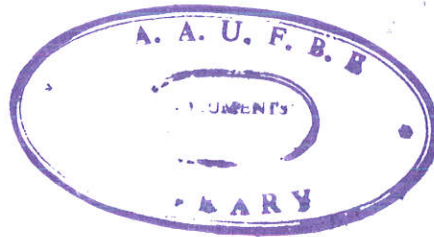


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**FISCAL FEDERALISM
EVALUATION OF ETHIOPIA'S RECENT EXPERIENCE**



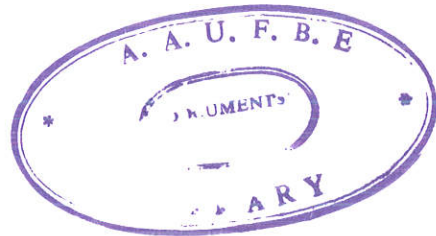
**A Thesis Submitted to
The School of Graduate Studies
Addis Ababa University**



**In Partial Fulfillment of the
Requirements for the Degree of
Master of Science in Economics**

**By: Surafiel Mhreteab
June, 2000**

**ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES**



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FISCAL FEDERALISM:
EVALUATION OF ETHIOPIA'S
RECENT EXPERIENCE



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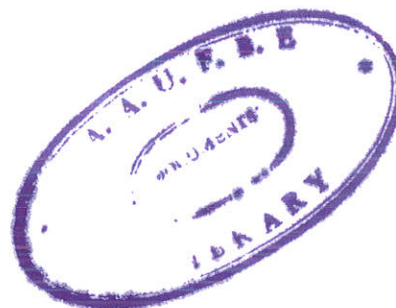
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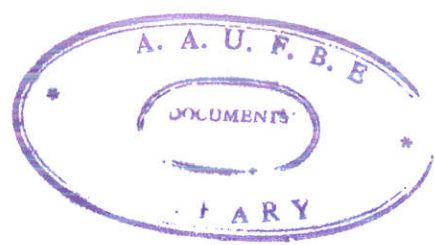


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ABSTRACT

With the change of government in 1991, Ethiopia made a transition from a highly centralized political and economic system to that of a federal system. Parallel with the administrative restructuring, the fiscal system was reformed to fit the federal arrangement. Expenditure and revenue powers were assigned to the federal and regional governments and various solutions were designed for the problems in the intergovernmental fiscal relations.

As a new experience, this radical shift from centralism has faced many challenges, but equally, has made a lot of progress. The expenditure assignment is highly decentralized. The regions have taken major responsibilities in agriculture, education and health; and a considerable share in the expansion of other social and economic infrastructure. Especially the previously neglected peripheral regions are getting more attention by the federal government to improve their backward situation.

On the revenue side, though the assignment is not far from what economic theory suggests, in practice the center controls the largest share- about 83%, and the regions, only 17%. The regions' own revenue could only cover about 31% of their expenditure. As a result a large share of their budget is financed by central government transfers. Hence there is still greater dependence on the center.

The main causes for the high dependency, besides the assignment problem, is the poor economy of the country. Most of the regions have low tax capacity. Most economic activities are concentrated on very few areas. There is wide diversity among the regions in population, natural resource, infrastructure, manpower capacity etc. and some regions are more disadvantaged than others in various criteria. Among the problems in the decentralization process, manpower problem has been the major bottleneck for inefficient and low budget utilization. The decentralization process could not go to lower administrative levels as was intended due to manpower constraint especially in some regions.

Though there are improvements in the performance of the regions over the years, greater effort is needed to solve the multifaceted problems. Extensive training especially in the previously disadvantaged areas; civil service reform especially in the salary scale; revising the deficiencies in the laws, procedures and directives regarding borrowing, revenue sharing, budgeting process etc.; modifying the revenue assignment in favor of the regions; strengthening joint forums between the regions and the center to discuss and solve problems; improving the political environment of some



of the regions; are some of the issues which need emphasis. The central government should play a greater role to improve the conditions that would enable the regions to reduce their dependence and increase their autonomy.

Given Ethiopia's enormous diversity in ethnic and other criteria, and given its history of internal conflicts, we can say that a decentralized administrative structure with federal relations among the regions is the most appropriate form of government. The shortcomings and ambiguities in the law that deal with the intergovernmental fiscal relations and other arrangements, and the deficiencies that are seen in the regional governments' fiscal and other performances should not be causes for totally discrediting the system and cases for opting an alternative towards a highly centralist tradition.



