well- known for it is an effective equalization instrument by dealing with both the revenue and expenditure needs of the states, and the overall recommendations to reduce both vertical and horizontal imbalances including conditional grant. In India, the principle it uses mainly focuses on the financial capacity of states, leaving the expenditure need to be determined by the Planning Commission which focus on conditional grant. In Republic of South Africa an independent body allocated specific grant. Due to this fact the countries have selected.

1.5.2. Research approach

In undertaking this study, the researcher was used both qualitative and quantitative eclectic approaches. These have employed because it provides a richer pool of data, broader and deeper information. The raw data was gathered from documents and interviews have been organized, edited, and analyzed using the tables, percentage and graphs (charts). In analyzing the data, the

quantitative data analysis method has employed to compare the statistical significance of the data gathered between the sampled regions.

Qualitative data is gathered through semi-structured interview guide has classified and categorized. The categorized data has enrolled under thematic areas and presented in narrative form. To further enrich and enhance the information collected, the qualitative data was independently analyzed and then triangulated with the quantitative data.

The researcher has tried to gather data that give credibility for his analysis. If qualitative research relies on too little data, the experiences of only a small numbers of interviewees might distort the data. The validity of findings or data is traditionally understood as the correctness or precision of a research reading (Ritchie and Lewis, 2003). In relation to the validity of the quantitative data, the instrument, content wise, was checked with the advisor.

The quality of the Quantitative and qualitative data has assured by different mechanisms. Among others, building good rapport, clarifying the objective of the research to respondents, approaching friendly and getting trust, respecting the cultural values of the participants and staying long with interviewees, colleagues-check i.e. presenting the data to the colleague and understand what it mean were some of the procedures done to improve the trustworthiness of the data.

Triangulating the data collected through different method of data collection has also utilized to confirm the trustworthiness of the data. Triangulation provides the researcher with several important opportunities. First, it allows being more confident of the results. Triangulation can play many other constructive roles as well. It can stimulate the creation of inventive methods, new ways of capturing a problem to balance with conventional data-collection methods (Clesswell, 2007).

1.5.3. Sample Size

The FDRE comprises nine regions and two city administrations. From these regions, the researcher considered four (4) regions namely Afar, Amhara, Oromia and Somali purposely. These regions were selected purposely because of during preliminary observation the researcher

was observed depth problems were faced in these regions than the other regions regarding to the conditional grant. Only these regions were selected for sample because of financial and time constraint. Owing to this reality, it can increase the probability of resulting various mega complains with regard to the distribution of conditional grant. Thus, the conditional grants allocated, distributed and disbursed from the center to the above listed regions can serve as a point of comparison.

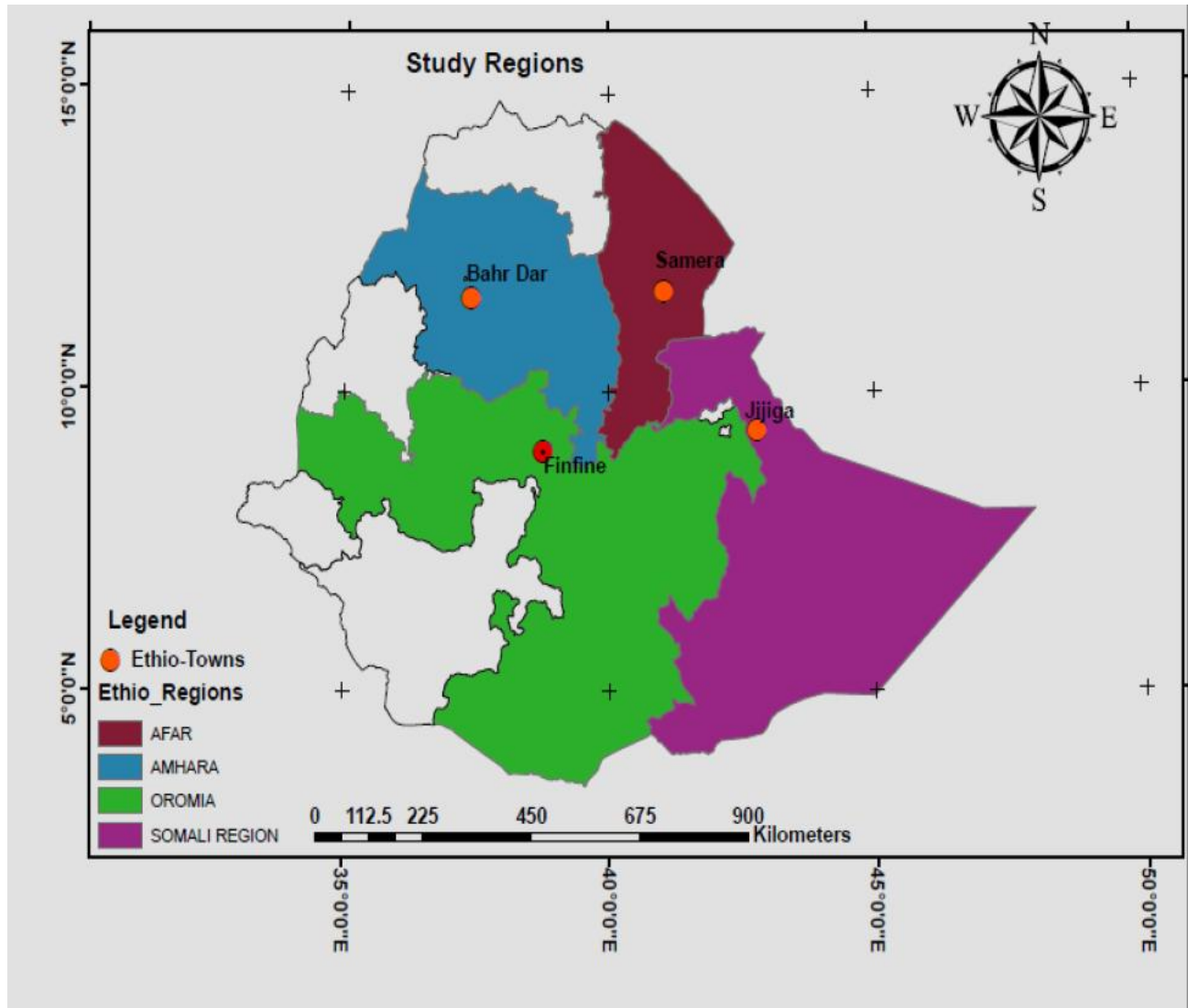
The sample size served for gathering data through interview was described under table 1 below. Table 1 column 3 shows number of informants from various public sectors who are believed to show adequate information because of political assignment and/or professional skill about the issues of the research.

Table 2: sample unit

No	Indicators	At Federal level	Afar	Amhara	Oromia	Somali	Total
1	HoF	1	–	–	–	–	1
2	MoFED	9	–	–	–	–	9
3	MoE	1	–	–	–	–	1
4	MoARD	1	–	–	–	–	1
5	MoUD	1	–	–	–	–	1
6	BoFED	–	1	1	1	1	4
	Total	13	1	1	1	1	17

Note: the list of respondents

Figure 1: Study Area



Source: researchers' own work

1.5.4. Data Sources

In order to realize the intended objective of the study, data has been collected and analyzed both from primary and secondary data source.

1.5.4.1. Primary Sources

An interview has conducted to the purpose full selected interviewees of federal government officials or experts in general and officials and experts of the selected regions in the regional government of the selected sample regions. The in-depth interview has been conducted to get

detail information about the allocated conditional grant distribution formula, disbursement implementation of distributed grant and equitability or fair distribution of the allocated conditional grants.

The researcher has used the primary source of data, by giving detail explanation about overall objective of the study and the giving self administration interview questionnaires guide for selective informants (officials and/or experts) from the federal government and selected sector of the regions. An in-depth interview has been conducted with the process owner of the federal government and the selected sector of the selected sampled regions.

1.5.4.2. Secondary Sources

Data which are accessible, reliable and adequate has collected from secondary sources like reports, manuals, publications and different books. Data collected from different sources by various techniques and analyzed through clear and self explanatory descriptive statistics. Various related literatures, federal government and regional administration policy documents and proclamations have also reviewed as a supplementary to primary data.

Related document was reviewed; because document review for analysis in qualitative and quantitative research is helpful to explain causal factors related to some outcomes, actions or events. It also served to supply information helpful in evaluating or explaining practices. Documents from: International agencies; international agreements and Repots as well as seminars and workshops of Federal Ministry Institutions Ministry of Finance and Economic Development (MoFED), Ministry of Education (MoE), Ministry of Agriculture and Rural development (MoARD) and Ministry of Urban Development and Construction (MoUDC), House of Federation (HoF), and regional institutions Bureau of Finance and Economic Development (BoFED), Bureau of Education (BoE), Bureau of Agriculture and Rural development (BoARD), Bureau of urban development and Construction (BoUDC) was reviewed and analyzed.

1.5.5. Data Analysis and Interpretation

The necessary data, as mentioned above, have collected through an in-depth interview and document review. Then the data is compiled, expressed and analyzed quantitatively and

qualitatively. Different means of presenting data such as tables, percentage and graphs have been employed.

1.6. Ethical Consideration

The researcher has presented a letter from Addis Ababa University center of federal studies to selected federal institutions and selected regional public institutions. After the researcher has gotten official permission to conduct the study on the study area quantitative and qualitative informants provided in detail explanation of the overall objective of the study ahead of time. Interview was administered on free willingness of interviewees and participants. Respondents has informed that information providers and to aware the interviewees idea will not transfer to third parties or will not used for any other purpose. Thus, their participation is based on their permission. The researcher was made all the possible efforts to keep the participants' privacy. Therefore, the researcher was always gave and keep the ethical principles to make his research or edible and acceptable by the scientific communities and users of the result. Hence truthiness, objectively through, and relevance principles will be variable.

1.7. Scope of the Study

The scope of the study is delimited to the practice of conditional grants with respect to the channel one such as MDG, GEQIP, PSNP, ULGDP and channel two which is the off-set budget in Afar, Amhara, Oromia and Somali regional states. The study focus on these regions because regarding to channel one, of conditional grants, the researcher has chosen because of large amount of grant budget has allocated for them, they all have a lion's share in countries development goal and play a significant role in countries national goal achievements, in another direction MDG and GEQIP covered the whole country while PSNP and ULGDP did not cover the whole regions.

The study was limited to only conditional grant to investigate limited variables, such as; Mechanisms and formulas for allocation, distribution and disbursement of conditional grant, equitability or fairness allocation, distribution and disbursement of conditional grant and challenges faced. The study was covered time frame from 2007/2008 up to 2013/2014 GC.

1.8. Significance of the Study

The study may have frequent importance for policy makers, and for prospective researchers. For policy makers, it may give information on identified problems in conditional grant allocation, distribution and disbursement, and to take appropriate measures in minimizing the problems.

The prospective researchers will use the findings of the study as a point of reference and data source for further investigation of the problem in a more detailed and broader manner. The study will also be an indicative document and may develop empirical knowledge.

1.9. Limitations of the Study

Because of time and financial constraint interview was limited to only one official from each regions of the study and secondary data is used in the study. The problem associated with the non-availability of data hinders the study to go far. The disbursement data in 2008-2014 on loans and assistances part of the subsidy under channel two was not available at MoFED and BoFED. The distributed conditional grant data of ULGDP under channel one in 2008 and 2009 was not accessed at MoFED and MoUDC.

1.10. Organization of the Study

This paper is organized in four chapters: chapter one deals with background of the study, statement of the research problems, objective of the study, research questions, data and methodology (research design, process of data collection, instruments of data collection, data analysis and data interpretation), ethical consideration, scope of the study, significance of the study, limitation of the study and presents organization of the study. Chapter two is the review of related literatures. The third chapter focused on the presentation, analysis and interpretation of the data collected. The last chapter is summary, conclusion and recommendations.

CHAPTER TWO

REVIEW OF LITERATURE

Introduction

This chapter has four sections. The first section reviews relevant documents on concepts, kinds and objectives of intergovernmental fiscal transfer. Under this section the three kinds of intergovernmental transfers such as unconditional grant⁹, conditional grant¹⁰ and block grants are emphasized. In addition to this the major objectives of intergovernmental transfers such as achieving national goals, to address vertical fiscal imbalance, to address horizontal imbalance, to off-set inter-jurisdictional externalities (spillover effect) and for political reason has been highlighted. The second section reviews relevant documents on concepts, kinds, purposes and allocation of conditional grants. Under this section kinds of conditional grant such as matching (closed- ended and open ended) and non- matching grants has been discussed. The purposes of conditional grant such as purposes on externalities, for efficiency, for equity, in financing infrastructure, and to developing capacity has been tinted. The third section discusses the allocation of conditional grant by addressing derivation based of allocation and formula based of allocation. The fourth section has discusses international practices of the federations on IFT specially on conditional grant by talking the commonwealth of Australia, Republic of India and Republic of South Africa and at last conclude the chapter.

2.1. Intergovernmental Fiscal Transfer (IFT)

Federal transfers are essential for carrying out economic development activities and it holds different opinions. Different federations prefer different methods of resource transfers to solve the problem of fiscal imbalances as these are the common to all federation and the objective behind is to provide maximum social advantage to all irrespective of place of residence (Rao and Gupta, 1995).

⁹ . In this thesis the term of unconditional grant is interchangeably used with general purpose grant or non-earmarked grant.

¹⁰ . In this thesis conditional grant is used interchangeably used with specific purpose grant or earmarked grant

Federal Intergovernmental fiscal transfers are designed to bring about a degree of regional economic balance, a modicum of equality, equity in social services and redistributive justice (Getachew, 2011). The states may be used as spending agencies because of their comparative advantage in implementation (Rao and Gupta, 1995). In poverty alleviation system, for example, the states are better placed to implement policies as they can identify the poor, and initiate policy suited to the prevailing conditions which vary from region to region. Thus states are in more need of financial resources. Federations have the objective to provide maximum social advantage to all irrespective of place of their residence (Oats, 1999).

Normative theories of fiscal federalism postulate that inter-governmental transfers (conditional and unconditional) should be determined by equity and efficiency considerations, to support local governments in providing differentiated public goods to heterogeneous populations, while ensuring an even distribution of basic services across all regions (Musgrave, 1957; Oates, 1999). A more recent literature focuses on the inefficiencies created by local taxation due to inter-jurisdictional tax competition and mobility that creates a valuable role for central taxation and regional distribution via grants-in-aid (Inman and Rubinfeld, 1996). However, empirical evidence shows that such normative theories lack explanatory power because central decisions about the regional distribution of resources actually take place within a political economy context where national legislators are elected from regional constituencies, and political bargaining within the legislature determines outcomes (Becker, 1983).

The service provision in this context mean are limited to merit goods like education and health services provided by government, law and order situation in the state, general administration, etc. Hence the principles for grants-in-aid may therefore be used for education, Health, natural calamities, rural development, local bodies and maintenance expenditure (shah, 2007). Thus for these reasons the above studies have been carried out Process of development depends on economic and social infrastructure of a state. There are hard challenges for an undeveloped state to proceed on the developmental path. Up being a poor, populous and undeveloped state has to face many constraints for development. These limitations cannot be separated and both develop simultaneously. All the social sectors are very complex and have deep linkages across them.

Health, education, water, communication and infrastructure are closely related and is still of high priority for the process of development (Blochliger and King, 2006).

2.1.1. Concepts and kinds of Intergovernmental Fiscal Transfer (IFT)

Intergovernmental fiscal transfers are one of the sources of revenues that transferred from one level of government to another level of government for the purpose of efficiency and equity formula or ad hoc approach (World Bank, 2010)

Intergovernmental transfers can be categorized in to unconditional (non-earmarked), conditional (earmarked) and block grants. Unconditional (non-earmarked) grants are grants that are extended to sub local governments with no strings attached to it and provide more freedom of discretion to use on areas where grantees would like to spend (Kim, Lotz and Mau, 2009)

The World Bank (2010) defines conditional grants as a financial transfer from the national government to devolved governments with certain reporting and purchasing requirements. Recipients are often required to use a portion of the grant for particular services or functions, adhere to specific standards, and/or routinely report to the national government. Conditional grants are funds that are supplied by the government in an amount available from other sources (Dafflon and Madies, 2009).

Block grant is a form of grant-in-aid that the federal government uses to provide state and local governments a specified amount of funding to assist them in addressing broad purposes, such as community development, social services, public health, or law enforcement (Dilger, 2014). Block grant is a vaguely defined concept. It falls in the gray area between unconditional and conditional transfers, as it provides budget support with no strings attached in a broad but specific area of sub national expenditures (Dafflon and Madies, 2009). Block grant involves few monitoring requirements, which can result in low-quality implementation or services. Block grant imposes fewer administrative demands on national and county governments. Depending on the capacity of devolved governments, however, block grants may work well.

Unconditional and conditional grants can be divided further into mandatory and discretionary transfers, reflecting the legal background that governs their allocation (Blochliger and King, 2006). Mandatory grants (entitlements) are legal, rules-based obligations for the government that

issues the grant. This requires that both the size of the grant and the conditions under which it is given be laid down in a statute or executive decree and that these conditions are both necessary and sufficient. Discretionary grants, and the conditions under which they are given, are not determined by rules but decided on an ad hoc, discretionary basis. Discretionary grants are often temporary in nature and include, for example, grants for specific infrastructural projects or emergency aid to a disaster area.

2.1.1. Objectives of Intergovernmental Fiscal Transfers (IFT)

Governments introduce IFT for good reasons, and for a number of not-so-good reasons. Thus the objectives of IFTs are mentioned as the following.

i) To achieve national goal

Intergovernmental transfers are thought to be less costly way to finance government because the central government can assess and collect taxes more cheaply than can sub national governments (Kim, Lotz and Mau, 2009). In another direction, intergovernmental transfers aim at compensating the Sub-National Government (SNG) when they are obliged to fulfill national goal, such as providing minimum standard of basic service (primary Education, basic health, drinkable water, access of road) throughout the territory in compliance with the demands of the central government (Dafflon and Madies, 2009).

ii) To address vertical fiscal imbalance

In this Thesis, Vertical imbalance refers to the difference between expenditures and own-source revenues at different levels of government. Vertical fiscal imbalance may in principle be closed in other ways by transferring revenue-raising power to local governments, by transferring responsibility for expenditures to the central government, or by reducing local expenditures or raising local revenues. In most countries, however, sufficient mismatch in the revenues and expenditures assigned to different levels of government remains for some balancing role to be assigned to intergovernmental fiscal transfers (Boadway and Hobson, 1993).

No matter what its stated purpose may be, any transfer from higher-level to lower-level governments of course help to reduce the fiscal gap. For many purposes, however, it is useful to think of vertical fiscal balance as being achieved when expenditures and revenues (including

transfers) are balanced for the richest local government, measured in terms of its capacity to raise resources on its own (Bird, 1993). Fiscal gaps, of course, remain for all poorer local governments, but such gaps are better considered as part of the problem of achieving horizontal fiscal balance within the local government sector rather than vertical balance between levels of government.

Transfers narrow the fiscal gap through stability and flexibility. These characteristics can be achieved through three ways to determine the total amount of transfer: (i) as a fixed proportion of central government revenues; (ii) on an ad hoc basis, that is, in the same way as any other budgetary expenditure; and (iii) on a formula driven basis, that is, as a proportion of specific local expenditures to be reimbursed by the central government or in relation to some general characteristics of the recipient jurisdictions (Bird and Rodriguez, 1999))

iii) To address horizontal fiscal imbalance (equalization)

In this Thesis, Horizontal imbalance refers to the differences between the resources available to governments at the same level, that is, regional inequalities. Horizontal fiscal balance, or equalization as it is usually called, is controversial both because different countries have very different preferences in this respect (Bird, 1986) and because it is a concept with many different interpretations. For example, if horizontal fiscal balance is interpreted in the same gap-filling sense as vertical fiscal balance, what is implied is that sufficient transfers are needed to equalize revenues (including transfers) and the actual expenditures of each local government (Rao, and Chelliah, 1991).

Equalizing the actual outlays of local governments in per capita terms (rising all to the level of the richest local government) in effect ignores differences in local preferences and hence one of the main rationales for decentralization in the first place. It also ignores local differences in needs, in costs, and in own revenue-raising capacity. Equalizing actual outlays would discourage both local revenue-raising effort and local expenditure restraint, since under this system those with the highest expenditures and the lowest taxes get the largest transfers (Bird and Smart, 2002).

To avoid such problems, most countries which have formal equalization transfers avoid revenue pooling and generally aim either to equalize the capacity of local governments to provide a certain level of public services or the actual performance of this level of service by local governments. The performance criterion, which adjusts the transfer received in accordance with the perceived need for the aided service (and which may also allow for cost differentials) is generally more attractive to central governments because the level of service funded is then in effect determined centrally, and transfers can be made conditional on the provision of that level of service. Unfortunately, unless adequate adjustment is made for differential fiscal capacity, with this system once again that government which tries least will receive the most (Bird and Smart, 2002).

iv).To off-set inter-jurisdictional externalities (Spillover effect)

Another justification for the use of intergovernmental transfers is to offset Externalities. That is, left to make their own decisions, local governments may under spend on services where there are substantial external benefits. For example, sub national governments may under spend on education and health services relative to that desired by the nation as a whole. In this case, theory tells us that a transfer on spending for the service in question could stimulate spending on that service (Dafflon and Madies, 2009).

The design of an intergovernmental transfer system to address externalities raises two important issues that must be addressed by policy makers. The first is the size of the grant required. That is, how much of a subsidy is required, and how much expenditure response will be required by the local government? This is a subjective question that must be answered by the central government. In fact, this issue is very often ignored by fiscal planners (Dafflon and Madies, 2009).

The second issue has to do with three-level fiscal federalism. If the grant is made to the provincial or state government, it may not reach the government that is responsible for the under spending. Related to this is the issue of how the intermediate level of government will allocate its resources to the local level government (Dafflon and Madies, 2009).

v) For political reasons

Governments also adopt (or reject) intergovernmental transfers for political reasons. These reasons fall into three categories. The first is that the central government resists giving up the control over governance that would come with giving revenue-raising powers to sub national governments, because authority to make decisions on the service delivery financed with these revenues would be passed from central bureaucrats to provincial and local bureaucrats, and this would significantly dilute the power of the former. An alternative to giving up this power, while not fully rejecting the decentralization initiative, is to provide local governments with intergovernmental transfers that carry stringent conditions (Dafflon and Madies, 2009).

A second political reason for advocating intergovernmental transfers is the goal of enforcing uniformity in the expenditure mix and the revenue structure chosen. One way to restrain local governments from making fiscal choices is to structure intergovernmental transfers to limit local discretion. Third, a transfer system may be put in place as part of a political strategy to hold open the option of off loading the budget deficit on to sub national governments. All this said, the politics may also swing back and forth between preferences for fiscal centralization and conditional transfers and for decentralized taxing powers and unconditional grants (Musgrave, 1961).

2.2. Conditional Grants

2.2.1. Concepts and Kinds of Conditional Grants

A grant is a sum of money given to organizations or individuals for a specified purpose directed at achieving goals and objectives consistent with the aims and policies of the grantor body (Bird and Smart, 2002). Grants can be awarded by government and non-government bodies. In the case of government grants, grants and subsidies are made in various circumstances to support community activities to achieve goals and objectives of the grantor policy. Grants may be covered by legislation or regulation, or be subject to cabinet, ministerial or administrative discretion. They range in their accountability requirements from highly complex arrangements to the relatively informal.

Specific-purpose or conditional transfers are intended to provide incentives for governments to undertake specific programs or activities. These grants may be regular or mandatory in nature or discretionary or ad hoc. Conditional transfers typically specify the type of expenditures that can be financed (input-based conditionality). These may be capital expenditures, operating expenditures, or both. Conditional transfers may also require attainment of certain results in service delivery (output-based conditionality). Input-based conditionality is often intrusive and unproductive, whereas output-based conditionality can advance grantors' objectives while preserving local autonomy (Anwar Shah, 2007).

Literatures on intergovernmental fiscal transfers identify two types of conditional grants. These are matching grants and non-matching grants. Matching grants can be open-ended or closed ended grants. Matching open ended grants imply that the grantor matches whatever level of resources the recipient provides or the recipient government matches a certain percentage of funding to the grantor's allocated money for a particular service. In this case, the cost to the national government varies depending on the matched amount of fund available. Matching grants allow flexibility to match service costs and demand, leaving grant amounts uncapped for national and devolved governments (Bowser, et al., 2006). A major strength of these grants is that they tend to be counter-cyclical, increasing during economic downturns and decreasing during times of growth. Open-ended grants encourage local governments to spend as much as they can on the service for which the grant is provided. One weakness in using a matching open-ended grant is that the liability of the national government is uncertain; potentially leading to mismanagement and budget overruns (Bowser, et al., 2006).

Matching closed-ended grants are grants that the grantor matches recipient funds only up to a pre specified limit or the national government puts a ceiling or defined spending limit on the amount it will contribute to the devolved government level. The national government puts a defined spending limit on the amount it will contribute for a specific purpose. Devolved governments, however, must deal with increased oversight and spending limits. This may be beneficial at the beginning of a decentralization process when devolved governments are building capacity and establishing administrative infrastructure for vital services. These grants tend to have more specific uses and are less flexible than matching open-ended grants (Bowser, et al., 2006).

Non-matching grants are grants that the grantor or the national or sub national government consolidates several grants into one “block” and funds a broad range of activities within a particular sector, such as health or education, at the devolved government level. In view of this, it may be desirable to set matching rates in inverse proportion to the per capita fiscal capacity of the jurisdiction in order to allow poorer jurisdictions to participate in grant-financed programs (Shah, 2007).

Generally, matching open-ended, matching close-ended, and block grants work in different ways for different purposes. National and devolved governments can decide which types of conditional grants are most suitable for their circumstance or need.

2.2.2. The purposes of conditional grants

Conditional grants are used as a policy instruments for the following reasons.

(i) The traditional argument for conditional grants (Dahl, 1996) is to stimulate the provision of adequate levels of local public services when **externalities** are present. This situation is also well known in the industrialized and developing countries. Open-ended Conditional grants are instrument to give an incentive to encourage local governments to increase their spending on functions with external benefits (Bischoff and Blaeschke, 2010).

ii). To achieve **efficiency** in the internal common market or economic union, that is, free and undistorted movement of labor, capital, goods, and services across state borders. This is well known in USA. If left to their own devices, states may design their programs in ways that distort these cross-border movements, either intentionally or unintentionally. For example, mobility rights may not be guaranteed in state programs, educational and training qualifications may differ from one state to another; different service levels for important public services may deter households or firms from moving between states. So that grants designed for this purpose and further national efficiency goals can be conditional block grants, and the conditions that would facilitate these objectives would, presumably, be fairly general. They might aim to ensure that certain general principles of nondiscrimination, equal access, and mobility rights are guaranteed,

or more generally they may attempt to harmonize the design of programs that have implications for interstate exchange (Boadway and Shah, 2009).

iii). To achieve objectives of **equity and efficiency**. The key point to recall and recognize is that many of the expenditure responsibilities that are decentralized to the states are indispensable policy instruments for the pursuit of redistributive objectives. This is practiced in Germany, India and Ethiopia. Examples include the main categories of education, health, and welfare services, which together address goals of equality of opportunity, income distribution, and social insurance.

While there are good reasons on efficiency grounds for decentralizing their provision to the states, the federal government nonetheless maintains an interest in how these programs are designed. The use of conditional grants is one effective way for the federal government to discharge its responsibility for national equity objectives while preserving the advantages of decentralized output provision. Of necessity, conditions attached to block grants for the purposes of furthering national equity objectives will be fairly general. The effectiveness of conditions attached to grants that are used to finance health, education, and welfare services will depend on the proportion of state spending that is financed by grants – the vertical fiscal imbalance (Boadway and Hobson, 1993).

In the development sector, national governments often use conditional grants to ensure the efficient and equitable delivery of core sector services by “[setting] incentives for a more efficient production of collective goods.” such as the mandating of centralized procurement mechanisms, uniform clinical standards, and minimum service delivery standards (Bischoff and Blaeschke, 2010; Bigmore, et al., 2012). Many countries with decentralized governments use incentive mechanisms in conditional grants to ensure that devolved governments provide essential public services and comply with essential national policies, standards, and priorities (Bischoff and Blaeschke, 2010). Because devolved governments do not always invest in national priorities and can be inefficient users of public funds, “funding countries through conditional grants rather than augmenting the unconditional “equitable share” is another way to ensure that countries spend on priority areas” (Lakin, 2013b).

iv). Conditional grants have a particular role to play in financing **state infrastructure projects** (balanced Regions Development)(Lakin, 2013b). These projects tend to be once-over expenditures rather than recurring ones. Moreover, they involve the creation of assets of ongoing use. States might have difficulties in financing them if they have limited access to capital markets. They might also be very important for building up the capacity to provide future services of national importance (schools, hospitals) or for providing assets that build up the economic capacity of a state so that it will be less dependent on future grants (e.g., roads, communications facilities, utilities).

v). Conditional grants are important for **developing the capacity** of states to provide public services (Shah, 2007). The delivery of an acceptable level of public services requires both physical and human assets. The latter includes both the acquisition of particular skills and the development of management and administrative expertise. In either case, extraordinary once-over expenditures will be needed to develop the decision-making capacity of state governments where limited amounts existed before. Once these backlogs of human and physical capital are made up, the capacity of state governments to deliver important public services will be put on a sustainable footing. This is of particular relevance to developing countries. It is a tool for helping decision-making authority to devolved governments. National governments can use the restrictions on conditional grants to guide devolved governments in strengthening their planning, budgeting, and oversight capacity. As devolved governments gain more experience, national governments can disburse more flexible conditional grants that take improvements in governance into account (Bird and Smart, 2002).

2.3. Methods of Allocations and Distributions of Conditional Grants

Experience around the world (Bird and Smart, 2002) reinforce the common sense argument that, for services to be efficiently provided, those receiving transfers need a clear mandate, adequate resources, and sufficient flexibility to make decisions. They must also of course be held accountable for results. To satisfy these conditions, transfers must be properly designed. The basic task in transfer design is thus to get prices “right” in the public sector right, that is, in the sense of making local governments fully accountable at least at the margin of decision-making to both their citizens and, where appropriate, to higher levels of government. Bird and Michael

Smart, 2002: 3 argued that “Transfers that are properly designed can achieve this goal even if they finance 90% of local expenditures. Poorly designed transfers will not, even if they finance only 10% of expenditures”. Thus, Governments introduce intergovernmental transfers for different reasons according to their context, and here forwarded below are the major reasons.

Every intergovernmental transfer has two dimensions. The first is the vertical dimension which is the distribution of revenues between the central and sub local governments. The second is the horizontal dimension which is the allocation of transfers among the recipient units (Bahl and Linn, 1992)

Transfers could be allocated and distributed according to a i).derivation basis, i.e., local governments may retain a share of what is collected within their boundaries. Alternatively, they may receive grants distributed by ii).formula basis, these are by cost reimbursement or according to ad hoc methods. Until one decides on both the horizontal and the vertical dimensions, the transfer system is not defined (Bahl and Linn, 1992).

i). Derivation based grants allocation and distribution

Derivation-based sharing can be producing more certainty in local budgeting and fiscal planning than most other forms of intergovernmental transfer. Local governments are in a position to forecast, with some accuracy, the year to year movements in revenue, and unless the central government changes the sharing rates, this enables a proper budget planning process to take place. The other side of the coin, however, is that derivation based sharing leaves the central government with less flexibility to make ad-hoc changes. If local governments can identify their entitlements with some certainty then it may be difficult for the central government to make regular changes in the derivation formulae (Bahl , 2000).

ii). Formula based grants allocation and distribution

A second common approach to allocate and distribute of intergovernmental fiscal transfers among local governments is the formula grant. A formula grant uses some objective, quantitative criteria to allocate the pool of revenues among the eligible local government units. Studies of fiscal federalism describes the most common reason why governments move to formulae based allocation and distribution is to gain transparency and certainty in the distribution of grants. This

creates a sense of fairness in that all know the exact criteria by which allocations and distributions are made, and there is flexibility in that allocations and distributions may change as the needs for public expenditures change. In short, formulas are meant to remove arbitrary judgment (Bahl, 2000).

In addition to this the studies of fiscal federalism (Bahl, 2000) describes the four considerations in designing a formula grant (a) the elements of the formula, (b) the data necessary to implement the formula, (c) the costs associated with administering the grant program, and (d) conditionality. All four elements are important considerations in grants design, as is mentioned below. On the literatures (Bahl, 2000) the design of the formula might reflect four objectives. The first is to allocate grant funds so as to reflect regional differences in expenditure needs. Countries have used many different indicators of expenditure needs, including the following:

Population i.e. a straight per capita distribution Indicators of physical factors that may lead to greater costs of service provision, e.g., land area, population density, urbanization. Measures to reflect the concentration of high cost population in the local government areas, for example, the percent of families living below the poverty line, the percent of people on pensions, the percent of school aged children, etc. Indicators of infrastructure needs, such as miles of paved highways, percent of households with access to adequate water supply, infrastructure needs to support economic development, etc.

The second approach is income or fiscal capacity equalization, in this case the formula grant attempts to provide more money to those jurisdictions that have a weaker capacity to raise taxes. The problem comes in trying to find an indicator that will enable us to allocate funds to those places with an inherently weaker fiscal capacity (Bahl, 2000). There seem to be two general approaches:

- i). Allocate funds according to the level of average income in the local area, or according to the level of some indicator of the size of the tax base.
- ii). Calculate the amount of money that could be raised if all appropriate tax bases were subjected to "normal" rates.

A third approach to formula based grants is to include a tax effort provision directly in the formula. The goal here would be to provide local governments with some positive incentives to increase the overall level of revenue mobilization. One option is to introduce a measure of tax effort directly in the formula. (Bahl, 1998) has discussed and demonstrated the use of such an index, and this approach has been used in the past in India. Another approach is to require maintenance of some level of revenue mobilizations a condition on receiving the grant. Finally, grant formulae could reflect the balance between revenue raising capacity and expenditure needs. Many countries around the world use variants of this approach. The following are some examples:

Some countries (Rao, 2000) define a standard level of expenditures according to a formula based on physical indicators of desired levels of service. This is related to a "normal" level of revenue mobilization based on the size of the tax base. The difference is the amount of the grant. Korea has in the past been in this tradition (Rao, 2000). Some school aid in the U.S. is defined by a formula that links minimum expenditure requirements with property tax revenues rose if a specified level of property tax effort is exerted (Rao, 2000). A major constraint to designing a formula grant system is finding the data to implement and update the system. An important underlying issue is this: formula grant systems are appealing because of their transparency and objectivity. These advantages can be taken away if the data used to allocate the funds are suspect.

To achieve the fairness grant allocation formula of grant systems must be monitored on a regular basis. It is the rare formula that can exist without revision. After all, developing countries are in process of change, and so their grant system should also change with their economies. To assess the need for change, grant systems need to be tracked each year (Rao 2000). Ideally, the government ministry in charge will have developed a data system that includes the formula elements and the actual grant distributions, as well as the fiscal outcomes of each jurisdiction. In this way, they can assess the effectiveness of the grant program in meeting the objectives laid out. In addition, they can simulate the implications of alternative formulae distributions. A fiscal analysis unit to lead this work is essential for any country using a formula grant distribution system (Bahl, 2000).

In another direction Bahl (2000) specifies that the allocation of conditional grant can be based on reimbursement of costs of specified services. Under such schemes, the center agrees to reimburse the locality for all or a portion of the cost of an activity (if it is a portion, a matching share from the locality is required). Grants to reimburse costs are typically tied to particular government expenditure.

There are various methods for determining the total amount of grants for reimbursed costs available for distribution. If a limit on the total is desired, a specified share of a national revenue source or an ad hoc method may be used to fix the size of the pool. A more open-ended method is to reimburse all eligible expenditures. The catch here is that the central government determines what is eligible; the grant can be closed-ended. The closed-ended, shared tax method is often used to support current services, and ad hoc determination is more frequent for capital projects (Rao, 2000).

There is a fine line between distributing a grant amount by formula and distributing to reimburse cost. Both approaches may reflect differences in need and the objectives of equalization, and both may use exact equations to arrive at a final distribution among local governments. Only reimbursement, however, takes the cost of providing the service explicitly into account. This is a very important distinction. No less important is whether reimbursement is complete or partial; the choice suggests two very different sets of consequences (Bahl, 2000)

The biggest problem in designing a cost reimbursement grant is choosing the matching ratio for the service. Consider the case of full reimbursement i.e., no matching required. The idea is to stimulate the provision of certain services by lowering their marginal cost to zero and by mandating a certain level of service. Full reimbursement of teacher's salaries is a common form of local grant. This method may promote the equalization of services in different Parts of the country and stimulate certain types of activities, but does not encourage local governments to mobilize additional resources or lead to more efficient operations (Bahl and Linn, 1992).

Despite its merits, this type of grant imposes important costs on the residents of recipient communities and perhaps on society. The stimulation of expenditure induced by the grant will distort the local budget in favor of the aided service and against other services that local residents

would have chosen. Another potential cost is that such grants may be counterproductive to the goal of regional equity. Many of the takers will be its wealthy communities, those most able to match the grants (Bahl and Linn, 1992).

In short, a big problem in designing a program to reimburse costs partially is choosing the matching share. If the central share of reimbursement is set too high, there will be too few takers and low-income communities will be driven away from the program. If the central share is set too low, the opportunity to stimulate more mobilization of local resources and better management will have been bypassed. In practice, the matching shares appear to have been set without careful quantitative assessment of these possible effects (Bahl and Linn, 1992).

Ad hoc grants allocation and distribution is also one mechanism of formula based allocation and distribution which makes the grant system more of a political instrument than an economic instrument. If data's are unavailable, an ad hoc method can be based on judgment of those who allocate the resources. In the past, both India and Brazil have used a judgmental approach in allocating some resources to the poorest regions. If regions face special needs, an *ad hoc* system is always used to allocate the funds, and this is generally accepted as 'fair'. Such emergencies include natural disasters, major economic upheavals, civil unrest and support for large projects in the national interest. There are a number of dangers of an *ad hoc* system, in addition to the problem if an undue influence of politics (Bhal, 2000).

2.4. Conditional Grants: Experiences of Federations

The process of revenue transfer involves two important issues: determining the amount of finance subject to transfer and designing the way it is to be transferred among the states. In this regard broadly, the experiences of three international countries such as Commonwealth of Australia, Republic of India and Republic of South Africa have discussed under this section. The system and mechanisms used in IFT especially on Conditional grant have emphasized. Additionally, the roles of institutional arrangements in the Commonwealth of Australia the grant Commission, in the republic of India the National Financial Commissions and planning commission, and in the South Africa the Fiscal and Financial Commission has stressed.

2.4.1. The Commonwealth of Australia

Australian federation, which today comprises the federal government, six states and two internal self governing territories, was formed by the coming together of six self governing British colonies in 1901 (Zines, 1989). The foundation of the federation were enshrined in the Australian constitution adopted at that time. The constitution of Commonwealth of Australia set out in section 51 and 52 the basis on which the states would federate including the powers and responsibilities of the newly created the federal government of Australia and those of the states, and the financial powers and responsibilities of each levels of government. According to section 96 of the Commonwealth constitution the Commonwealth Grant Commission (CGC) was established in 1933 to consider claims from states for additional financial assistance.

In its fiscal federalism system intergovernmental distribution of revenue in Australia “may be” typified as "asymmetrical vertical grants" except for states' own revenue. In designing these grants, relative costs of providing standard services at the state level, relative specific purpose grant differentials, and relative revenue-raising capacities are all taken into account and these relativities are assessed by the Commonwealth Grants Commission (Commonwealth Grants Commission. 1983, p.160). States finance in average 33% of their expenditure from their own revenue and about 67% of their expenditure in average has financed by the center (Morris, 2007) though conditional grants represents about 25% of the total federal government revenue in its transfer.

The horizontal allocation of government resources among the Australian states depends on the distribution of (a). The states' own tax revenue; (b) on the distribution of specific purpose payments; (c) on the distribution of the general revenue grants (respectively, tax-sharing funds); and (d) on the distribution of loan money. The distribution of the states' loan monies has been centrally controlled in Australia through the Loan Council. Thus, the Commonwealth used to borrow on behalf of the states and distribute the funds through the Loan Council. This program, however, has become an anachronism, and the Premiers' Conference decided to abolish this type of grant in 1994. General revenue assistance (tax sharing) is given for recurrent and for capital

purposes in Australia (Bird, 1986). The writer rather devote on general assistance and states loan monies then has directly pass to discuss on states own revenue and specific grant as following.

The states' own tax revenue: The distribution of own revenue, was vary across regions because of an inequitable dispersal of tax bases and because of variations in tax rates. For reasons of equalization own revenue of states is standardized; however, equalization formulae are always based on a standard tax effort that renders explicit equalization independent from states tax policy and strategies. Own revenue is, unconditional as are the means obtained from general revenue grants. These grants are apportioned on the recommendation of the Commonwealth Grants Commission which uses a sophisticated model¹¹. Since the distribution formula chosen for allocating these funds leads to varying weights to be attached to different states, a gradual change in the relative provision of state revenue may result (Morris, 2007).

Apart from standard revenue capacities, the methodology also examines relative standardized expenditure needs for all states. It is obvious that standardization requires specification of a basket of state functions, which may vary across regions in accordance with different location criteria whether a service has to be provided extensively over vast geographical areas or intensively in urban agglomerations; whether it has to be provided at different quality levels among regions (for example, basic education versus highly specialized medical service), or at different quantitative levels in accordance with differences in local demand patterns (for example, a different proportion of school-aged children). Furthermore, the differences in relative costs must be taken into account (for example, different wage levels, and transportation costs) (Mathews, Russell and Jay, 1972).

The special grants also provided for financially weaker states by the recommendation of the commission. It has relatively small because they reflected the distribution of the financial assistance grants and the financially weaker states are the states with the smallest populations (Bird, 1986). The special grants were financed from the Commonwealth budget and did not affect the total amount of the financial assistance grants. Both "revenue needs" and "expenditure needs" were assessed comprehensively for all recurrent revenue/expenditure categories.