CHAPTER 1 Introduction

1.1 Introduction and Statement of the Problem

With the change of government in 1991, Ethiopia made a transition from a highly centralized political and economic system to that of a federal system. The previous administrative set up was reorganized into newly established regions which were empowered with important responsibilities to run their affairs. Parallel with this administrative restructuring, the fiscal system was reformed. The center and the regions were assigned different responsibilities regarding expenditure and revenue. The radical change from unitary to federal type of government was also accompanied by transition from command economy to free market.

Fiscal federalism or the study of government finance at different levels of government is of current interest in Ethiopia today though it has been in practice in many countries. The central, regional and local governments are usually assigned different tasks in expenditure and revenue allocation and transfer payments. Though decentralization has some weaknesses of its own, it is believed that participation of the different tiers of government in aspects that they can handle best is beneficial to the economy and welfare of the people.

Decentralization is now a popular agenda in many countries. Depending on their specific conditions, history, etc. countries adopt different forms of decentralization, one of which is federalism, a course taken by Ethiopia. As a new experience to the country a lot of issues are raised and there are a lot of problems to solve. One of the issues is the controversial nature of

the basis of federalism where there are different views. The government in power believes, given the ethnic diversity of the country and unfair treatment of the past regimes, devolving power from the center to the sub-national levels of government was necessary for the country to continue in unity. To this there is the opposing view which say that redesigning the country along ethnic lines could lead to separatism, and because of the low capacity of manpower in the regions the regionalization process will not be efficient. /

But the main interest of this study is on fiscal federalism. Different problems are raised especially on the appropriateness or compatibility of the fiscal system to the federal structure. There have been some few studies on Ethiopia's fiscal federalism and related issues. Critics of basis of the federalism, lack of clarity of some of the proclamations related to the fiscal issues, the incapacity of the regions to raise the revenue they needed, were some of the major points raised. I believe the topic needs further research given that it is a new experience to the country. This study will make some attempts at investigating the process and the problems. What is the justification of the government in selecting the federal option of decentralization? How is it working? Are the objectives expressed in the proclamations materializing? Do the regions have sufficient autonomy? What are the causes for the regions being in deficit? What are the problems? How can they be resolved?

2.2.Objectives of the Study

- We have four related objectives of the study.
 - i. Elaborate on the theoretical/constitutional basis of fiscal federalism in Ethiopia;
 - ii. Evaluate the fiscal performance of regional governments and the center;

- iii. Identify some of the major problems encountered in practice;
- iv. Draw some concluding remarks and suggestions to solve the problems.

2.3. Significance of the Study

Since fiscal federalism is new and is a radical shift from the previous mode of fiscal management practiced in Ethiopia in the past, researchers in this area are faced with new challenges, which are rendered more difficult by data problems, lack of sufficient literature and short duration of the federal experience. Nevertheless, I believe documenting the current practice, analyzing the problems being faced and making some preliminary conclusions and suggestions will have its contributions in benefiting policy makers and other researchers in the topic.

2.4. Methodology

The methodology of the study is mainly descriptive analysis.

- Pioneering and recent literature on multilevel government is used to introduce the theoretical part.
- Ethiopia's experience was investigated from official proclamations and various secondary sources such as books and symposium papers.
- Secondary data regarding fiscal issues- revenue, expenditure, transfers and others were collected mainly from MOF; but some from MEDaC, World Bank and others were also used.
- Computation of the fiscal variables and decentralization measures were done using simple mathematical techniques.