¹¹ . General revenue grants are the main instrument for achieving horizontal fiscal balance through the formula designed by the Grants Commission. One major specific grant (for hospital funding) is also distributed on the basis of the Commission's advice.

However, the needs criteria developed by the Commission had (and have) some more general bearing on the philosophy governing horizontal equalization in Australia even for general financial assistance (Bird, 1986).

Specific purpose (earmarked) grant: The mechanisms as established by Commonwealth state agreements (1994-95 Budget Paper, No. 3, p. 31) specific purpose grants in the form of recurrent and capital grants are given for specific state functions like social services (health, education), social security and welfare, economic services (roads, transport, industry assistance, water resources), and other services (like housing and urban renewal, regional development, disaster relief and debt charges). Three types can be distinguished: (i) payments to states for funding direct state outlays, (ii) payments "through" states to be passed on by the states to other bodies or individuals¹², and (iii) direct payments to local governments. The conditions attached to these grants vary widely. One category simply requires the payment to be made for a specified activity, with varying degrees of budgetary discretion available to the states; another entails program stipulations (for instance, for a hospital funding grant, that free public hospital treatment to Medicare patients is provided) or grants may hinge on the observance of principles of service provision and program delivery mechanisms as established by Commonwealth state agreements.

From a political point of view, specific-purpose grants are a way to "signal" the grantor government's concern for specific public functions that lie outside its own realm of competence. This may pay off in national elections, yet it may also be resented by state legislators and governments (as well as "informed" voters). From an economic point of view, however, the budgetary effect of specific-purpose grants is questionable. Specific-purpose grants for recurrent purposes "may not" differ much from general purpose grants to the extent that they release resources in the tied area for general purposes. This is true whenever the specific function would have been financed at the state level anyway. In this case, the "tied" grant money is "fungible" (that is, it cannot be attributed to the public function performed)¹³.

¹² . The main payments relate to institutions of higher education, nongovernment schools, and local government
General-purpose payments

¹³ .The 1994-95 Budget Paper No. 3 recognizes that "for some of the large state expenditure items that are funded through Specific Purpose Payments (SPPs) (for example, hospital funding grants and government schools), a

If on the other hand, the amount of the specific-purpose grant exceeds the amount that would reflect public demand for that service at the state level, and the central government insists on it being spent in the specific area, then waste and inefficiencies would result since the grant does not reflect the regional pattern of demand for the public service. Some specific-purpose grants in Australia are provided with matching requirements and/or they depend on project approval, information requirements, and conditions for operation. Moreover, there is evidence that these grants are associated with substantially increased state-local taxation (Spahn, 1977)¹⁴. This indicates conforming additional increases in state-local expenditure (or saving) through expenditure requirements and relative price effects. In any case, the specific nature of the grants affects the horizontal regional distribution of these resources; subject however to the grants commission taking grant differentials for most of the recurrent specific purpose grants into account in assessing general revenue grant relativities.

The distribution of specific purpose payments hinges on several factors, including the historical distribution, which was often arbitrary or reflected state expenditure policies and the Commonwealth's policy priorities (for example, road construction, university education). Specific purpose payments are related to specific programs but are not always granted on the basis of relative economic advantage or needs. The Grants Commission should take most of these grants into account when assessing the transfers needed to achieve horizontal fiscal balance (Spahn and Shah, 1996)

2.4.2. The Republic of India

India is the 7th largest country by area and the second most populous country with over 1.2 billion people (Office of the Registrar General and Census commission, 2015). India achieved independence on August 1947 (Mathew, 2005) from UK. The constitution was adopted by the constituent Assembly on November 1949 and come in to force on 26 January 1950 (Mathew,

relatively large percentage of these funds would be directed to the same purpose regardless of the form of the funding" (p. 32).

¹⁴. The propensities for taxes to increase in response to this type of grant money were about 35 percent for grants for recurrent purposes and nearly two-thirds for capital grants

2005). India is a federal republic with parliamentary system and it consists of 28 constituent units and seven union territories (Mathew, 2005).

The main mechanism of transfers in India are (a) Finance Commission appointed periodically as per Article 280 of the constitution of India, intended to address the vertical imbalance in financial resources between the centre and states and to address the horizontal distribution of resources among the states. (b) Planning commission set up by a resolution of the government of India to make an assessment of the material, capital and human resources of the country, and to formulate a plan for effective and balanced utilization of the country's resources. The states cover 30% of their expenditure from their own revenue and about 70% was covered by the federal government in India (Rao, 2007).

In Indian federalism, the division of responsibilities between the union government and the states is provided under schedule seven of the Constitution. In India, "the states share in expenditure on administrative service about 68 percent; on social services 83 percent; and on economic services, about two-thirds; on providing education, public health, and family welfare, their role is 90%" (Rao 2007). Rao (2007:159) has indicated that the assignment of responsibilities in India is centralized. The first indicator of the centralization of the assignments is that residual power belongs to the union government unlike Ethiopia. In consideration of the heterogeneity and diversity of India, the constitutional assembly adopted federalism as the overarching framework for governance in the country (Bagchi, 2000). The federal character of the constitution is embedded in the multiple levels of governance, consisting of the union at the centre and states at the sub national levels each with their own legislature, executive and specified functions and powers (Bagchi, 2000).

As far as Inter-governmental fiscal transfers are concerned, in India, intergovernmental transfers used to correct vertical and horizontal imbalances for an even and equitable development of the entire country, it is the main instrument for achieving fiscal transfers from the centre to states through different channels and the mechanisms as provided in the constitution¹⁵. Because the

¹⁵ . The Constitution of India, Constitutional Provisions for Distribution of Revenues between the Union and The States in India describes under Article 268: Duties levied by the Union but collected and appropriated by the States.

study focuses on conditional grant it is appropriate to mention more about planning commission which deals with conditional grant than on the finance commission which emphasizes on unconditional grant. The planning commission is a major dispenser of funds in India. Planning commission funds are distributed on formula basis. The states are entitled to get three types of 'plan assistance' from the Planning Commission (Mathew, 2005) namely:

(a) Normal Central Assistance (NCA): It is an assistance which is governed by the modified Gadgil Formula. The details of its allocation to states is based on the yardsticks of population, tax efforts (performance), per capita income, ongoing irrigation and power projects, special problems¹⁶ and fiscal management.

(b) Additional Central Assistance (ACA): this is received for implementation of externally assisted projects. This implies that the state governments receive external aid for projects in various sectors from agencies such as the World Bank, United States Agency for International development (USAID), European Union (EU), and Japanese Bank for International Cooperation (JBIC) etc. When the state proposes to pose a project for external assistance, its primary responsibility is to make the provision of adequate funds to cover the cost of the project and to have competent technical staff for implementing the project. The assistance is either in the form of grant or loan, or both, to cover the entire cost of the project or some percentage of project cost as per the agreement (Rao, 2007).

(c) Special Central Assistance (SCA): is a federal transfer for special schemes through various Ministries like Accelerated Irrigation Benefit Program (AIBP), National Rural Employment Guarantee Assistance (NREGA) and Accelerated Power Development and Reform Program (APDRP) and etc (Rao, 2007). Various Central Ministries implement a number of schemes. They are distributed based on plan project and constitute about 30% of the total plan assistance (Rao,

Article 268 (A): Taxes on services shall be levied by the Government of India (GOI) and such tax can be collected and appropriated by GOI and the States (88th Amendment). Article 269: Taxes levied and collected by the Union but assigned to the States. Article 270: Taxes levied and collected by the Union and distributed between the Union and the States. Article 271: Surcharge on certain duties and taxes for purposes of the Union. Article 272: Taxes are levied and collected by the Union and may be distributed between the Union and the States. Article 275: Grants from the Union to certain States. Article 280 (3) (b): Finance Commission to make recommendations as to the "principles" which should govern such grants in aid. Article 275 (1): Specific "sums" to be paid to the states which are assessed to be in "need of assistance".

¹⁶ . Special problems includes, problems relating to metropolitan areas, floods, chronically drought affected areas and tribal areas.

2007). The schemes are implemented by the States because they are in the sector of States' Competency. Assistance to the central schemes accounted about 40% of the grant appropriated to the states.

2.4.3. The Republic of South Africa (RSA)

The Republic of South Africa has a unitary and yet, a highly decentralized system of government with three spheres (RSA, 2001)¹⁷ of government. These are the national government, nine provinces, and 284 local governments (Momoniat, and Ismail, 2002). The new government after it came to power restructured the intergovernmental system in keeping with the philosophy of ensuring equality of opportunity in the post apartheid regime (Ahmad and Junaid, 1998). In Republic of South Africa local governments cover 11% from their own revenue and 89% of their expenditure has covered by the center. Conditional grants allocated to local government's average over 23% compared with the subsidy shares (Khumalo and Mokate, 2007).

In the Republic of South Africa the relative roles of the three spheres in raising revenues and implementing expenditure decisions are overwhelming dependence on transfers. For example, in 2001/02, they raised only 1.3 per cent of total revenues raised at all spheres of government and this could finance only about 3.2 per cent of their expenditures. Thus, provinces depended on national transfer system to finance about 97 per cent of their expenditures (RSA, 2001).

In other direction conditional transfers are given to sub national governments for identified purposes for the prioritized schemes. There are seven schemes within the health sector mainly aimed at augmenting hospital facilities besides the integrated nutrition program. There are two schemes in the education sector, three in housing, a flood disaster reconstruction scheme, and some aimed at augmenting the physical infrastructure and capacity building in financial management. Horizontal distribution of national revenues assigned to provinces is determined on the basis of sets of factors laid down for seven (7) different expenditure functions¹⁸ (Rao, 2003). The baseline allocation to provinces as their distribution inters has been done according to the

¹⁷ . The vertical division of the intergovernmental system is made in terms of "spheres" rather than tiers to denote that the levels are distinct governments – each accountable to its elected legislature or council.

¹⁸ . The formula involving the 10 factors were adopted based on the recommendation of the Financial and Fiscal Commission in 1996.

policy and priorities determined in the Medium Term Expenditure Framework (MTEF). The baseline allocations for different provinces have already been done in the three year budget cycle and changes are introduced from year to year to take account of new information/data or any additional relevant considerations (Rao, 2003).

An important feature of the South African conditional grant system is the institution of Financial and Fiscal Commission (FFC). The framework document of the FFC (1995) defines the FFC as “an independent and impartial statutory institution, accountable to the legislature, with the objective of contributing towards the creation and maintenance of an effective, equitable, and sustainable system of intergovernmental fiscal relations in conditional grant, rendering advice and give recommendation to legislatures regarding any financial and fiscal matter which has a bearing on intergovernmental fiscal relations”. Though, by the recommendation FFC, during the period of MTEF (2001-04), “coasted norms” approach to estimate expenditure needs of provinces on conditional grant has adopted. The cost of providing three basic services namely, basic education, primary health care and social security has been estimated using this approach (Mabugu and Makinta, 2013).

Normative cost of basic education is estimated by taking into account the cost differentials for different categories of actually enrolled students weighted with judgments’ on their differential resource needs. Special adjustment is made to reflect government’s deemed policy with respect to funding inappropriate age learners. In estimating the resource requirements for primary health care, after taking the national per capita norms, cost disability arising from poverty is separately taken account of. The cost of providing health care is estimated by taking account of need differences due to different age and gender groups of population. Here again, cost disability due to poverty is taken account of. As regards welfare payments, the number of eligible individuals in respect of each of the six social security programs is taken into account and an administrative component is added to the estimate (Mabugu and Makinta 2013).

In addition to the three sectors, the FFC also estimated the cost of grant for all other services to be provided by the provinces and an institutional component minimum cost of operating government institutions. The FFC did not consider fiscal capacity equalization grant in its

recommendations. In 2003, following recommendations by the Commission, the 2013, south African policy brief on conditional grant clarified that a decision was taken to consolidate grants. However, recently grants have been proliferating. This proliferation results in grants that duplicate goals and objectives and increases the administrative burden on provinces and municipalities. This policy brief is part of the Commission's ongoing study into the evolution of conditional grants (Mabugu and Makinta, 2013).

However grants have recently been proliferating, with a more than five-fold increase in the number of total conditional grants transferred to provinces and local government between 2005/06 and 2013/14 (Mabugu and Makinta, 2013). The quantity of grants has grown, and the distribution between provincial and local governments has changed. The number and size of conditional grants for local government have grown much more strongly than for provinces, albeit from a lower base. The marked increase in the number of conditional grants available to provinces and municipalities makes planning and administering grants more difficult. This proliferation could create spending capacity problems and result in overlapping programs with competing objectives and complex reporting requirements as it is set by the 2013, South African policy brief on conditional grant

Conclusion

In a federal system, constitutionally recognized level of governments can formulate their own economic, social and development strategies and determine their expenditure preferences. This is because they have constitutionally recognized jurisdictions having the respective autonomy to impose tax and to spend on expenditure needs. It should be noted that both the autonomy and the accountability principle are applicable to both level of government. Such financial autonomy and accountability of both level of jurisdiction is considered as a necessary and appropriate feature of federalism.

Matching and non matching grants are the two types of conditional grants. Matching grants are classified in to open-ended grants and closed-ended grants. Open-ended matching grants are grants that the grantor matches whatever level of resources by devolved governments for a particular service. Closed-ended matching grants are grants that the grantor matches recipient

funds only up to a pre specified limit. Non-matching grants are that the grantor or the national government consolidates several grants into one “block” and funds a broad range of activities within a particular sector. Furthermore, conditional grants are attached to achieve efficiency and equity, to play in financing state infrastructure projects, to developing the capacity, to ensure the objectives and interests of the central government. Mechanisms of Allocation and distribution of transfers may derivation basis or formula basis.

The international Federal countries the Commonwealth of Australia, the Republic of India, and the Republic of South Africa has established independent institutions for IFT. The Australian grant commission is a standing commission and since its establishment in 1933, it is well- known for an effective equalization instrument by dealing with both the revenue and expenditure needs of the states, and the overall recommendations to reduce both vertical and horizontal imbalances. In Australia Regions covered about 33% of their expenditure, the rest 67% was covered by the center through transfers and conditional grants represents about 25% of the total federal government revenue in its transfer (Rao and Morries, 2007).

In India, the revenue transfer is administered by two Commissions the Financial Commission and the planning Commission. The financial commission focuses on the financial unconditional grant while the planning commission focused on the allocation of special purpose grants (earmarked) for the major developmental expenditures of the states. In India states covered about 30% of their expenditure from their own revenue and the rest 70% was covered by the center through transfers and conditional grants represents about 25% of the total federal government revenue in its transfer (mathew, 2005 and Morries, 2007).

The other important institution and independent body is the South African Financial Commission which was set up under Article 220 of the Constitution and the fiscal Act No.99/1997. In RSA local governments covered about 11% of their expenditure from their own revenue and 89% of their expenditure has covered by the center and conditional grants represent on average over 23% compared with the subsidy (Mabugu and Makinata, 2013)

CHAPTER THREE

ANALYSIS AND INTERPRETATIONS OF THE DATA

Introduction

This chapter is devoted to presenting data and analyzing on the operation of the conducted study about conditional grant allocation and implementation in Ethiopia Federal system. The Chapter consists of two major sections. The first section presents analysis and interprets the main data regarding to allocation, distribution and disbursement of conditional grants from the center to the regions through Channel One. It also presents and analysis challenges faced and fairness of distribution and disbursement implementation of the conditional grant from the center to Sub Local Governments (SLGs). Furthermore, the impacts of conditional grant on equity and budget autonomy have described. The second section presents about Channel Two Conditional grants loans and assistances part of the subsidy.

3.1. Conditional Grant Allocation and Implementation in FDRE

3.1.1. Channel One Conditional Grant Allocation and Implementation

This section has assessed the mechanisms and formulas that the MOFED used for the allocation, distribution and disbursement of channel one conditional grants to the constituent regions. From channel one conditional grant the allocation, distribution and disbursement of MDG, PSNP, GEQIP, and ULGDP budget from the center to the constituent regions under study were presented. Based on these programs comparing the equitability or fairness allocation and implementation of the grant from the center to the constituent regions among the sampled regions such as Amhara, Oromia, Afar and Somali has employed.

3.1.1.1. Millennium Development Goal (MDG)

It was established in September 2000, by adopting the UN Millennium Declaration and endorsed a framework for development in the participation of 189 Heads of the states. The plan was for countries and development partners to work together to increase access to the resources needed to Eradicate extreme poverty and hunger, to achieve universal primary education, to promote

gender equality and empower women, to reduce child mortality, to improve maternal health, to combat HIV/AIDS, malaria and other diseases, to ensure environmental sustainability, and to Develop a Global Partnership for Development.

The declaration established eight Millennium Development Goals (MDG), set targets for 2015, and identified a number of indicators for monitoring progress, several of which relate directly to health. Health is at the heart of the MDG. Goals 4, 5 and 6 specifically focus on health, but all the MDG have health-related aspects; achieving health goals has not be possible without progress on food security, gender equality, the empowerment of women, wider access to education and clean and healthy of the environment(Haines, 2004; Wagstaff *et al*, 2006; World Health Organization WHO, 2009).

Ethiopia, as one of the pilot MDG countries, has selected to take a holistic approach to developing MDG strategy, including a careful consideration of economy-wide factors and cross-intervention synergies. Growth remains however very volatile, and particularly dependent on weather shocks affecting agriculture (MoFED, 2005). According to the 2012/13-2016/17 subsidy formula document and described in the document MDG is one of a good example of conditional grant in Ethiopia which recently introduced. Its distribution is all states inclusive .It is the federal government grant that has distributed for regions targeting the achievement of MDG. The UN Agencies such as United Nations AIDS (UNAIDS) and United Nations Development Program (UNDP), World Bank and Bilateral Donors are the major Financial sources for financing MDG. Its First phase will be closed in 2015.

Allocated and Distributed MDG Grant: MDG grant is all states inclusive with a non-matching grant requirement. Until 2011, it has used to be allocated integrated with the unconditional grant to finance capital budget but the federal government realized that the regions used for recurrent budget. After the problem was identified (since 2011) it has been determined to be allocated separately as conditional grant.

The government allocates the budget putting in consideration of the achievement goal of the MDG. Distribution of MDG budget among the states is formula based. The formula used for

distribution is the one that developed by HoF since 2009 and 2012¹⁹ so that the distribution formula since 2012 was based on the federal budget grant distribution formula to regional states (HoF, 2009) that was determined for Amhara 23.33%, for Oromia 32.53% for Afar 3.34% and for Somali 8.43% and in 2013 and 2014 the federal budget grant distribution formula to regional states (HoF, 2012) the rate determined for Amhara was 23.17%, for Oromia 32.50%, for Afar 3.15% and for Somali 8.14%. The distributed budget among the regions has described under table 3 column 4, 5 and 6 row 3 sub row (1), row 4 sub row (1), row 5 sub row (1), and row 6 sub row (1) below. The total pool of MDG Conditional grant allocated and determined for regions in 2012 was 15 billion ETB; in 2013 it was 20 billion ETB and in 2014 it was 15 billion ETB. The budget was allocated to meet the MDG goals and to achieve the scenario set by the government.

¹⁹ .The discussion made with Ato Yismawu Mamo MDG team coordinator program specialist and Adviser of MoFED through interview, on 1-2-2015 during field work.