- Aside from the research based on secondary sources fieldwork was also used to get additional information. Interviews and discussions were held with many central and regional officials and other government workers. The offices or individuals that I selected were those that had connection with the topic: Ministry of Finance (MOF), Ministry of Economic Development and Cooperation (MEDaC), Office of the Federal Auditor General (OFAG), Federal Inland Revenue Authority (FIRA), and Regional Finance and Plan Bureaus in Afar and Tigray. Most of the interviewed were department or section heads or experts with sufficient knowledge in the area. I also did few other brief discussions outside them to supplement those that were assuaged by the bureau heads. I also had chance to discuss with some regional executives and bureau heads.
- Though major information can be obtained in the center, I thought that closely studying some regions' performance and problem would be beneficial to understand their situation, feelings and other comments on the system. Since only limited area can be covered in the short research period that we have, I selected two regions only, namely Afar and Tigray. The selection is not random but based on prior information that I had about them. Afar is one of the relatively backward regions where there is lower capacity in budget utilization. On the other hand Tigray is one of the relatively better performing regions. In addition to being on different groups, I thought they have additional advantages. They are manageable size to me and also other supplementary issues like regional cooperation could be discussed in relation to them.
- The paper doesn't use any model or econometric technique (unlike other economic studies.) But it does not mean the topic doesn't allow such technique. It does. In fact in some of the literature different econometric models are used in issues like determinants of the optimal degree of decentralization, where a time series data of many years and many relevant variables are used. There are also different models to find better formula for intergovernmental grant design. I didn't have to use sophisticated techniques given the short duration of the experience and limited availability of data for various would be variables or elements.

2.5. Limitations

There are many problems, some of which have influence on the precision of the study. Currently it is difficult to totally avoid their effect; but maximum effort was made to get as correct analysis as possible.

- Problems regarding information: incomplete information for various reasons; some was unrecorded, some of it was unavailable at the time of the research, some of it may be distorted due to bias, or other factors;
- Difference in data: there are variations in data regarding expenditure, revenue, grants and other fiscal variable, etc in the different sources. Though the main source is MOF, and regional finance bureaus, it is a rare case they give you one final definite data. The data are not well compiled and the different revisions and corrections have not been finalized. Different papers quote from different sources which have variations, and this creates variations in result.
- There is difficulty of separating the problems and benefits which occurred due to fiscal decentralization and other reforms that were undertaken during the period.
- Since federalism is a recent phenomenon and since such measures require some period before their effects could be seen, the short existence might not be sufficient for strong analysis.
- Time shortage: Due to time shortage I could only handle two regions and the center. The topic could have been better exposed if some more regions were added. Even for the few that I did it took me much time to do the interviews. Also, in the short schedule that I planned I could not get some of the people whom I had to meet because they were unavailable due to other important programs of their own. I then had to use substitutes.

2.6. Organization of the Study

The first chapter is this introductory part. A brief discussion of theoretical background will follow in chapter two. Here, topics like types of governments, jurisdictional design, different aspects of decentralization, the assignments of expenditure and revenue, issues of intergovernmental transfers and other solutions will be discussed. In chapter three we see Ethiopia's case. We analyze the institutional settings by looking at the government structure and the different assignments. We will also see some administrative aspects of fiscal decentralization and a brief review of the fiscal performance. The chapter ends by discussing various issues and problems related to intergovernmental finance. Chapter four deals with the experience of some regions particularly Afar and Tigray. Besides briefing their administrative structure and fiscal performance, the chapter raises some of their activities and problems. The final chapter is for conclusion and some suggestions.

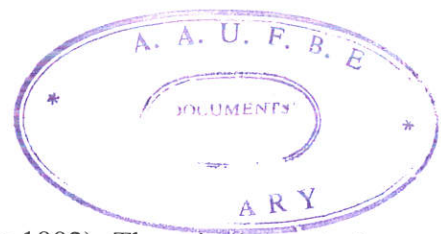
CHAPTER 2 Theoretical Background

In this chapter some topics from the literature of fiscal federalism will be discussed. Though just one part of public finance, there are various issues that can be covered under fiscal federalism. In this study some topics which will be general background and relevant to the Ethiopian case will be dealt. The issues will be grouped in few sub topics for convenience.

2.1. Introduction, Role and Types of Governments

Though the degree of involvement may vary among countries each government has important role in running the economy. It provides services that are necessary to the public and corrects market failures. The most common categorization of the role of government is that of Richard Musgrave. He identified three areas in public sector activity: maintaining economic stabilization, altering the distribution of income, and obtaining an efficient allocation of society's resources. It is generally believed that the stabilization and distribution functions are the responsibilities of the central government and the allocation function can be handled by all levels-local regional and central depending on the nature of activity.