Table 3: Allocated, distributed and disbursement of MDG in birr 2012 to 2014

Region	Indicator	2012	2013	2014	Average
Amhara	1	3,499,500,000.00	4,634,000,000.00	3,475,500,000.00	3,869,666,666.67
	2	18,866,002	19,270,872	20,018,988	19,385,287
	3	185.49	240.47	173.61	199.86
	4	2,781,403,112.00	3,635,105,886.00	3,278,875,000.00	3,231,794,666.00
	5	79.50%	78.40%	94.30%	84.07%
Oromia	1	4,879,500,000.00	6,500,000,000.00	4,875,000,000.00	5,418,166,666.67
	2	31,153,434	31,294,992	32,815,995	31,754,807
	3	156.63	207.7	148.56	170.96
	4	4,248,500,000.00	5,164,458,937.00	4,578,375,000.00	4,663,777,979.00
	5	87.07%	79.50%	93.92%	86.83%
Afar	1	501,000,000.00	630,000,000.00	472,500,000.00	534,500,000.00
	2	1,345,878	1,602,995	1,678,000	1,542,291
	3	315.08	393.01	281.59	329.89
	4	373,100,000.00	460,140,000.00	445,567,500.00	426,269,166.67
	5	74.50%	73.04%	94.30%	80.61%
Somali	1	1,264,500,000.00	1,628,000,000.00	1,221,000,000.00	1,371,166,666.67
	2	5,048,302	5,148,989	5,307,002	5,168,098
	3	250.48	316.18	230.07	265.58
	4	732,860,000.00	1,149,504,456.00	1,151,403,000.00	1,011,255,818.67
	5	57.96%	70.61%	94.30%	74.29%

Source: based on MOFED MDG Channel One coordinating team and (CSA, 2012, 2013, and 2014) projection, March, 2015

Note: Figures are rounded

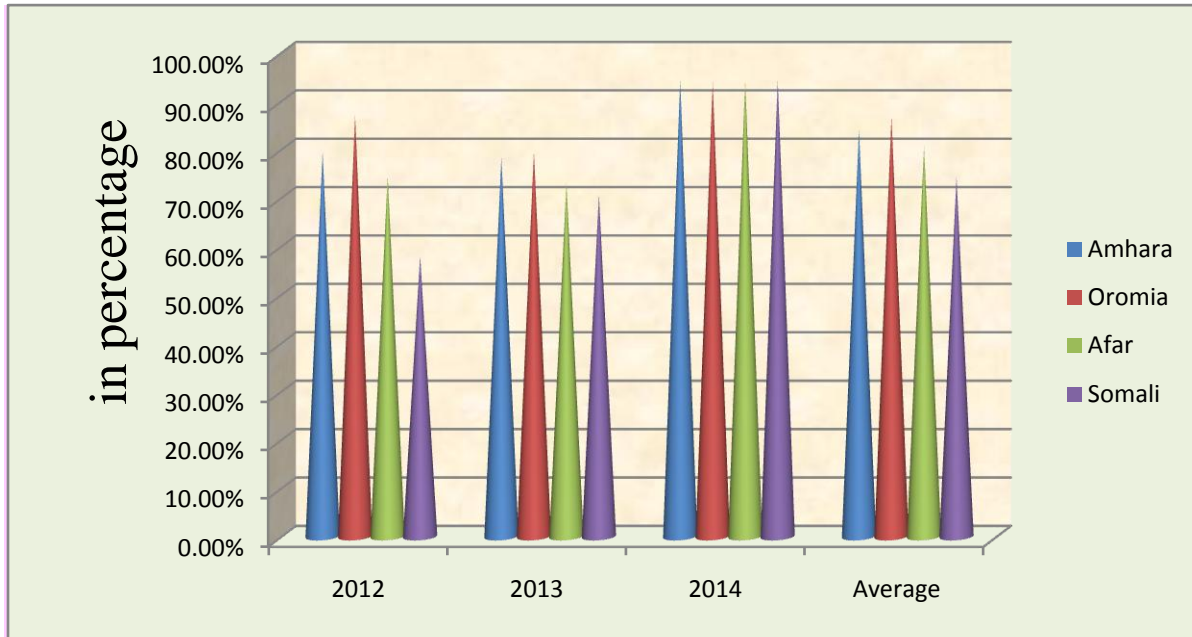
Numbers under Table 3 Column 2 above indicate:

1. Indicates the distributed grant from the Federal government to the regional governments under study
2. Indicates population size of the regions
3. Indicates per-capita distribution ratio in ETB
4. Indicates disbursed budget from the federal government to the regional governments
5. Indicates % of disbursed budget from total allocated budget

Disbursement of MDG Grant: After the grant was allocated and distributed the next task is disbursing the grant to the recipients. The criteria that the MoFED used for MDG budget disbursement to the regions have based on the performance of the recipient in utilizing the disbursed grant in the scheduled. From table 3 column 3, 4, 5 and 6 row 3,4,5,6 sub row (4) and (5) above respectively under each row described data, anyone can observe that the variation in MDG budget disbursement among the regions under study. From the above described data one can conclude that the MDG grant was disbursed more to Oromia regional state than the other states, showing better implementation (utilization) capacity of the region; because the disbursement criteria is budget utilization performance. The region that utilized the disbursed budget in the given scheduled time will receive the remained allocated budget in the next scheduled time of the disbursement. If the region fails to perform well or fail to utilize the disbursement budget, it will not get the remaining allocated budget. So the data shows that the size of disbursement or federal government releases to the states depend up on the utilization performance of the regions. The data show that Oromia regional state was utilized the disbursed budget and has well performed which shows in average 88.83% of the allocated budget as compared to the other sampled regions. The budget disbursed for Somali regional state was the least as compared to the others sample states implying least the utilization capacity of the region.

Figure 2 below, shows the trend of disbursed budget to the sampled regions in 2012 to 2014. The figure shows that the disbursement of the budget to the Amhara, Oromia, Afar and Oromia regional states. The figure 2, below, showed that the trend of disbursement from 2012 up to 2014. As it has showed in the figure 2, below the percentages are calculated from table 3, above, page 49 dividing the disbursed budget from distributed budget of each sampled regions and changing it to percentage. The total average has calculated the three years disbursed budget of each region alone and the distributed budget of three years budget of each region alone and then dividing the average of disbursed budget of each region by distributed budget of each region and then changing it to percentage.

Figure 2: the grant disbursement trend of MDG to the sampled states in 2012 to 2014



Note: it is extracted from table 3, above, p.49

Equitability of MDG Conditional Grant Distribution and Disbursement: As it was described under table 3 column 3, 4, 5 6 raw 3(1), 4(1), 5(1), and 6(1) on page 51 above, it has clarified the allocated MDG budget was distributed to the regions based on the subsidy budget distribution formula that developed by the HOF. As it was clarified in subsidy formula (HoF, 2007, 2009 and 2012), the developed formula was derived based on different variables by collecting the data from the whole regions. The formula was derived by putting in to consideration the recurrent and capital budget expenditures need of the constituent regions of the federation. In addition to this, the formula was set for the distribution of the appropriated unconditional grant subsidy from the federal government to the constituent regions and Dire Dawa city administration excluding Addis Ababa city administration. It also developed by putting in to consideration local desecration of the regions which can give them freedom to use their budget without any limitation and without restricting their budget autonomy (HoF, 2007, 2009 and 2012). But the MoFED was used the formula developed by HoF that described above on page 48 for the distribution of MDG conditional grant among the states. The MDG budget is

the capital budget that was allocated to achieve the national goal of the country. The budget was restrict the regions to spend on capital budget only, unlike to unconditional grant.

However, the capital expenditure needs of the regions vary from one region to another region because of geography, availability of natural resource, distance from the center and sources of unit cost variation (Ghebrehiwet, 2014). Because of these reasons using unconditional grant formula for conditional grant brings variation in cost among the regions which results unfairness of budget distribution.

However, to respect the fairness principles as we discussed in the review of literatures the federal republic of India, Australia and South Africa has established un-independent institutions to assess the cost needed to be allocate and distribute the conditional grant from the center. As we drawn experiences from these mentioned federal countries; these federal countries have used and sett different formulas for unconditional distribution alone and conditional grants distribution alone. But, in case of Ethiopia, MoFED used the formula of unconditional grant for the distribution of MDG conditional grant/budget. This kind of distribution lacks fairness in distributing comparable conditional grant among the regions and makes the regions either users or losers among themselves.

In another direction from table 3 column 3, 4, 5 and 6 raw 3(3), 4(3), 5(3), and 6(3) above observe the difference of share of the distributed budget among the sampled regions in per-capita. One may argue to respect equity, the per-capita shares encompass 1:1 ratio. From the table 3, above, observe the difference in per-capita ratio. Example, Oromia's per-capita ratio is the least as compared to the sampled regions while Afar's per-capita ratio is the highest as compared to the sampled regions. This does not mean Afar provide more MDG grant as compared to the rest sampled regions and Oromia provide least. Because of Afars' population has scattered and even if they are scattered, they need comparable public service at place in line with other regions under study. This implies that, much construction of basic services at scattered area needed for a number of people than densely populated. Hence, the per-capita ratios show the main attraction in Afar and Somali than Amhara and Oromia regional states (Ghebrehiwet, 2014).

In case of disbursement implementation observing from table 3 column 3, 4, 5 and 6 row 3 sub row (4) and (5), row 4 sub row (4) and (5), row 5 sub row (4) and (5), and row 6 sub row (4) and (5) above, and as it discussed above under disbursement implementation performance, the disbursement criteria is performance based. In author's view, setting such criteria motivates the regions to perform their plan and brings competition among the regions to utilize the budget in good manner for achieving the national goal and for the objective that the budget has allocated. Thus such mechanism is a good mechanism to achieve MDG goal.

In another direction the finding of the study shows that MDG has negative impact on regional autonomy, because the budget was allocated from the federal government to achieve the national goal of the country. It is also a non matching fund that the non matching funds can not remove local autonomy (Shah, 2007). It is also all states inclusive. But, it needs attention to build the capacity of the regions to use the budget effectively and efficiently. If they do not use the budget in efficient and in effect manner it brings the difference in development among the regions. If the regions capacity built to use the budget for the purpose of the objective budget allocated, if proper monitoring and evaluation has strong then the problem of disparity among the regions will be solved then the negative impact of conditional grant on equity will be managed.

3.1.1.2. General Education Quality Improvement Program (GEQIP)

The program is all states and two city administrations inclusive with matching requirements. The project is financed by the federal, regional, local governments and development partners (DP). The development partners (DPs) including International Development Agency (IDA), Fast Track Initiative Catalytic Fund (FTI-CF), four bilateral partners Department for International Development i.e. Government of UK (DFID), Finland, Italy, Netherlands) through an IDA-administered Multi Donor Trust Fund (MDTF) (World Bank, 2008). Development partners (DPs) are providing assistance to the program in two phases: An IDA Credit, (FTI CF) grant, a group of development partners through a World Bank-managed (MDTF), and government contribution finance the Program through a pooled funding arrangement (World Bank, 2008).

In Ethiopia, the overall objective of the GEQIP is to improve the quality of education (Grades 1-12) throughout the country. It is an eight years program designed in to two phases. The first phase of the program was (2009-2013) setting standards and foundations for quality improvement reforms to support “(i) implementation of revised curriculum, procurement of learning materials, and strengthening of assessments; (ii) in-service and pre-service training of teachers; (iii) school improvement planning and school grants; and (iv) capacity building for planning and management, and strengthening Educational Management and Information System (EMIS)” (world bank, 2008).

The second phase (2013-2017) aims at expansion and consolidation of quality improvement reforms. According to the World bank (2013) the second phase of GEQIP consists of the following components: “(i) Curriculum, Textbooks and Assessment; (ii) Teacher Development Program (TDP); (iii) School Improvement Program (SIP), including School Grants; (iv) Management and Administration Program (MAP), including Education Management Information System(EMIS), and (v) Program Coordination, including monitoring and evaluation activities”.

As it has stipulated in the Program Implementation Manual (PIM) of GEQIP, overall two GEQIP financial management advisers is located in MoFED to work closely with the MoE to oversee financial management and reporting on the project. The specific responsibilities of MoFED are: (i) mobilize resources for GEQIP; (ii) have overall responsibility for GEQIP financial management aspects; (iii) work closely with the MOE on the equitable distribution of resources to the implementing institutions (federal, regional and woreda) according to plan; (iv) assist the regional BoFEDs and Woreda of Finance and Economic Development (WoFEDs) on financial management, and disbursement and reporting of the GEQIP resources to ensure the timely implementation and reporting on the program; and (v) prepare consolidated Interim Financial Reports (IFR) for donors. The funds will flow through MoFED to the BoFEDs and then down to the WoFEDs.

Allocated and Distributed Grant of GEQIP: The GEQIP program was introduced during 2009. The program is all country regional states and two city administrations inclusive. The

budget for GEQIP is proclaimed at the federal level under the name of MoE. Once identified and used, the budget code for GEQIP has remain unchanged throughout the program life. The GEQIP annual budget has included in the federal government's annual budget for each fiscal year, and has also be reflected in the regions' and district (woreda)s' budgets. The budget proclamations would list the GEQIP budget as a separate line item as distinguished from the general block grant passed on from the federal grant to regions and then to district so that these funds can only be used for GEQIP purposes. GEQIP funds would be passed on from MOFED to regions and from regions to districts (woredas) as a non-offsetting grant to ensure that these are treated as additional resource²⁰.

Because of it is a matching fund the budgeting plan is structured around a two-way process: A downstream process from the federal level down to the regions and then to the district (woreda)s and schools, and an upstream process starting at the district (woreda)s and schools moving upwards to the regions and the federal level. Regional Education Bureaus (REBs) is collecting all the work and budget plan requests from Woreda Education Offices (WEOs) based on the approved annual work and budget plans and has consolidate and submit them to Ministry of Education (MoE) for review and approval. After consolidating the plan received from regions, MoE has send one copy of the budget plan to MoFED, following the review and approval of the work and budgets plans by the World Bank and development partners (World Bank, 2008).

The annual budget for the program is broken down into a quarterly budget, while communicating to MoFED. The same budget declaration form, which is used by MoE for government funds, is applied for GEQIP. Each implementing entity (i.e. MoE, and REBs) is required to prepare an annual work plan, along with a related budget for each budget year, and send it to the next higher-level for review, approval and consolidation. MoE prepares a consolidated budget and submit this to the GEQIP Coordination Committee (GCC) for approval. The MoE is submitted the consolidated work, procurement and training plans, together with the budget request, to the Bank for review and approval. The Bank, together with pooled partners, will review the annual work plans and budget request (World Bank, 2008 and 20013).

²⁰ . Discussion made with Ato Kiflu channel one conditional grant program specialist and adviser of MoFED, December, 2015

After all these processes have been left then the budget has allocated based on the student enrolment and school aged population levels of government. Based on their roles and responsibilities, available resources are first divided between the federal and regional governments. As it is presented in GEQIP Program Implementation Manual (PIM) the regional allocation has further divided among the nine regions and two city administrations based on a weighted formula using school enrolment (75 percent) and school aged population (25 percent)(MoE,2009). Regional budget allocations have calculated annually based on official EMIS data.

The regional government matches minimum per pupil allocation amounts in birr, for primary school(first cycle) including Alternative Basic Education (ABE) those aged from (4-6) 15 birr, for primary school (second cycle) 15 birr, for secondary school (9-10) 20 birr and for secondary school (11-12) 20 birr (MoE, 2009). The school enrolment and school aged total population of the sampled regions described in the table 4, below.

Table 4: the school enrolment and school aged population during 2007/8-2013/14

Region	Ind	2010	2011	2012	2013	2014
Amhara	1	4,358,041	4,403,001	4,425,528	4,460,104	4,585,688
	2	1,583,958	1,549,536	1,576,103	1,604,565	1,649,355
	3	5,941,999	5,952,537	6,001,631	6,064,669	6,235,043
Oromia	1	6,314,464	6,908,552	6,894,701	7,056,608	7,276,098
	2	2,877,823	2,962,501	3,049,672	3,143,818	2,900,218
	3	9,192,287	9,871,053	9,944,373	10,200,426	10,176,316
Afar	1	135,786	142,447	158,034	185,626	219,087
	2	115,732	118,306	120,938	123,735	130,366
	3	251,518	260,753	278,972	309,361	349,453
Somali	1	709,644	682,080	830,027	1,143,679	1,185,900
	2	359,128	367,116	380,827	391,050	479,931
	3	1,068,772	1,049,196	1,210,854	1,534,729	1,665,831

Source: compiled by the researcher from Annual Abstract of MOE, 2015.

Numbers under Table 4 Column 2 above indicate:

1. Indicates School enrolment (primary and secondary students)
2. Indicates School aged population (4-6 aged) i.e. zero class or kindergartens (KGs)
3. Total of school enrolment and school aged population

From table 4, above we consider i) number of school enrolment of a state is a function of many factors: school aged population size, education budget allocation policy of a state, attitude of families on education, local people participation degree on expansion of education, etc. ii) in addition to this number of school aged population is a function of total population size of under examined state. The populous of Oromia and Amhara have larger size of school aged population

and student enrolment. Logically the small populous state Afar and Somali has less student enrolment and school aged population size, as compared to the other under studied states. The allocated budget distribution for the implementation of GEQIP from the federal government to the sampled constituent regions under the study was showed under table 5, below from 2010 up to 2013. The 2014 data was not included because of Interim Financial Report (IFR) was not clearly finalized.

Table 5: Distribution, Share of per-capita and Disbursement of GEQIP in 2010-2013

Region	Indicator	2010	2011	2012	2013	Average
Amhara	1	167,166,633.00	352,038,775.96	376,321,575.90	582,073,890.07	369,400,218.73
	2	5,941,999	5,952,537	6,004,565	6,064,669	5,990,943
	3	28.13	59.14	62.67	95.98	61.48
	4	128,038,872.00	167,166,633.00	274,668,412.01	440,955,017.50	189,957,972.34
	5	76.60%	47.49%	72.99%	75.80%	68.22%
Oromia	1	227,268,272.00	474,264,613.88	524,879,845.57	847,046,852.62	518,364,896.02
	2	9,192,287	9,871,053	9,944,373	10,200,426	9,802,035
	3	24.72	48.05	52.78	83.04	52.15
	4	181,719,407.00	308,281,184.00	424,386,108.40	589,148,951.00	375,883,912.60
	5	79.96%	65%	80.85%	69.60%	73.85%
Afar	1	5,081,732.00	17,042,894.54	18,820,775.00	23,733,416.74	16,169,704.57
	2	251,518	260,753	278,972	309,361	275,151
	3	20.2	80.7	67.46	76.72	61.27
	4	3,117,272.00	11,120,775.00	14,076,969.74	16,470,852.63	11,196,467.34
	5	61.34%	65.25%	74.79%	69.40%	67.70%
Somali	1	16,345,044.00	41,354,196.13	68,350,444.06	90,707,232.05	54,189,229.06
	2	1,068,772	1,049,196	1,210,854	1,534,729	1,215,888
	3	15.29	39.42	56.45	59.1	42.57
	4	13,720,906.00	22,828,790.00	22,828,790.00	75,284,554.00	33,665,760.00
	5	83.90%	55.20%	33.40%	82.99%	63.87%

Source: based on the various annual Abstracts of MOE and MOFED GEQIP budget coordination team, April, 2015

Note: Figures are rounded

Numbers listed under Table 5 Column 2 above indicate:

1. Indicates allocated budget from the Federal government to the regional governments
2. Indicates the total number of students enrolment and school aged population
3. Indicates per-capita ratio of school enrolment and school aged population in ETB
4. Indicates disbursed budget from the Federal Government to the regional governments
5. Indicates the percentage (%) of the disbursed budget from allocated budget

Disbursement of GEQIP Grant: Table 5 column 3, 4, 5 and 6 row 3,4,5 and 6 sub row (4) and (5) above, the data entails that the disbursement budget implementation that held by the MoFED to regional states. The disbursement criterion is performance based. The region utilized the disbursed budget will obtain the remained budget; if not suspension measure of the budget has

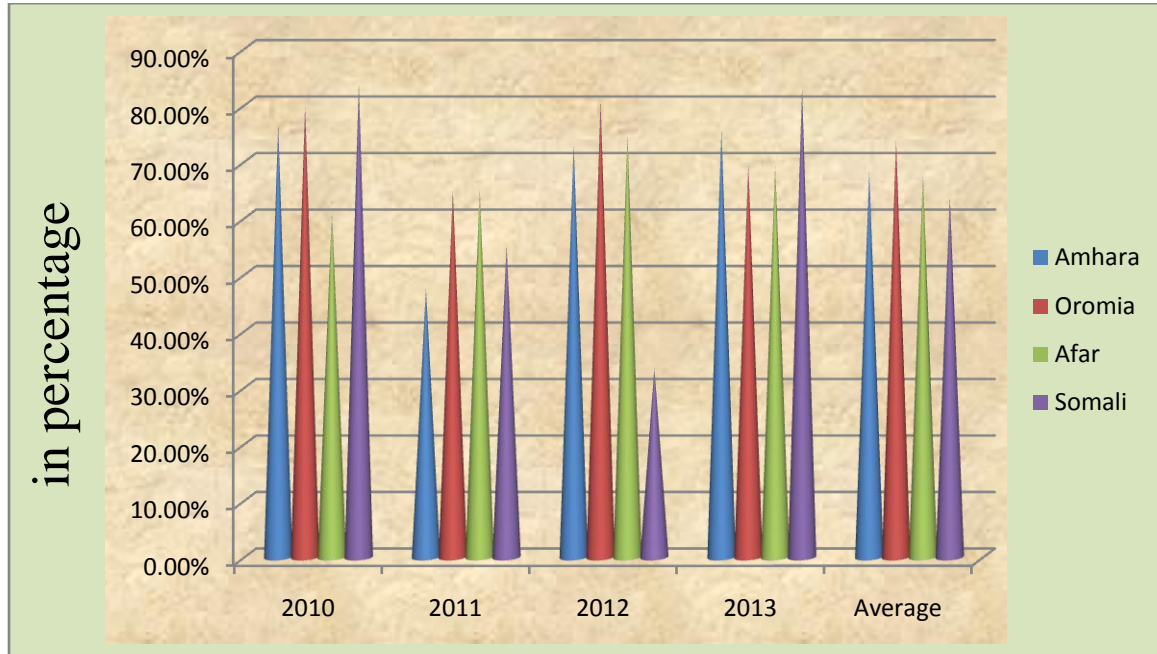
taken. If the region performs well in the next budget year the region will obtain the backlog budget.

The reason that the regions weren't utilizing the budget in the given budget year is that the impediment of the disbursement. The impediment has made because of the budget has disbursed after the six month of the fiscal year was left. This has made because of two fiscal years used in Ethiopia; the government approved the budget in July while the DP releases the grant after January. This brings not only the backlog of the budget but also brings the backlog of the work plan which is a bottle neck in achieving the national goal as planned in all regions under study and a little bit affects regions budget autonomy.

In addition to these mentioned problems the un-disbursement of budget bring the existence of dalliances of work, results the ineffective teaching and learning process (e.g. training, textbooks and other materials, assessment, monitoring and evaluation systems, etc), less enhancement in learning outcomes, less attention in grant management and monitoring capacity such as (i) weak institutional capacity for the delivery of general education, hampering implementation of a consistent and effective education policy; (ii) inadequate strategic planning and management capacity to support tasks such as policy development and medium to long term planning; and (iii) limited monitoring and evaluation systems. The figure 3 below shows the disbursement trend among the regions under study.

Figure 3 o page 59 below, shows the trend of disbursed budget to the sampled regions in 2012 to 2014. The figure shows that the disbursement of the budget to the Amhara, Oromia, Afar and Oromia regional states. The figure 3, below, showed that the trend of disbursement from 2012 up to 2014. As it has showed in the figure 3, below the percentages are calculated from table 5, above, page 57 dividing the disbursed budget from distributed budget of each sampled regions and changing it to percentage. The total average has calculated of the four years disbursed budget of each region alone and the distributed budget of four years budget of each region alone and then dividing the average of disbursed budget of each region by distributed budget of each region and then changing it to percentage.

Figure 3: the GEQIP Conditional grant Disbursement in 2010 up to 2013



Notice: Extracted from table 5 above, p.57

Equitability of GEQIP Conditional Grant Distribution and Disbursement: Table 5 column 4, 5 and 6 row 3 subs row (3), row 4 sub row (3), row 5 sub row sub row (3), and row 6 subs row sub row (3), above describes the ratio of the allocated budget distribution per –capita (share of individual in birr). From the Table 5, observe the following i) the per capita-student distribution of budget allocation ratio of GEQIP has increased in the consecutive budget years for all states ii).The per-capita student distribution of budget allocation of GEQIP favor to the relatively developed states in 2010 and 2014 except in 2011 and 2012 in Oromia as compared to the emerging states.

However, the average per capita distribution demonstrated convergence in difference, although Afar received above the average, while Somali got a little bit less than the average per-capita. So that the difference in per capita distribution of the budget which shows that the developed regions provided more except Oromia in 2011 and 2012 as compare to the emerging regions those provided small in number. In another direction there is difference in per capita distribution that Oromia is less as compared to Amhara regional state that provided more grant in per capita

distribution and from the emerging regions Afar provided more grant than the Somali regional state which shows the distributions mechanism goes out of the fairness principle. The constitution of FDRE 1995 art 41(2) and 89(2) which guarantees the distribution of the resource among the states should be fair. Separately, art, 89(2) of the constitution clearly stated that *“government has the duty to ensure that all Ethiopians...and to promote equitable distribution of wealth among them”*. In addition to the first goal of the Conditional grant as we discussed in review of literature under section 3 addresses (Musgrave, 1957; Oats, 1999) that should be determined by equity and efficiency considerations, to support local governments in providing differentiated public goods to heterogeneous populations, while ensuring an even distribution of basic services across all regions.

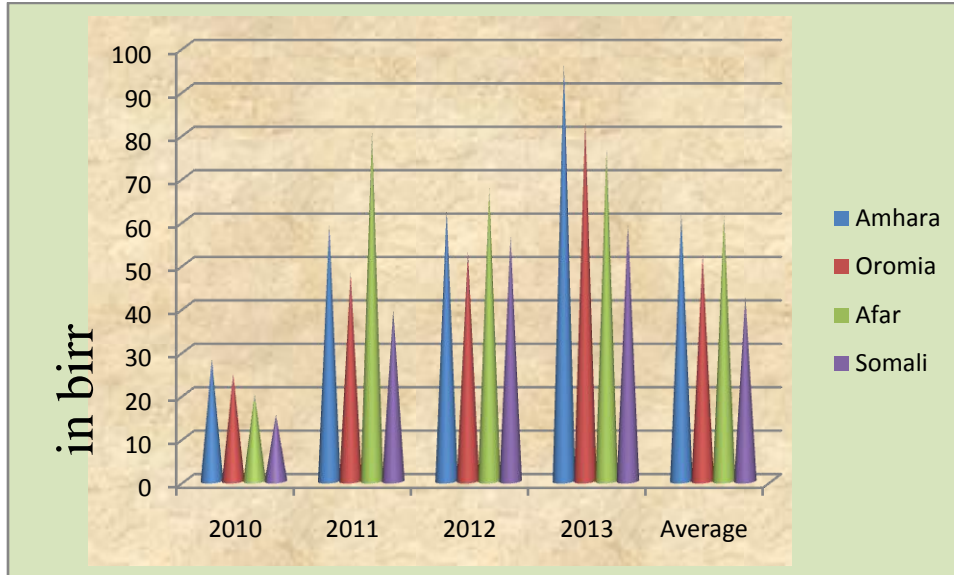
But as considered from the table the distribution lacks the principles of fairness addressed under the FDRE constitution and the arguments of the scholars. This kind of difference brings controversy between the states and the federal government on the issue of equitable budget allocation and distribution. The budget was distributed by the technical committees or tax-force (ad-hoc committee) organized from MoE and MoFED²¹. You can observe from figure 3, below the trend in per capita distribution of GEQIP among the states under study from 2010 up to 2013.

Figure 4 below, shows the trend of per-capita distribution of the GEQIP grant among the sampled regions in 2010 to 2014. The figure shows that the per-capita distribution to the Amhara, Oromia, Afar and Oromia regional states in terms of total school enrolment and school aged population in the given fiscal year. The figure 4, below, showed that the trend of per-capita distribution of GEQIP from 2010 up to 2014. As it has showed in the figure 4, below the per-capita distribution among the total school enrolment and school aged population are calculated from table 5, above, page 57 dividing the distributed budget of each fiscal year of each region by total number of school enrolment and school aged population of each sampled regions in ETB. The total average has calculated the four years distributed budget by the total four years of

²¹ .Discussion made with (Confidential) expert of GEQIP at MoE during field work, February, 2015. To check the issue from technical committees about the distribution, I have gone and try to consult the GEQIP team of MoE; but the owner process of the team is not willing to show me the technique that how the distribution made and not willing to for I to contact the committee. “He responded me that the task forces were organized from different institutions and they were not in place now so that they have finished their task and then they have dissolved.”

enrolled and school aged population of each region alone and the distributed budget of four years budget of each region alone and then dividing the total four years distributed budget of each region by the average of four years enrolled students and school aged population and of each region by in ETB.

Figure 4: the per capita distribution of GEQIP budget among sampled states in 2010-2013



Notice: Extracted fro Table 5, above p.57

3.1.1.3. Productive Safety Net Program (PSNP)

Over the past six decades, Ethiopia has been particularly susceptible to drought, with a drought occurring every three to five years. Serious droughts and often famine, either widespread or localized, have occurred several times and affected millions of people (MoARD, 2010). Environmental degradation and poor natural resource management, together with a reduction in size of average landholdings due to high population growth and, conflict, governance and institutional capacity issues have exacerbated the impacts of these droughts. All of these factors have contributed to the erosion of the productive assets and coping capacities of households and communities. Food insecurity is widespread and food aid needs have been sizable, fluctuating between 0.4 - 2.5 percent of GDP between 1996 and 2001 (World Bank/United Nations, 2010).

However, PSNP in Ethiopia was started in response to the drought that left 13 million people in need of food aid (Ministry of Agriculture, 2010). The productive safety net provides transfers to

food insecure populations in a way which prevents asset depletion at the household level, creates assets at the community level and stimulates markets (Ghebrehiwet, 2014).

Ministry of Agriculture (2010), in Program Implementation Manual (PIM) addresses the basic principles to ensure and to achieving effective PSNP objectives. The following principles are to be applied at all times: i). **Fair and transparent client selection this is implies that** beneficiaries are selected through community-based targeting, with an effective appeal mechanism to address inclusion or exclusion errors. ii). **Timely, predictable and appropriate transfers, this mean that** to create an effective safety net, beneficiaries must be sure that they can depend on the PSNP at all times. Transfers can be considered predictable if PSNP beneficiaries have timely knowledge of their eligibility for the program, and they know what type of transfer they will receive, how much of this transfer they will receive and when they will receive it. iii) **Primacy of transfers, this is entails that** the PSNP is primarily a safety net, ensuring beneficiaries receive transfers takes priority over all considerations. Transfers should not be delayed for any reasons, including those related to public works implementation. iv). **Productive safety net, which mean** that it not only includes a commitment to providing a safety net that protects food consumption and household assets, but it is also expected to address some of the underlying causes of food insecurity and to contribute to economic growth in its own right. The productive element comes from infrastructure and improved natural resources base created through PSNP Public Works and from the multiplier effects of cash transfers on the local economy. v). **Integrated into local systems, it addresses that** the PSNP is not a project but a key element of local development planning. PSNP plans are integrated into wider development plans at woreda, zone, region and federal levels. vi). **Scalable safety net, which involves the** PSNP, is scaled up when needed in the event of shocks to ensure assistance is available to those households who need it most in PSNP districts, to prevent them from becoming more food insecure. Vii) **Cash first principle, this implies that** when the possible cash should be the primary form of transfer. This assists with the stimulation of markets – since people spend their cash in local markets – and the move away from food aid. Viii). **Gender Equity, which addresses** the PSNP is designed to respond to the unique needs, interests and capabilities of men and women to ensure that they benefit equally from the Program.

The PSNP has been operational since 2005 and the current phase will run from 2010 to 2014 (Solomon and Gezu, 2011). Canadian International Development Agency (CIDA), British Department for International Development (DFID), the World Food Program (WFP), the United States Agency for International Development (USAID) and the Government of Ireland are the major co-financers of the PSNP.

PSNP was launched in 2005 the crisis shifted the country emergency response from a system dominated by humanitarian aid to a donor-coordinated, predictably financed, productive and development oriented safety net to address the urgent needs of chronically food insecure households (Food and Agriculture organization (FAO, 2010). Ethiopia's PSNP is an international flagship program both in its scope and in its partnership approach, having reoriented a rural safety net to better respond to the needs of food insecure households and create productive investments to underpin rural economic growth and environmental rehabilitation (MoARD, 2006).

The PSNP is now in its third phase. Phase 1 took in January 2005/2006 to December 2006 and delivered transfers to 4.84 million foods in secured people; phase 2 was implemented from January 2006/2007 to December 2009 and scaled up significantly to cover 7.57 million people. Phase 3 covered the period from January 2010 to December 2014. The third phase (2010–2014) is focused on strengthening implementation in all districts (woreda) to maximize the impact of the program in response to the evidence and experience generated to date. Greater attention to public works was anticipated to result in more sustainable public works sub-projects and enhanced program impact within communities. There are different versions and revisions of the Program Implementation Manual (PIM) which includes: original PIM, produced December 2004, revision in March 2006, further revision in July 2006, addendum to July 2006 PIM in October 2006, addendum to July 2006 PIM in January 2010 and latest version, dated May 2010 (FDRE, 2010).

Ethiopia also adopts the Africa Union Social Policy Framework for Africa (2009) which states that social protection comprises a set of actions including policies, legislation, social services, and social insurance designed to reduce either the risk of experiencing an economic or social

shock, or to reduce the welfare loss after such a shock has occurred combined with actions aimed at alleviating extreme or chronic poverty United Nations Children’s Fund (UNICEF, 2012). Currently, the Ministry of Labor and Social Affairs in collaboration with Ministry of Agriculture are developing a national social protection policy.

The beneficiaries of PSNP are selected on the basis of certain predefined criteria administered by federal government and selected by local communities and Kebele Development Agents (KDAs). Each level of government takes part in the selection process of productive safety net program beneficiaries through government taskforces from government offices such as agriculture, women and youth, water, road and finance, experts of capacity building office of safety net support facility and safety net watershed management programs (MoARD, 2010). The taskforce of productive safety net program include members from local community such as elders, religious leaders, women and youth representatives. These task forces from different stakeholders categorize beneficiaries for direct support and beneficiaries that should be paid in cash for their involvement to public work. Those beneficiaries that get direct support according to the selection of the taskforces include pregnant and lactating women, households without any support, people with disabilities and landless elders. Vulnerable households receive six months annual assistance to protect them from acute food insecurity problem. Table 6, below show the beneficiaries selected from the sampled states of the study and the total beneficiaries and total number of districts in federal government in 2008 up to 2014.

Table 6: Number of Districts and Number of beneficiaries of PSNP of sampled Regions in 2008-2010

Regions	Indicators	2008	2001 _{EFY}	2002 _{EFY}	2003 _{EFY}	2004 _{EFY}	2005 _{EFY}	2006 _{EFY}
1	2	3	4	5	6	7	8	9
Amhara	No. of District encompassed	52	52	64	64	64	64	64
	No. of Beneficiaries	2,519,529	2,519,529	2,519,829	2,308,450	2,294,149	1,819,637	1,452,702
Oromia	No. of District encompassed	62	62	76	79	79	79	79
	No. of Beneficiaries	1,378,876	1,378,876	1,438,134	1,303,313	1,303,313	1,300,033	1,242,487
Afar	No. of District encompassed	29	29	32	32	32	32	32
	No. of Beneficiaries	472,229	472,229	472,229	472,229	472,229	472,229	472,229
Somali	No. of District encompassed	-	-	6	18	32	32	32
	No. of Beneficiaries	-	-	162,672	530,939	729,390	729,390	729,390
Total No of	Districts at National level	234	234	290	305	319	319	319
	Beneficiaries at National level	7,192,072	7,355,072	7,574,481	7,535,000	7,642,158	6,871,970	6,003,588

Source: compiled from FDRE Food Security coordination Directorate, April, 2015

Allocated and Distributed Budget of PSNP: The program was not all state inclusive with non-matching requirements. The recent phase of the program encompassed Amhara, Afar, Oromia, Southern Nations, Nationalities and Peoples (SNNP), Somali, Tigray, Harari and Dire Dawa. The beneficiaries were selected from the district based on the given criteria developed by the ministry of Agriculture.

The annual PSNP allocated budget distribution for beneficiaries among the states has been determined by the formula of *“Cash wage rate x 5 days of work x 6 months X number of beneficiaries in the selected region”* (Ministry of Agriculture, 2010). (The cash wage rate transfer is calculated on the basis of the cost of buying materials in the market of the year).

If the study says about the allocation as such then in case of disbursement one can observe several issues from table 6 above and table 7 below. The author draws up five issues from the tables. i) Any beneficiaries were not included from urban level ii) the Afar regional state beneficiaries were not included in 2008, and Somali in 2008 and 2009 iii) the number of beneficiaries showing decreasing from 2008 to 2014 in Amhara and Oromia but Oromia in 2009, in Afar the number of beneficiaries are uniform from 2009 to 2014 and in Somali the number of beneficiaries have been increasing from 2010 to 2014 iv) the per-capita distribution of the beneficiaries were vary in all regions under study. Thus, the issues have discussed as following.

The first issue concerns, from the inception to 2014 the urban citizens were not included in the PSNP. Table 6 row 5 above; show that in 2008 from rural areas of the country 7, 192, 072 beneficiaries were selected from 234 districts at national level in 2008 and 6,003,588 beneficiaries in 2014 from 319 districts at national level. All over the country in urban areas there are about 972 cities; from these 204 cities citizens those need benefit and poor accounts in Amhara, 368 in Oromia, 82 in Somali and 47 in Afar regional national states. In urban areas of Ethiopia, it is presumed that currently there are about 3,454,372 poor citizens those need help are identified by MoUDC which are accounts about 57.54% of the current rural beneficiaries but urban beneficiaries were not included in the PSNP program until this study has conducted²². As it is explained by MoFED PSNP program owner there were no other related programs which

²² , The data was taken from MoUDC during Field work, 2015

serve as PSNP in urban areas. Under 1995 FDRE constitution Social protection in Ethiopia is a constitutional right. The constitution under article 41 and 90(1) states the provision of social protection measures and services. Among relevant rights enshrined in article 41 are the right to standard of living adequate for the health and well-being of human beings and their families including food, housing and medical care and free primary education; the right of women and children to special care; the rights of every one to security against unemployment, employment benefits, old age and disability pensions and widow grants; and the right of everyone to work. There for from this reality one can argue that there is unequal distribution or unfair distribution of resource in PSNP not only among the citizens of the rural and urban of the regions under study but also citizens of the rural and urban in Ethiopia federal system. For rural beneficiaries of PSNP the allocated and distributed budget, distributed and disbursed budget and the share of per-capita ratio of the beneficiaries among the sampled states of the study has presented under table 7 below on page 68.

Second issue, under table 7 column 3 row 5 and column 3 and 4 row 6 below on page 68, observe that the Afar regional state beneficiaries were not included in 2008, and Somali regional state beneficiaries were not included in 2008 and 2009 in PSNP but the following years. This is because of the absence of the beneficiaries according to the selection criteria of PSNP in the regions in the given fiscal year. But in the following years the poor citizens' were exist in the regions and those full fill the criteria included in the program²³.

The third issue concerned, table 6 above on page 64 and table 7 below page 68 shows that the numbers of beneficiaries showing decreasing from 2008 to 2014 in Amhara and Oromia but Oromia in 2010, in Afar the number of beneficiaries are uniform from 2009 to 2014 and in Somali the numbers of beneficiaries have been increasing from 2010 to 2014. In principle, it is supposed that the number of beneficiaries should be decreased in the following years by graduating from poorness level to self helping unless, the new beneficiaries those full filled the criteria has selected and holed in the program (MoARD, 2010). In Amhara the number of beneficiaries has decreasing throughout the program while the number of districts increasing

²³ . Discussion held with (confidential) food security Directorate Expert of MoARD, February, 2015

which shows in the right track. In Oromia as observed from the table 6 the number of beneficiaries have been decreasing in 2009 but the number beneficiaries were increased in 2010 due to the number of districts have increased from 62 to 76 and then the number of beneficiaries has decreasing while the number of districts increasing which shows the region has in track in decreasing the beneficiaries by graduating them to self helping. In Afar the number of beneficiaries shows constant as observed from the table. In Somali the numbers of beneficiaries have been increasing from 2010 to 2011 due to the number of districts increased then the number of beneficiary constant up to 2014. From these one can draw that the number of beneficiaries have been increasing and constant which show that the beneficiaries in Afar and Somali one beneficiary have benefited from the program more than two years above the standard of graduation when compared to Amhara and Oromia. This issue leads as to the fourth issue to draw up the conclusion which is presented and discussed broadly below on page 71 paragraphs 2.

Table 7: Allocated, distributed and disbursement of PSNP in birr in 2007/8- 2013/14

Regions	Ind	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	Average
1	2	3	4	5	6	7	8	9	10
Amhara	1	674,884,516	735,710,802	1,069,815,568	882,151,159	1,645,568,612	1,494,035,386	1,669,074,928	1,167,320,139
	2	2,519,529	2,519,529	2,519,829	2,308,450	2,294,149	1,819,637	1,452,702	2,204,832
	3	267.86	292	424.56	382.14	717.28	821.06	1148.94	579.12
	4	607,383,841	755,499,999	936,873,811.38	862,753,782.00	1,502,528,518.20	1,298,988,210	1,428,988,954.68	1,056,145,302
	5	89.99%	102.70%	87.60%	97.80%	91.30%	86.90%	85.00%	91.61%
Oromia	1	352,772,180	402,832,068	541,823,067	507,722,135	982,808,462	799,993,834	1,048,424,615	662,339,480
	2	1,378,876	1,378,876	1,438,134	1,303,313	1,303,313	1,300,033	1,242,487	1,335,005
	3	255.84	292	376.75	389.56	754	615.36	843.81	503.90
	4	302,945,604	439,445,639	530,724,597	464,061,373	879,445,540	659,856,401	801,680,415.81	582,594,224
	5	85.90%	109%	97.90%	91.40%	89.50%	82.50%	76.50%	90.39%
Afar	1	-	10,400,351.00	28,758,349	55,420,755	66,607,375	80,323,269	126,344,120	61,309,036.50
	2	-	472,229	472,229	472,229	472,229	472,229	472,229	472,229
	3		6.93	60.9	117.36	141.05	170.09	267.55	127.3
	4	-	3,273,041	21,794,200.00	46,840,378	41,535,224.02	78,759,994.30	103,712,262	49,319,183
	5	-	31.5%	75.80%	84.50%	62.40%	98%	82.00%	72%
Somali	1		-	39,630,864	91,930,599	95,108,218	115,904,992	135,252,930	95565520.6
	2	-	-	162,672	530,939	729,390	729,390	729,390	576356.2
	3		-	243.62	173.15	130.4	158.9	185.43	178.3
	4	-	-	33,139,129	80,864,495	59,515,135.44	103,852,389	114,569,086	78388046.89
	5	-	-	21%	83.70%	88%	62.60%	89.60%	68.98%

Source: based on MoFED PSNP channel one coordinating team and Food security Directorate, April, 2015

Note: the figures are rounded

Numbers listed under Table 7 Column 2 above indicate:

1. Indicates allocated budget from the federal government to the regional governments
2. Indicates the total number of beneficiaries
3. Indicates per-capita ratio of individual beneficiaries in ETB
4. Indicates disbursed budget from the federal government to the regional governments
5. Indicates the percentage (%) of the disbursed budget from allocated budget

Disbursement of PSNP Grant: From table 7 column 3 up to column 9 row 3 up to row 4 sub row 4 and sub row 5 above, show that the disbursement of the PSNP conditional grant has vary among the all sampled regions in all fiscal years. In average the disbursement of the grant of PSNP ranges the higher percentage 91.6 % for Amhara and 90.3% for Oromia while the least 68.98% for Somali and 72% for Afar.

From this an author argues that disbursing of PSNP grant favor to relatively developed regions. The PSNP conditional grant did not transferred as scheduled time. The scheduled shows that the disbursement for cash transfers to regions; beginning August (this transfer covers costs for contingency budget, capital and [partial] administration budget only). Other quarterly cash transfer disbursements to regions, start of October, January, and March (these transfers cover costs for the transfers to beneficiaries, management budget and the balance of administration budget). These dates must be followed accurately and have no flexibility. It is the responsibility of managers at each level to ensure this is the case. Failure to meet the deadline risks delaying funds arrival, timeliness of transfers, and achievement of PSNP objectives²⁴.

From the principles of PSNP thee one is timely transfers (MoARD, 2010). Transfer is timely if it is provided to beneficiaries before or at the time during the year when they need the support. A timely transfer also takes place according to a planned transfer schedule. A transfer is appropriate if it meets the needs of households: cash is provided in settings where markets function well, while food is provided in areas where there is no food to purchase or food prices are extremely high. But as observed from table 7 above the disbursement have not met this principle.

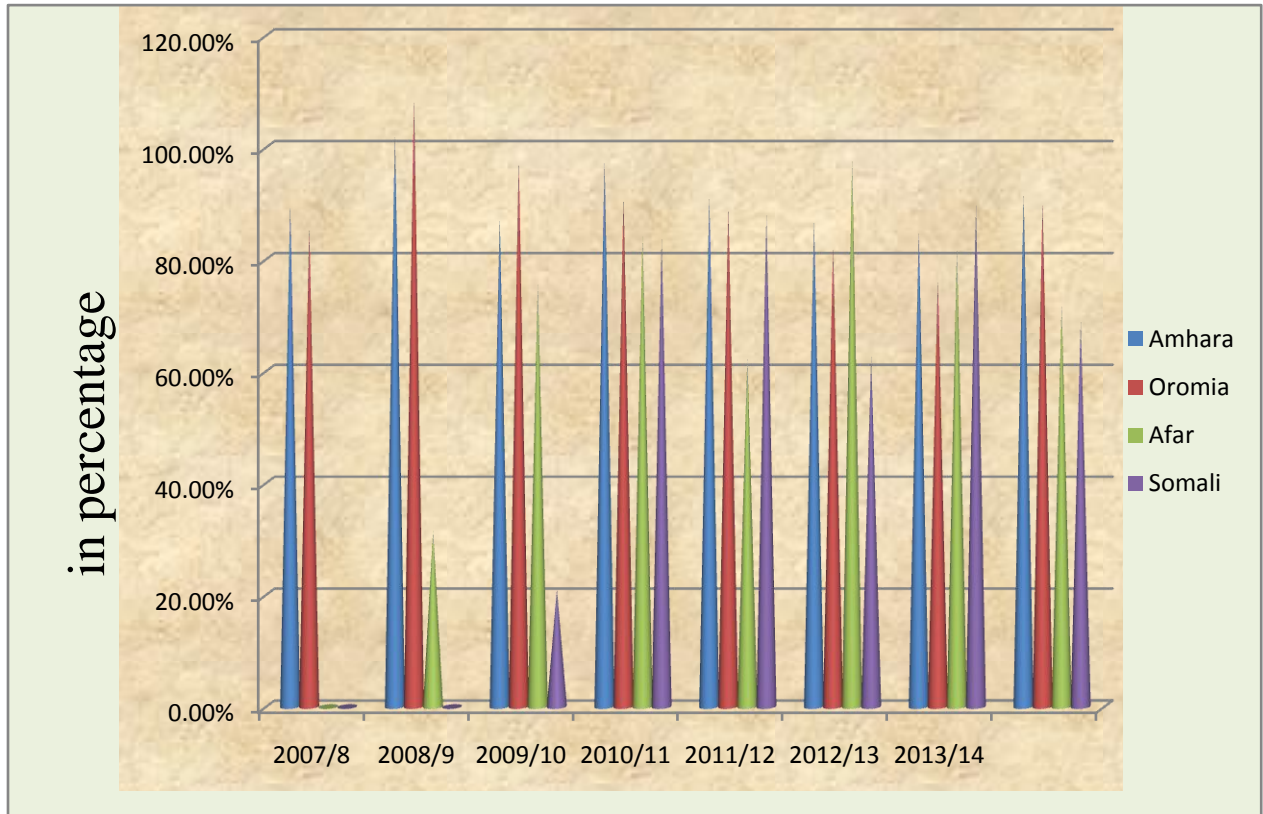
These all variations have been made due to different challenges faced in PSNP disbursement. The major challenges hinders the on time disbursement of PSNP are as following. In practice the timeframe for planning is fixed, but disbursement implementation of the PSNP including public works and transfers can be at any time of the fiscal year. The implementation schedule is driven by the needs of food insecure people in program areas rather than administrative timetables. It is not restricted to specific months. This is the basic problem raised from the

²⁴ . Discussion made with Ato Hayilegebriel Ashagre the PSNP Financial consultant of MoFED, February, 2015

informants at regional level. The needs of PSNP a beneficiary in cash is vary across the country with rainfall, cropping cycles, and livelihood systems. Furthermore, different budget calendars are the other challenges in PSNP conditional grant disbursement. It means different requirements and disbursement schedules; different reporting timeframes and auditing; and inefficient use of resources were faced. Allocation and distribution of Conditional grant has made in July while a disbursement of conditional grants is in January, for instance, will cause a problem, as plan was left six months without implementations. Another danger is that the delay in the signing of agreements or a time gap may lead to reallocation to other priority areas.

Figure 5 below, shows the trend of disbursed PSNP grant to the sampled regions in 2008 to 2014. The figure shows that the disbursement of the budget to the Amhara, Oromia, Afar and Somali regional states. The figure 5, below, showed that the trend of disbursement from 2008 up to 2014. As it has showed in the figure 5, below the percentages are calculated from table 7, above, page 68 dividing the disbursed budget from distributed budget of each sampled regions and changing it to percentage. The total average has calculated the eight years disbursed budget of each region alone and the distributed budget of eight years budget of each region alone and then dividing the average of disbursed budget of each region by distributed budget of each region and then changed it to percentage.

Figure 5: the trend of grant disbursement of PSNP in percentage in 2008 to 2014



Note: Extracted from table 7, page 68

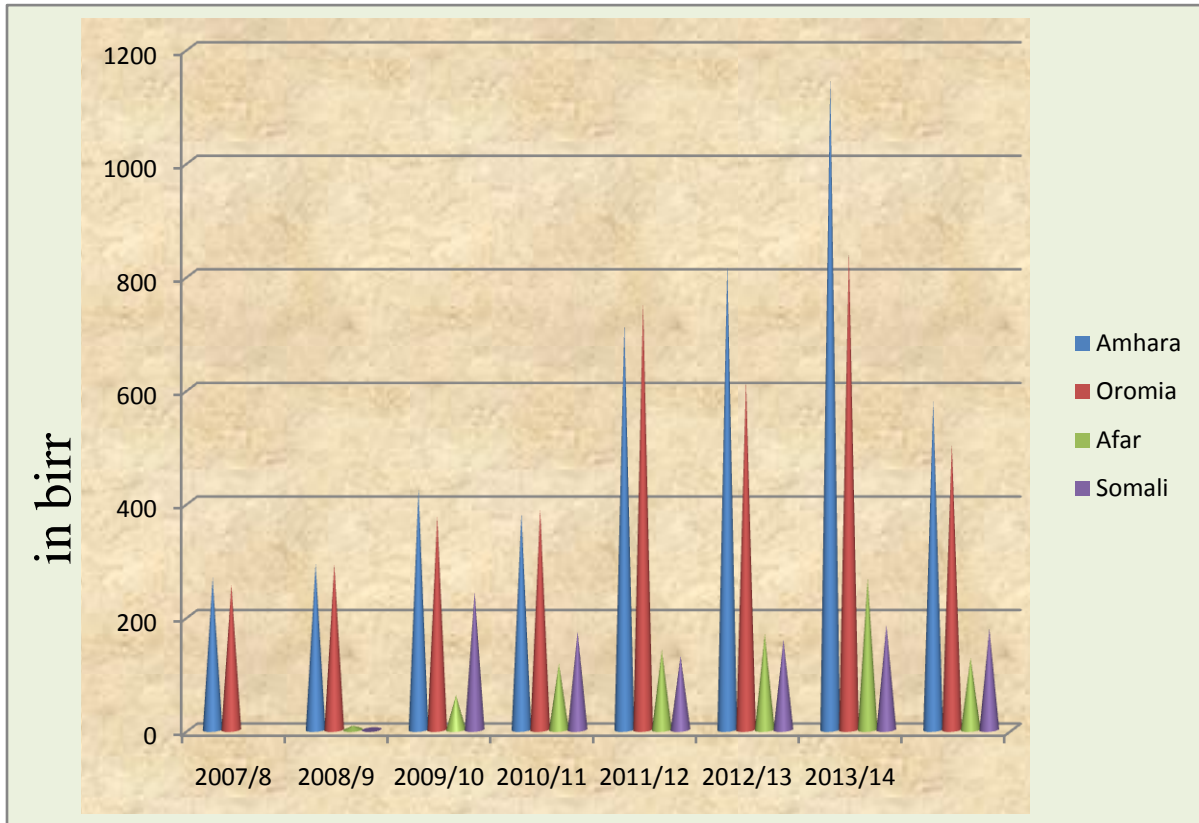
Equitability of PSNP conditional grant in its distribution and disbursement: PSNP is supposed to be the same per-capita distribution among individual beneficiaries regardless their residence area of the region. But, from table 7 above, one can observe PSNP distribution per-capita increased in all the under examined states over the project period (2008-2014) but Amhara in 2003. Thus from the table it is observed that the beneficiaries’ under the study did not benefitted as the same per-capita or did not get in equal value in cash in the same even in the same fiscal year of the allocated budget.

The fourth issue concerned that table 7 columns 3 up to 9 row 3 up to 6 subs row 3 above, show that in all fiscal years the beneficiaries in the two relatively developed regions obtained more per-capita distribution as compared to the two emerging regions of under study. When we look the total average of the distributed grant also shows that the emerging regions are the least

providers in per capita distribution. For Example, the beneficiaries in Amhara and Oromia regional state provided the grant **in Average 579.12ETB** and **503.90ETB** in per-Capita distribution respectively, while the beneficiaries in Somali and Afar regional state provided the grant **127.36ETB** and **109.13ETB** in per capita distribution respectively. By looking the third and the fourth issue it is argued that the constant number of beneficiaries in emerging region show that the un-promotion (un-graduation) of citizens from beneficiaries to self helps citizen. These show that the benefited cash money as much do not change their life and did not lead them for graduation. These show that in efficient and unfair resource distribution among the beneficiaries in Afar and Somali regional states as compared to beneficiaries in Amhara and Oromia regional states. Figure 6; below on page 73 shows the trend of difference in per capita distribution among the beneficiaries of the sampled states under the study.

Figure 6 below, shows the trend of per-capita distribution of the PSNP grant among the sampled regions in 2008 to 2014. The figure shows that the per-capita distribution to the Amhara, Oromia, Afar and Somali regional states in terms of total beneficiaries in the given fiscal year. The figure 6, below, showed that the trend of per-capita distribution of PSNP from 2008 up to 2014. As it has showed in the figure 6, below the per-capita distribution among the total beneficiaries are calculated from table 7, above, page 68 dividing the distributed budget of each fiscal year of each region by total number of beneficiaries of each sampled regions in ETB. The total average has calculated the eight years distributed budget by the total eight years of number of beneficiaries of each region alone and the distributed budget of eight years budget of each region alone and then dividing the total eight years distributed budget of each region by the average of eight years number of beneficiaries of each region in ETB.

Figure 6: the trend of per-capita distribution of PSNP grant in birr in 2008-2014



Notice: Extracted from table 7 above on page 68

3.1.1.4. Urban Local Government Development Program (ULGDP1)

It includes only Tigray, Amhara, Oromia, SNNP, Harari, Addis Ababa and Dire Dawa only with a closed-ended matching requirement. The (ULGDP) is a continuation of a program of urban reform by the government of Ethiopia which was started in the early 2000 through the Capacity Building Decentralized Service Delivery (CBDSD) project, which focused on enabling regions and cities to establish the necessary legislative and fiscal frameworks (MoUDC, 2008). Then ULGDP1 has been designed in 2008 and started in 2009 to support the government's urban development program and urban good governance program (FDRE, MoUDC, 2008). ULGDP1 has phase out in 2014 and ULGDP2 has currently designed. For the first phase (ULGDP1) has included 19 cities of the relatively developed regional capitals and three of the largest cities in

each of these regions²⁵ plus Addis Ababa, Dire Dawa and Harari. The 19 cities contain a population of approximately 5.5 million comprising about 45% of Ethiopia's total urban population²⁶. These 19 cities have been selected for two main reasons: a) it is important to focus on large sized investments so that substantial impact can be achieved so as to avoid a large number of small investments that have little real impact; and b) to focus the ULGDP investment in those cities. These selected cities are referred to "Urban Local Governments" (ULGs).

The specific development objective of the project is to support improved performance in the planning, delivery and sustained provision of priority municipal services and infrastructure by ULGs (FDRE MoUDC, 2008). For participating cities, the expected outcomes of the project addressed are: i) Effective and responsive planning to meet service delivery priorities identified by citizens (locative efficiency/participation objective); ii) Improved financial management and mobilization of own resources and more effective operations and maintenance of infrastructure assets (sustainability objective); iii) Improved dissemination to the public of budgets/plans and performance measures (accountability objective); and iv) Effective implementation of capital investment plans (service delivery improvement objective).

The ULGDP1 comprises two components as it has clarified in operational manual of the program. These are the performance grants support and implementation support. The former is a grant transfer mechanism to eligible urban local governments in the form of a conditional Specific Purpose Grant (SPG). It designed to: (i) provide incentives for urban local governments and regions to continue to implement the government's proposed reforms under the urban good governance program, which are needed for sustainable urban services and growth; and (ii) enable ULGs, as a result of enhanced performance, to more effectively address urban service delivery (including infrastructure backlogs which have received little attention in the past).

The implementation support grant is a small amount of IDA funds that required for implementation support allocated for MoFED and MoUDC. This includes ULGDP management

²⁵ . Bahir Dar, Kombolcha, Gondar and Dessie in Amhara Region; Mekelle, Adigrat, Axum and Shire Endaselassie in Tigray Region; Adama, Bishoftu, Jimma and Shashemene in Oromia Region; and Hawassa, Arbaminch, Wolayta Sodo and Dilla in SNNPR (MoUDC, 2008)

²⁶ . This data is based on estimates for July 2007. These will be updated with the May 2007 census data once this is released in 2008.

and technical support, annual performance assessments, baseline and follow-up surveys, training, workshops, consultants to follow up on compliance with Environmental and Social Management Framework (ESMF) and Resettlement Policy Framework (RPF) activities as required, MOFED-based expert(s) responsible for disbursements and reporting; and support for preparation of mid-term and final evaluation reports (including the Implementation Completion Report).

Allocated and Distributed Budget: The Performance grant of ULGDP1 provided for recipients was US\$145 million and financed from IDA and allocated based on population shares of the ULGs, except for Addis Ababa and Dire Dawa. The total population of the 17 cities has numbered 2,077,537 and the other two cities; Addis Ababa total population of 3,058,000 and Dire Dawa total population of 293,173. Given the large populations of both Addis Ababa and Dire Dawa compared to the other 17 ULGs, providing funds to all the ULGs based purely on population shares would mean that Addis and Dire Dawa would get the bulk of the funds, with very little left to share between the other 17. In addition, Addis Ababa as the capital city and commercial centre of the country has greater access than other ULGs to alternative sources of finance. The formula for distribution of allocated budget has based on the total population of the city selected for ULGDP program that Amhara accounts about 628,326 cover 30.24% and Oromia the total population of the selected city accounts 30.86% from the total population of 17 cities.

The ULDGP is the matching fund that the contribution takes place between three organs of the government. These are the FDRE (IDA), the regional government and the ULGs. In ULGDP1 the contribution of IDA is 71% and the rest have financed by the Regional government and ULGs. The Federal government (IDAs) contribution to the regions was based on the number of the populations of the cities selected for the program from the regions. The distribution of the budget, number of city populations, the per-capita ratio and the disbursed budget of ULGDP1 from federal government among the sampled states in 2008/9- 2012/2013 has showed under table 8, below.

Table 8: Allocated, distributed and disbursement of ULGDP in birr in 2007/8- 2013/14

Regions	Indi	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14	Average
1	2	3	4	5	6	7	8	9
Amhara	1			359,403,736	269,663,950	468,307,629	252,132,596	337,376,978
	2			628,326	628,326	628,326	628,326	628,326
	3			572	429.18	745.33	401.28	536.95
	4			113,906,314	104,289,293	316,427,441	131,547,343	166,542,598
	5			31.69%	38.67%	67.56%	52.17%	47.52%
Oromia	1			376,621,242	258,026,069	448,270,839	210,797,982	323,429,033
	2			641,128	641,128	641,128	641,128	641,128
	3			587.435336	402.456403	699.190862	328.79235	504.47
	4			283,368,585	127,863,912	283,079,114	94,299,554	197,152,791
	5			75.23%	49.55%	63.14%	37.40%	56.33%
Afar								
Somali								

Source: Based on MoFED ULGDP and MoUDC ULGDP coordination team data, April, 2015

Numbers listed under Table 8 Column 2 above indicate:

- 1. Indicates allocated budget from the Federal government to the regional governments*
- 2. Indicates the total number of the ULGs population*
- 3. Indicates per-capita ratio of the ULGs individual population in ETB*
- 4. Indicates disbursed budget from the Federal Government to the ULGs*
- 5. Indicates the percentage (%) of the disbursed budget from allocated budget*

Budget Disbursement of ULGDP1: As explained by MoFED and MoUDC, the disbursement of the budget from the center to the recipients has based on the performance of the ULGs. The performance measurements are: i) timely submission of all progress reports to regions, including progress on procurement and safeguards; ii) achievement of annual targets in revenue generation and implementation of accounting system improvements; iii) evidence of effective public dissemination of information on budgets (including investment plans), expenditures, physical progress of investments, and iv) progress in the utilization of the disbursed capital investment budget.

From table 8 under each column and raw described data, anyone can observe that four basic points i) The grant is mostly adversely by the slow flow in both Amhara and Oromia regional states ii) the difference in flow of funds among Amhara and Oromia regional states and also it

fluctuates within the regions iii) Afar and Somali regional states were not included in the ULGDP1 iv) the 2009 and 2010 fiscal year the allocated, distributed, disbursed and per-capita ratio data has not presented. The reasons and implications on national goal, on regional budget autonomy and on equity have explained as following.

Regarding to the first issue, as it was described under table 8 column 5 up to 9 row 3 and row 4 sub row 4 and 5 above, that the minimum actual flow in the two regions or the disbursement implementation of funds to the regions in relation to expectation (budgeted in flow) has generally slow, ranging from 31.69% to 67.56% in Amhara and 37.4% to 75.23% in Oromia regional states. As explained by MoFED this is due to several factors, including delays in procurements, belated structural designs for civil works, and delays in completion of annual performance evaluations. Sometimes, funds are received belatedly, just two months prior to the end of the financial year. However, project managers also expressed dissatisfaction with the speed of processing funds disbursement transactions in these fiscal years. This shows that the activity of the selected cities of the regions has low in performing the criteria's used for the disbursement of the grant. This may results that the planned works in the given fiscal years were not performed as it was planned , because, the budget was allocated based on the population of the selected cities of the regions in consideration of annual plan of the city. If the budget was not disbursed as scheduled time the work was not performed as it was planned. If the work was not performed as it was planned the national goal was not achieved as it was designed. This brings negative impact to achieve the national goal than on budget autonomy because the budget was allocated to the ULGS to achieve the national goal regarding to urban development. The trend of disbursed budget among the sampled regions in 2011-2014 has showed under figure 7 below, on page 79.

Regarding to the second issue, the grant disbursement shows the difference among the two relatively developed regions. From table 8 column 9 row 3 and row 4 sub row 4 and 5 below the disbursement in average shows to Oromia regional state accounts 56.33% while to Amhara regional states accounts 47.52%. The grant average disbursement showing more to Oromia as compared to Amhara showing better performance of the cities in achieving the criteria's including the implementation (utilization) of the budget. The city of the region that achieved the

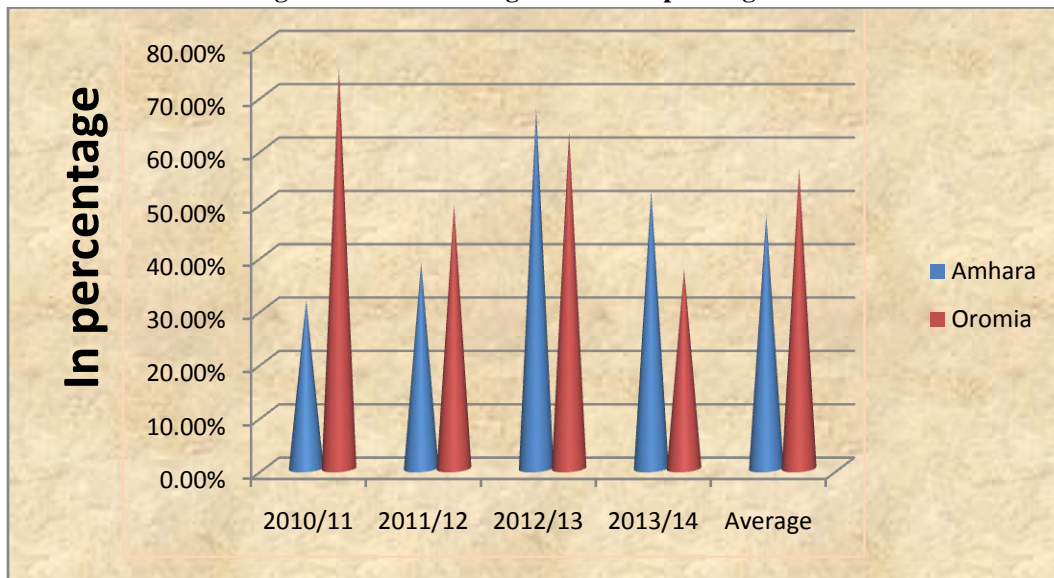
criteria mentioned above on page 77 in the given scheduled time will receive the remained allocated budget in the next scheduled time of the disbursement too, which show the cumulative performance of the region. If the cities of the region fail to perform well, the city will not get the remaining allocated budget till achieving the criteria so that suspension measure has to be taken to the city of the region by the grantee. So the data shows that the size of disbursement or federal government releases to the cities of the given states depend up on the performance of the city of the regions. This shows that the well performance of the cities shows the well performance of the region and the less performance of the cities show the less performance of the region. The region performs well and full fill the criteria of the grant disbursement will receive the next grant, if not suspension measure will be taken. This may leads the region the difference in development which arises from the recipients less performance and hinders the national goal achievements. The trend of disbursed budget among the sampled regions in 2011-2014 has showed under figure 7 on page 79 below.

The third issue is from emerging regions the regions under study, Afar and Somali regional states were not included in the ULGDP1. As explained by MoUDC this is due to two reasons, a) it is important to focus on large sized investments that to avoid a large number of small investments that have little real impact; and b) to focus the ULGDP investment in to ULGs and no ULGs currently selected in these regions. These reasons are contrary to the principle of equity in light of 1995 FDRE constitution Art, 89(2) provision which guarantees equitable distribution of wealth among all the citizens. This has its contribution to make the city of emerging states stay as emerging states and the city of relatively developed states sustain as developed. This shows that ULGDP1 fevered to relatively developed regions than emerging regions.

The fourth issue, one can observed from table 8 column 4, 5, above in 2009 and 2010 the data has not presented because of data was not available and so it is not possible to determine the allocation, distribution and disbursement of the given fiscal year. The MoFED and MoUDC explained that due to the responsible experts were not placed on the position during the given fiscal year; the data was not recorded so that the data was not available at MoFED and MoUDC. Because of this reason the study has not included the 2009 and 2010 fiscal year of ULGDP1 data.

Figure 7 below, shows the trend of disbursed ULGDP grant to the sampled regions in 2011 to 2014. The figure shows that the disbursement of the budget to the Amhara, Oromia, Afar and Somali regional states. The figure 7, below, showed that the trend of disbursement from 2011 up to 2014. As it has showed in the figure 7, below the percentages are calculated from table 8, above, page 76 dividing the disbursed budget from distributed budget of each sampled regions and changing it to percentage. The total average has calculated the four years disbursed budget of each region alone and the distributed budget of four years budget of each region alone and then dividing the average of disbursed budget of each region by distributed budget of each region and then changed it to percentage.

Figure 7: the trend of ULGD grant disbursed budget to the sampled regions from 2011-2014



Note: Extracted from table 8 p. 76

Equitability or Fairness Allocation of conditional grant for ULGDP1 among the sampled regions: ULGDP has expected to inclusive to all regions of the federation and city administration. As it has presented above and observed from the table 8 the evidence shows that ULGDP1 was not including any city from emerging regional states. Initially the supported 19 urban local governments (cities that have been supported through the capacity building efforts under CBDS), which constitute about 45% of the total urban population has continued in this program. It assumed that if implemented well, it could be sustained through additional funds and expanded to other regions and cities.

The planning and budgeting for ULGDP1 at federal, regional and ULG levels is integrated into and aligned with the existing Government of Ethiopia (GOE) Public Investment Program financial calendar year systems. Consequently, in December, 2010, of the second year of the program the Ministry of Finance and Economic Development (MoFED) requested additional financing for the Project to scale up its impact and development effectiveness in other cities. The Adaptable Finance (AF) assist 18 additional cities²⁷ to build basic capacities in good governance to prepare them to participate in the second phase of the project anticipated to commence in 2014. In this AF assistance to build basic capacities in good governance to prepare to participate in second phase also any city of the emerging states were not included, even their capital city.

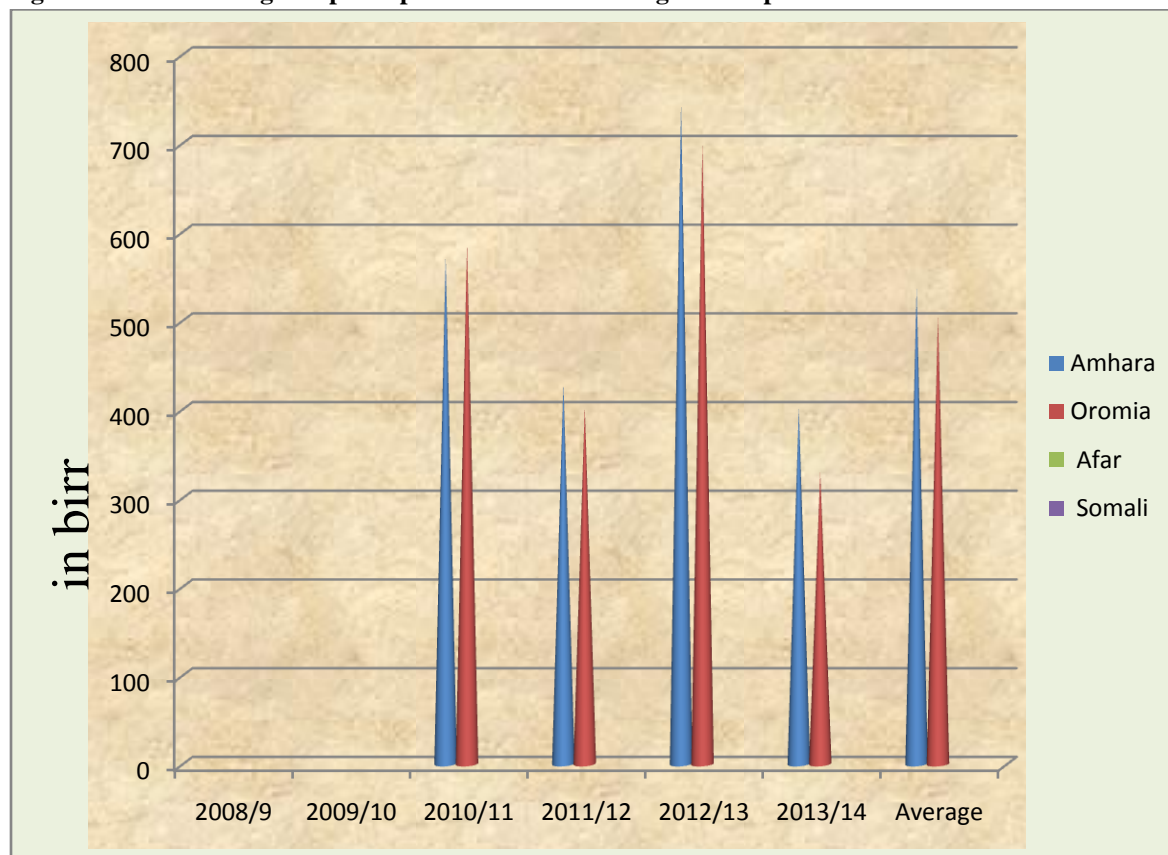
Urban development is becoming important in Ethiopia. Some of the main activities that obtain special focus in GTP are construction and transfer of low cost houses, reduction of slum areas, development of modern abattoir, and the constructions of cobble stones, drainage network, and solid waste landfills. Construction and maintenance for urban development need huge capitals which need comparable financial resource for urban development's so that selecting proportional cities from the all regions and funding them will solve the financial or capital problem of the regions.

²⁷ Assela, Burayu, Sebeta, Ambo, Robe, and Batu in Oromia Region, Debre Birhan, DebreTabor, woldya, Finoteselam, and Mota in Amhara Region; Almata, Humera and Wukroin Tigray Region; and Mizan, Welkite, Tapi, and Butajira in SNNPR

From this it is argued that the selection of cities for ULGDP1 is unfair. Therefore, this unfair selection of cities brings development disparity among the cities of the regions because of lack of financial resource for constructing integrated urban infrastructures. Besides, in many regions tax is collected by central government; and local governments have limited power to determine and collect tax (Ghebrehiwet, 2014). These leads the cities to underperformance in coverage, service levels and service quality. This lack of sufficient funding because of ineffective and inefficient fiscal transfer systems from the central government in ULGDP1 grant allocation and city selection brings difference in service delivery among the cities of the regions.

Figure 8 below, shows the trend of per-capita distribution of the ULGDP grant among the sampled regions in 2011 to 2014. The figure shows that the per-capita distribution to the Amhara, Oromia, Afar and Somali regional states in terms of total number of population of the city in the given fiscal year. The figure 8, below, showed that the trend of per-capita distribution of ULGDP from 2011 up to 2014. As it has showed in the figure 8, below the per-capita distribution among the total number of population of the city are calculated from table 8, above, page 76 dividing the distributed budget of each fiscal year of each region by total number of population of the city from each sampled regions in ETB. The total average has calculated the four years distributed budget by the total four years of number of population of each region alone and the distributed budget of four years budget of each region alone and then dividing the total four years distributed budget of each region by the average of four years of number of population the city of each region in ETB.

Figure 8: the ULGDP grant per capita distribution among the sampled states from 2009-2013



Note: it is constructed from table 8 above, page 76

3.1.2. Channel Two Conditional Grant Allocations and Implementations

3.1.2.1. Conditional Grants Part of the Subsidy

Allocated and Distributed Budget: Budget subsidies from federal government to the regional governments are allocated based on the formula developed by HoF of the FDRE. Based on the total pool of the budget the MoFED decide the share of the regions. There are three sources of financing the subsidy: the domestic source, the external loan and external assistance. The domestic sources are those disbursed from the federal government through MoFED to the regional BoFED. Development partners are the sources of loan and assistances. External loans and external assistances part of the subsidy are subject to off-setting. Before entering to in

offsetting system, the MoFED identify how much of the loan and assistance fund is placed in the region²⁸”.

The external loans and external assistances are part of conditional grant in principle, but the federal government incorporated it in to unconditional grant and make it part of the subsidy. The experts of the MoFED note that “offsetting has done to bring equity among the states. These sources of revenue has assumed as it is placed in the regions so that if it has not offset and remain simply left in the region without offsetting and it harms equity. To respect the equity among the states offsetting is the best mechanisms”.

Table 9 below, shows that the allocation, distribution of subsidy, distribution of external loans, external assistances part of the subsidy and coverage of external loan and external assistance from total subsidy among the sampled regions of the study. From the table, one can distinguish the loans and assistances part of the subsidy appropriated to the regions from the total subsidy appropriated to the regions under study. In addition to this can distinguish the appropriated loans and assistances part of the subsidy to relatively developed regions and emerging regions under study.

²⁸ . The researcher compiled the system by observing all the budget proclamations of the Federal government from 2008 up 2014 and observation made to Some documents in MoFED and experts of the subsidy in MoFED entails that, Discussion made with Ato Henok Bilateral and Multi lateral expert of MOFED, February,2015 also insuresit.

Table 9: Allocation of Subsidy, distribution of Subsidy and share of external loans and external assistances to total subsidy (Offset) in 2008 up to 2014

Region	Ind	2008	2009	2010	2011	2012	2013	2014	Average
1	2	3	4	5	6	7	8	9	10
Amhara	1	3,432,940,000	4,138,520,000	4,520,300,000	5,500,961,905	7,163,352,400	8,212,489,476	9,839,709,760	6,115,467,649
	2	15,000,000	33,930,000	40,680,000	9,350,000	10,290,000	11,390,000	6,660,000	18,185,714
	3	91,000,000	154,310,000	307,030,000	112,090,000	128,636,000	202,896,658	119,533,474	159,356,590
	4	106,000,000	188,240,000	347,710,000	121,440,000	138,926,000	214,286,658	126,193,474	177,542,305
	5	3.09%	4.55%	7.69%	2.21%	1.94%	2.61%	1.28%	3.34%
Oromia	1	4,705,290,000	5,571,230,000	6,406,460,000	7,641,638,028	9,932,351,251	11,575,380,084	13,815,498,571	8,521,121,133
	2	49,930,000	57,710,000	29,670,000	9,650,000	20,750,000	22,820,000	13,454,270	29,140,610
	3	54,740,000	145,380,000	354,800,000	188,260,000	228,773,000	221,835,493	149,979,187	191,966,811
	4	104,670,000	203,090,000	384,470,000	197,910,000	249,523,000	244,655,493	163,433,457	221,107,421
	5	2.22%	3.65%	6%	2.59%	2.51%	2.11%	1.18%	2.9%
Afar	1	450,100,000	499,560,000	639,890,000	792,495,976	1,021,764,149	1,131,181,417	1,339,856,879	839,264,060
	2	11,560,000	7,010,000	7,440,000	80,000	3,490,000	3,830,000	-	5,568,333
	3	22,910,000	38,960,000	41,060,000	12,350,000	20,164,000	10,622,800	15,024,225	23,013,004
	4	34,470,000	45,970,000	48,500,000	12,430,000	23,654,000	14,452,800	15,024,225	27,785,861
	5	7.66%	9.20%	7.58%	1.57%	2.32%	1.28%	1.12%	4.39%
Somali	1	1,004,150,000	1,154,290,000	1,665,840,000	1,991,644,372	2,549,625,870	2,908,636,177	3,457,552,090	2,104,534,073
	2	22,160,000	13,190,000	1,990,000	850,000	6,930,000	7,610,000	-	8,788,333
	3	34,340,000	43,620,000	54,920,000	39,090,000	82,030,000	44,218,119	43,632,732	48,835,836
	4	56,500,000	56,810,000	56,910,000	78,180,000	88,960,000	51,828,119	43,632,732	61,831,550
	5	5.63%	4.92%	3.42%	3.93%	3.49%	1.78%	1.26%	3.49%

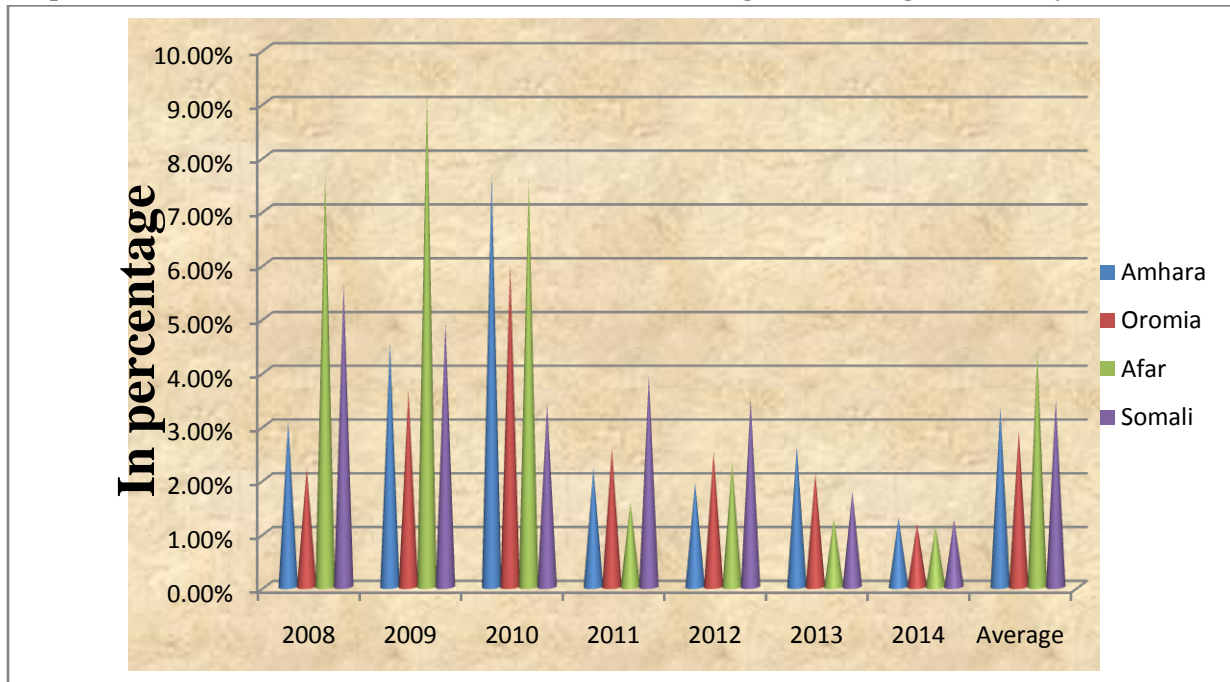
Sources: Computed by the researcher from FDRE subsidy budget proclamations starting from 2008 to 2014 GC

Numbers listed under Table 9 Column 2 above indicates:

1. Total subsidy from Federal Government
2. External loan part of subsidy
3. External assistance part of subsidy
4. Total loan and assistance (2+3)
5. Share of loan and assistance to total subsidy in (%)

From Table 9 above, one may compute the share of external source to total federal subsidy to be, on average of the highest 4.38% and the least of 2.8% with significant variations among the sample states. Table 9 above indicate that the external source part constituted 4.38% and 3.48% of the total federal subsidy for Afar and Somali respectively as compared to 3.338% and 2.8% for Amhara and Oromia regional states respectively.

Graph 9: the share of External loans and assistances (offset budget) to total regional Subsidy



Notice: It is extracted from Table 9 page 84

Equitability of Allocation and Distribution of External Loan and External Assistance party of Subsidy: The Ethiopia federal government prefers external resources to channel through MoFED as budget support, to the regions, districts (woredas) and sectors in line with fiscal decentralization and sector development program policies. If a donor provides funds for a particular geographical area or program, through channel two then MoFED ‘offsets’ the money i.e. it includes them in its resource allocation calculations and reduces the governments contribution to that area accordingly. Among the Channel two transfers the MoFED offsets only some of them and make it part of unconditional grant (Subsidy).

The experts of MoFED and BoFED through discussion explained that donor provides funds for a particular geographical area or issue then MoFED ‘off-sets’ these i.e. it includes in its resource allocation calculations and reduces the government’s contribution to that area accordingly. This goes against common donor concerns²⁹.

²⁹ . Discussion made with Ato Henok expert of MoFED, and respondents of regional BoFED, December, 2014

From this assertion it is considered that channel two looks similar in that government system are used to manage the funds (accounting, reporting and the like). However, allocation of funds for expenditure lies outside of the government system (i.e. it is not allocated according to subsidy grant formulae or regional planning) and the MoFED would incorporate it to in unconditional grant then offset it. These funds are often managed through separate bank accounts, and reflect on the part of donors wish. But they have to bypass the federal and SNG allocation structures. Its allocation has been done simply adding up the grants existing in the regions.

As discussion held with regional BoFED of under study³⁰, the study realized that regions in its allocation and distribution loans and assistances part of the subsidy is no consensus between the MoFED and recipient states on the offset mechanism. The study assured that regions under study have received very few external loans and assistances part of subsidy through disbursement because of its unpredictable and difficult to meet the stringent requirements of financial regulations of procurement, reporting etc.

One issue of great concern to government is the unknowing the amount of transfer of external assistances and external loans of the offset. These grants are flow to the grantee through the institutions of the federal sector ministry, and/or regional sector bureau. Each of the institutions involved will be responsible for Financial Management (FM) aspects of the program in respect of activities carried out by them, including internal controls, accounting and record keeping. BoFED and MoFED will have overall responsibility for the FM aspects of the program, and for consolidated financial reporting (Proclamation No, 691/2010) but the internal controls, accounting, record keeping and consolidating financial report for offset was not done by BoFED and /or MoFED due to this fact the amount of transferred and utilized budget was not clearly known at BoFED and MoFED.

The other difficulty of offset that the study takes in is it creates a natural preference for treasury resources. This can interact with the way the federal subsidy is calculated to create a serious disincentive for the utilization of grant because of its unpredictability. Subsidies are shared

³⁰ .Discussion made with Ato Chala Bikila at oromia National Regional State budget distribution process owner and Ato Usman the head of BoFED at Afar Regional State, December,2014

among regions according to a formula that takes account formulated by HoF. It is important to note, however, that the formula does not determine the level of funding to the regions: this is decided separately, and the formula is used only to determine how a pre-determined level of funding is shared among the regions. The other is a serious lack of transparency in the calculations, and regions may find their treasury allocation reduced on account of anticipated the offset budget because it is uncertain to arrive. All the above explanations show that allocation and distribution of loans and assistances part of subsidy which was offset leads to some regions have losers and the other are users and harm equity principles.

From table 9 above, by looking the whole column in all the appropriated budget year it is simply considered that the offsite budget was more appropriated to emerging regions than relatively developed regions. This mean that the more loans and assistances part of subsidy appropriated to the regions make the more losers of the appropriated loans and assistances part of the subsidy in its disbursement and vice versa. This shows that for the regions that appropriated less amount of loans and assistances part of subsidy brings less loses amount of appropriated budget while for the regions that appropriated more loans and assistances part of subsidy results the regions losses more amount of the appropriated budget. The FDRE constitution under Art 40 and Art 90 stipulate that any citizen shall benefited in equal position from the countries resource. But from the table 9 above, one consider the unfairness distribution of the budget through offset system which erodes the federal subsidy formula. Because the federal subsidy was designed by considering the local discretion but the offset one was tied by criteria laid down by the granters. The criteria that set by the grantor has designed to full fill the interest of the grantor.

Moreover, the study assured that in the authors' observation at MoFED, the Integrated Budget and Expenditure Management (IBEX) that the only region tries to register and embedded the disbursement and utilization of external loan and external assistance part of subsidy in to IFR, is Tigray regional national state. All regions under examined has not recorded it in IBEX or incorporate it in IFR rather than making it a part of subsidy and approving it by the respective national councils and placing it in the proclamation as one of a source of the regional budget. . The disbursement implementation system was done out of BoFED and MoFED through line

ministries to line bureaus. The line bureaus give its disbursement and utilization report to the line ministries and the donors by incorporating it in Other Resources (OR).

The other main problem identified and harms equity was that loans and assistances part of the subsidy has distinct disadvantages. Firstly the targeting is the donor partner's and not the government meaning that there is a possibility that the support may not address national priorities or aligning with national planning mechanisms. Secondly, there are no guarantees that such support will be 'captured' within national systems; indeed, it may have donor requirements to manage, report and disclose funds in a different way, effectively setting up a parallel system. The offset budget is not transparent, it lack predictability, and so that it impede the sub local government's ability to make long term development plans because of its uncertainty. It was discussed under allocation of the offset budget that the allocation data shows the share for Afar and Somali regional states is very high than the Amhara and Oromia regional states, so that, the lack of its predictability and uncertainty brings fiscal disparity among the regions. The region that its share was high in allocation will loss high amount of budget in its disbursement. Due to all this facts the loans and assistances part of subsidy has highly affects regional budget autonomy and equity among the regions that under study.

CHAPTER FOUR

SUMMARY, CONCLUSION AND RECOMMENDATIONS

INTRODUCTION

This chapter deals with the summary of the major findings, the conclusions drawn from the findings, and recommendations. In order to attain the objectives of the study, three basic research questions has stated and answered. Finally, the study made an effort to come up with suggestions and forward recommendations.

4.1. SUMMARY

The key findings has been made in relation to the objectives of the study which was to assess the equitable or fairness allocation, distribution and disbursement of conditional grants from the center to the regions, the challenges faced and the impact of conditional grant on regional budget autonomy and on equity under the study area. Therefore, the conclusion of the major findings has presented as following.

- ❖ **Formulas and/or mechanisms used to allocate, distribute and disburse conditional grants through channel one and channel two from federal government to sampled regions:**

The finding of the study show that the allocations of conditional grants are based on political decision in consideration of giving priority to basic services in line with the achievement of national goal but not all programs are state inclusive. From channel one conditional grant MDG, GEQIP and PSNP are allocated to the whole regions under examined, but the ULGDP grant is allocated to the relatively developed regions but not for the emerging regions of under study. The PSNP program has only focused on the rural areas of the regions under study and it did not include urban areas, because it was designed for rural areas only; but there are also poor citizens in the urban areas of the regions under study who need help. The allocation of loans and assistances part of subsidy (off-set) includes all the states under study.

The distribution of all conditional grants of channel one that the study focuses on formula but the loans and assistances part of subsidy and offset from unconditional grant is not. MDG is distributed based on the subsidy (unconditional grant) distribution formula. The MDG grant is a non matching grant which is distributed to the regions for achieving the national goal. The PSNP grant has distributed based on the cost of buying material in the market year multiplying by the number of beneficiaries with five days of work for about six months of the fiscal year. The GEQIP grant has distributed based on the weighted formula of the number of school enrolled students 75% and school aged population 25%. The ULGDP grant is a matching grant allocated and distributed based on a number of populations of ULGs. But the loans and assistances part of unconditional grant of channel two (the off-set conditional grant) has no clear formula for its distribution rather than identifying certain amount of the grant placed in the region and reducing it from unconditional grant.

❖ Challenges faced in allocation, distribution and disbursement of conditional grants through channel one and channel two from FDRE to sampled regions:

In conditional grant allocation and implementation the finding of the study show various challenges which become bottle-necks to the anticipated achievement of the national goal. In its allocation and distribution there is no independent institution. The power of the HoF is not identified in setting the formula either for unconditional or conditional grants. The formula that the HoF developed has equalization in nature which equalizes the regions by filling their expenditure need.

The other challenge is fund flow problem. In its disbursement the federal conditional grants are performance based which is taken as a good mechanism intending it motivates the regions to perform the work and utilize the budget for intended goal of the programs or projects. But the regions do not receive the grant on scheduled time. For this, the findings of the study show several factors contribute to this un-disbursement of the grant through channel one. One of the challenge is the capacity of the regions in performing grants are showing less, due to this the federal government forced to hold the budget in hand and pay the backlog in the next fiscal year.

The other factor which contributes the un-disbursement of conditional grant on time is the problem of using two fiscal years. There were two fiscal years applicable in Ethiopia. There were differences between fiscal calendars used means different requirements and disbursement schedules; different reporting timeframes and auditing; and inefficient use of resources, causing a mismatch between the two fiscal years and creates problem in disbursement of budgets, monitoring and evaluation of performance/reports. When project implementation started in Ethiopian Fiscal Year (EFY), the budget released from MoFED was after six month. The annual budget at all government levels is allocated in June and July and distributed forthwith to the regions under study. A disbursement of conditional grants is in January, for instance, will cause a problem, as plan was left six months without implementations.

Another challenge is that the delay in the signing of agreements or a time gap which lead to reallocation to other priority areas. In case of channel two the grant is negotiated at federal level and donor funds which flow directly from line ministries to sector bureaus. This makes it difficult to coordinate the channels and maintain clarity in allocations for BoFED. The flow of funds through channel two are not have a comprehensive picture of the total amount of financial resources flowing to BoFED and/or sector bureaus.

❖ The impact of allocation, distribution and disbursement of conditional grants through channel one and channel two on regional budget autonomy and Equity:

The finding of the study show that in their allocations, distributions and disbursements channel one conditional grants are resulted in less negative impact on regional budget autonomy but channel two conditional grant (loans and assistances part of subsidy) highly affects regional budget autonomy. The channel one conditional grants are allocated for the achievement of the national goal which also has significant advantage for the regions. If they perform the disbursed budget in a good manner they will receive the next budget; if they do not perform, it will be suspend and the correction measure will be taken through monitoring and evaluation system, then after the correction made, they will receive it in the next disbursement including the backlog payment. Due to this fact the finding of the study show that channel one conditional grants have less negative impact on regional budget autonomy. In case of channel two loans and assistances

part of the subsidy is highly affects regional budget autonomy. The finding of the study show that it did not disbursed as the need of the regions. It limits the freedom of the regions by putting precondition in using it. Its unpredictability, uncertainty and less transparency is high. Due to this reason all the regions under study lost their budget autonomy highly.

In its fairness allocation, distribution and disbursement the finding of the study show that the channel one conditional grants has different degree of impacts on equity. MDG is all state inclusive and its distribution is based on the grant allocation formula to all the sampled regions which does not put in to consideration the unit cost of the projects among the regions under study that causes of expenditure needs differentials of the regions. Because the formula developed was for unconditional grant which was putting in to consideration recurrent budget and capital budget as a criteria and considering local discretion while MDG for capital budget. Thus the finding of the study show that the relatively developed regions are advantaged as compared to the emerging regions under study because of the emerging regions have scattered people that they need comparable service at their place equals to densely populated in relatively developed regions. In case of GEQIP and PSNP the grant distribution lacks fairness principle among the sampled regions. The per capita distribution among beneficiaries is high to the relatively developed regions as compared to emerging regions under study. In case of ULGDP, the selection of eligible states has tended to favor the relatively developed regions as compared to emerging regions under examined. In case of channel two conditional grants, the finding of the study show that loans and assistances part of the subsidy are more offset from the emerging states as compared to relatively developed states which affects equitable distribution of resources among regions, bureaus and districts under study. The distribution of external loans and external assistances part of the subsidy through channel two are affecting the emerging regions more as compared to the relatively developed regions of under study.

4.2. CONCLUSION

Based on the findings of the study the following conclusions were made. The research results reveal that the overall conditional grant allocations and implementations in the Ethiopia federal system: A comparative study of Amhara, Oromia, Afar and Somali national regional states. As indicated in the study, several challenges have faced in conditional grant allocation and

implementation in Ethiopia federal system. Conditional grant allocation, distribution and utilization in Federal Democratic Republic of Ethiopia (FDRE) faced various challenges which become hindrances to the projected objective (purpose) of the grant. Such as the external loans and assistances part of the unconditional grant are uncertain, less predictable and less transparent; for this reason, they violate the principle of equity or fairness budget allocation and distribution among the states. Conditional grants of channel one such as millennium Development Goal (MDG), the General Education Quality Improvement Program (GEQIP), Productive Safety Net program (PSNP) and Urban Local Government Development Program (ULGDP) has allocated and distributed based on formula based but they are not disbursed as scheduled because of less utilization capacity of the regions. The channel one conditional grants have resulted in less negative impact on regional budget autonomy and on equity but channel two conditional grants (loans and assistances part of the subsidy) highly affects regional budget autonomy and equity as it makes some regions losers and the others gainers.

4.3. RECOMMENDATIONS

On the basis of the findings of this study and lessons learnt from the experiences of other countries, this section attempts to forward some initial recommendations for future actions. This research, set out to explore the conditional grant allocation and implementation in FDRE. It reveals conditional grant allocation and implementation faces many challenges that relate to targeting, financial resource transfers, institutional arrangements, and other related issues. When transparency, financial control mechanism and decentralizing of financial system are supported by clear responsibilities for the respective government, sustainable rural and urban infrastructure will be developed. This will create responsibility and accountability for all stakeholders and it is crucial for country socio-economic development. In order to alleviate the problems that face allocation and implementation of conditional grant, the study suggests the following measures as means to overcome the challenges.

1. The 1995 FDRE constitution has not clearly specify the power of HoF whether it can develop formulas for both unconditional grant and conditional grant; but, in practice the HoF is devoted to develop the unconditional grant subsidy formula. The HoF has no formal institution responsible to develop formula rather it designs on Ad-hock. If we look at the current Grant

Distribution and Joint Revenue Sharing Formula it is an evidential so that we need to solicit other options to rectify the inconveniences. One proposal for the effective allocation of subsidy is clarifying the mandate of the HoF to include setting the formula for conditional grant. The other option is to establish an independent commission by HOF which does not have any partisan relationship/influence. Such commission shall be required in cases when it is difficult to safely accommodate the interests of all regional states in all an inclusive commission. For instance, if few of the regions are controlled by opposition parties, the interest of such regions would not be accommodated because they would be dominated by the interests of the majorities of the ruling party representatives. In such and other similar cases when it is not possible to accommodate the interest of all stake holders, it is wise to establish an independent commission whose decisions would be acceptable for all parties. The members of the commission should define their role that they are only there to give recommendations based on the technical findings they have reached through undertaking different studies without there being any tendency to solicit any political compromises. It is in that way such commission could win the support of all parties to all types of transfers.

2. It is imperative to note that variable to a grant formula should be available and comparable across units of government. It would have been better if the special formula for the states is channeled through other means for offset budgets than incorporating it in the grant formula. This is to argue that the grant formula should only be based on indicators that are shared by all regions and other specific region based expenditure needs should better be channeled through other means (such as channel one conditional grants) separating it from unconditional grant. In addition to this it is better to develop another formula for MDG rather than using the subsidy formula which developed by HoF, because, it serves for distribution of unconditional grant while MDG is a conditional grant that aims at meeting national goals.

3. The major mechanism used to identify eligible beneficiaries for PSNP in the regions is poverty level while this is important mechanisms for identifying the target groups. The results of this study show that the process is dominated in rural areas but not in urban areas. To overcome some of these challenges, there is a need for a revisit the program to include the poor citizens in the urban areas of the regions. The finding of the study regarding to PSNP conditional grant also

show that the cash payments were calculated in national market. Even regarding to the current cash arrangements, there is a need to reconsider the amount, mode, and timing of transfer payments. Cash transfer payments should take into account the local grain marketing period rather than the national grain marketing period.

4. The ULGDP is a matching fund where the Federal, Regional and ULGs contribute to the pool. Although, the issue of matching funds, both from the government and the community is important for all regions to develop the economic level of the people and the government should give due consideration. Excluding the emerging regions from the program violates the equity principle. Hence, the ULGDP include the towns from the emerging states.

5. The finding of the study show that the controlling mechanism of channel two conditional grants, specifically loans and assistances part of the subsidy is below expectation. They are not recognized by MoFED and BoFED in following its disbursement and its expenditure, there have been problems regarding to recording, controlling, reporting and under-utilization of donor funding. The regional sector Bureaus has not given the disbursement and utilization report to BoFED. The line ministries also have not give the disbursement and utilization report to MoFED. There monitoring mechanism and assessment in their contributions to the efficient service delivery has not set either by MoFED or BoFED. This implies that the mutual accountabilities to aid effectiveness, its transparency on the utilization and intended purpose by all stakeholders of channel two conditional grants is scanty. However, to solve these problems establishing a country specific framework to guide the controlling mechanism of channel two conditional grants for its effectiveness and improvements required in line with country's need is necessitated.

6. As far as allocation of conditional grant in Ethiopia is concerned, it mainly depends up on external sources such as loans and assistances. Improving substantially the fiscal capacity of the states should be a grave concerned to avoid the fiscal dependence of the states. The first task and alternative we should sought is to study how far the states are capable of pursuing their revenue potential and what exactly is the gap between the revenue potential and actually collected revenues of the states and devising different mechanisms to narrow the gap and led to financing by themselves. It is the case that the capacity problems of the states to collect their revenue sources could be principally responsible for the predominant dependence of the states on the federal transfer.

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ANEXES

Annex 1

ADDIS ABABA UNIVERSITY COLLEGE OF LAW AND GOVERNANCE STUDIES CENTER FOR FEDERAL STUDIES

Interview Questions

Dear respondents, I am Duguma Fulea, MA student in Addis Ababa University at the center of federal studies. Now I am conducting MA thesis on the topic: **Conditional grant allocation and Its implementation in the Ethiopia Federal system: A comparative study of Afar, Amhara, Somali and Oromia regional National States.** Hence, I kindly ask you to respond the question provided below. Your genuine ideas will therefore, contribute a lot to the accomplishment of the thesis in particular and in the process of improving the conditional grant allocation and its implementation in general. The study is conducted mainly for academic purpose, nothing else. I assured that, any information you provide has kept with greatest secrecy. I thank you very much for your cooperation.

Yours sincerely,

Duguma Fulea

Interview Questionnaires for Federal Institutions

Read the following items and respond to each question orally.

1. Semi structured Interview Questionnaires for MOFED

1.1. For Channel One Conditional Grant

- 1.1.1. How do understand the concept of channels (channel one, channel two and channel three?)
- 1.1.2. How do you differentiate Unconditional grant from Conditional and block grant?
- 1.2.3. What are the channel one, channel two and channel three funds or grants?
- 1.2.4. Which programs of Channel One are all state inclusive and exclusive?
- 1.2.5. Can you tell me which programs are matching and non matching grants?
- 1.2.6. Which level of government match the grant? How much are there share? Is it in kind or in cash?

1.2.7. Would there any proclamations, regulations, guiding manuals, documents and reporting documents help for the implementation of the programs?

1.1.8. When do the MDG, GEQIP, PSNP and ULGDP started in Ethiopia?

1.1.9. For what purpose do they designed?

1.1.10. What are the financing organs or institutions?

1.1.11. How do the eligible states have selected for the program?

1.1.12. What are the mechanisms and formulas used for the allocation, distribution and disbursement of the grants to the constituent regions?

1.1.13. Where do the budgets of the programs proclaimed?

1.1.14. What challenges were faced in the conditional grant allocation, distribution and disbursement through channel one programs?

1.2. For Channel Two Conditional Grant

1.2.1. What is the concept of off-set?

1.2.2. What is the need for off-setting?

1.2.3. How do offsetting takes place?

1.2.4. Where do it proclaimed?

1.2.5. What is the advantage of it incorporating in to unconditional grant?

1.2.6. How do the regions follow their budget?

1.2.7. What is the role of MoFED and BoFED in managing, recording and reporting the off-set budget?

1.2.8. What are the sources of the off-set budget?

1.2.9. What challenges faced in allocating, distributing, disbursing, and recording, auditing and reporting the off-set budget?

Annex 2

2. Semi structured Interview Questionnaires for HOF

- 2.1.1. For what subsidy stand for? For which grant the subsidy formula designed? It designed for conditional grant or for unconditional grant?
- 2.1.2. Why does the HoF design the formula for conditional grant and unconditional grant separately?

3. Semi structured Interview Questionnaires for MOARD

- 3.1. When do the PSNP program designed?
- 3.2. How do the eligible states selected for PSNP?
- 3.3. Who select the eligible states?
- 3.4. How do the beneficiaries selected from the eligible states?
- 3.5. Who select the beneficiaries from the eligible states?
- 3.6. Why the urban communities incorporated in the PSNP program?
- 3.7. How many Phases do PSNP have?
- 3.8. How do the beneficiaries graduated?

4. Semi structured Interview Questionnaires for MOE

- 4.1. When do the GEQIP program designed?
- 4.2. How do the eligible states selected for GEQIP?
- 4.3. Who select the eligible states?
- 4.4. How many Phases do GEQIP have?
- 4.5. How the student enrolment and school aged population data organized?
- 4.6. What challenges faced in implementing the program?

5. Semi structured Interview Questionnaires for MOUD

- 5.1. When do the ULGDP program designed?
- 5.2. How do the eligible states selected for ULGDP?
- 5.3. Who select the eligible states?
- 5.4. How do the cities selected from the eligible states?
- 5.5. Why does the program focused on relatively develop states only?
- 5.6. How many Phases do ULGDP have?
- 5.7. What challenges faced in implementing the program?

Annex 3

6. Interview Questionnaires for Regional Institutions

Semi structured Interview Questionnaires for BOFED

6.1. 1.1. For Channel One Conditional Grant

1.1.1. How do you understand the concept of channels (channel one, channel two and channel three?)

1.1.2. How do you differentiate Unconditional grant from Conditional and block grant?

1.2.3. What are the channel one, channel two and channel three funds or grants?

1.2.4. Through Channel one which programs are provide to this region?

1.2.5. Can you tell me which programs are matching and non matching grants?

1.2.6. Which level of government match the grant? How much are there share? Is it in kind or in cash?

1.2.7. Would there any proclamations, regulations, guiding manuals, documents and reporting documents help for the implementation of the programs?

1.1.8. When do the MDG, GEQIP, PSNP and ULGDP started in this region?

1.1.9. Do you know for what purpose do they designed?

1.1.12. What are the mechanisms and formulas used for the allocation, distribution and disbursement of the grants?

1.1.14. What challenges were faced in the conditional grant allocation, distribution and disbursement through channel one programs?

1.2. For Channel Two Conditional Grant

1.2.1. What is the concept of off-set?

1.2.2. What is the need for off-setting?

1.2.3. How do offsetting takes place?

1.2.4. Where do it proclaimed?

1.2.5. What is the advantage of it incorporating in to unconditional grant?

1.2.6. How do the BoFED follow budget off-set?

1.2.7 What is the role of BoFED in managing, recording and reporting the off-set budget?

1.2.8. What are the sources of the off-set budget?

1.2.9. What challenges faced in allocating, distributing, disbursing, and recording, auditing and reporting the off-set budget?