There are different forms and levels of government. The usual classification for constitutional division of power is into unitary and federal form of government; and confederation can also be taken as a third form. Aside from these constitutional distinctions we also have different levels. "Much of the discussion in the public sector economics assumes implicitly that the public sector in any country consists of a single government body. In practice, however, virtually every



country has several levels or tiers of government”(King 1992). There is the central government. In many countries there are state or regional governments. And there are several local governments, municipalities, and districts at the lower levels. The structure varies among countries. Some have two or three levels. Others could have special districts in addition.

Modern nations got the shape they have now as a result of different historical, social, and political processes. When we look at federal governments in particular, some of them established the federation as a result of different unit governments aggregating into a federal system; e.g. USA, Australia. In others, federations grew out of previously unitary governments; e.g. Nigeria, India. Constituents of a federation could be territories with homogenous population or territories that evolved as a result of economic relationships established among various ethnic groups. Due to the difference in the formation of federations and due to changes of situations over the years, some of the features that were attributed to earlier examples of federal governments may not hold today.

There have been different changes and trends on the structure of governments. Because of their observations of growing centralization in the first half of the 20th century some scholars proposed that "Federalism is simply a transitory step on the way to governmental unity" (Oates 1991). But Oates has previously warned that "the trends in intergovernmental structure is rather complicated and does not point clearly to any simplistic thesis of increasing centralization or decentralization. Rather, it suggests the evolution of a more complex system with a greater variety of both levels and types of governments. This does not imply greater independence on the part of individual

government units. On the contrary, the development of the public sector has moved toward a greater degree of shared responsibility in the provision of public services" (Oates 1991).

Though Centralized form of government is dominant in many countries, the trend towards more decentralization is growing in different countries for various reasons. For example, "The decentralization of government in Eastern Europe represents a reaction both from below (to tight central political control), and from above to privatize the economy and relieve the central governments fiscal stress."(Bird & Wallich, 1993) In other countries, for example Canada, China, former USSR, and Ethiopia, their specific internal condition is forcing them for more decentralization. (Tanzi, 1995). This being so, there is also some trend of centralization at work, especially on the revenue side. In many countries a greater part of tax is being controlled by the central government resulting in greater dependence of the regions on central government transfers.

Governments, in reality, are not totally centralized or totally decentralized. Different governments may give different emphasis to both aspects whether the system is unitary or federal. Some may have more decentralized tasks than others. Moreover, though federal governments are said to be more conducive to decentralization, there are unitary governments that are highly decentralized than some federal governments; e.g. Japan. Because of the different realities that they have, countries have taken different degrees of decentralization; but out of them, only few have chosen federal organization. Some studies have proposed different factors which determine the optimal degree of fiscal decentralization of which the

main are size of the state, size and diversity of the population, level of income and wealth of the state, urbanization, and diversity of taste (Wallis & Oates 1997).

One more point to include in this section relates to the usage of terminology. Usually we take fiscal federalism, federal finance and fiscal decentralization as synonyms. But some people try to differentiate them. For example, " Bird prefers to assess fiscal decentralization in two perspectives: federal finance and fiscal federalism. He defined the former as constitutionally fixed in all respects, i.e. boundaries as well as assignments of functions and finances, while the later is more in line with the traditional definition as set by Oates" (Kibre 1994). Bird (1998) gives examples of countries from developed, developing and transitional economies that fit in to this categorization. France and Japan, Indonesia and Colombia, China and Vietnam are some of the examples of fiscal federalism. USA and Canada, Brazil and India, Russia and Bosnia Herzegovina are some of the examples for federal finance.

We can see the examples mentioned for fiscal federalism in Bird are not federal countries, implying that the usage of the word is not related to its political meaning. It was Oates first usage that created this situation and the current usage has followed this terminology. While Bird is stressing that federal countries should be identified, the original confusion of using fiscal federalism for non-federal countries could not be adjusted, hence the need for accepting them as synonyms. Fiscal decentralization is also a general word that doesn't suggest the form of government. So it can be used anywhere where there are some attempts of decentralization.

2.2. Some Aspects of Decentralization

Conyers defines decentralization as “the transfer of power and/or authority to plan, make decisions, raise and allocate resources, and/or manage public functions from a higher level of government to lower ones” (Conyers 1990). There are different forms of decentralization. The forms can either be explained by the modalities applied or simply by the key dimensions or variables in the decentralization exercise. Those who follow the model approach identify three main types of decentralization: i) deconcentration which is limited to passing down administrative discretion to local officers of central government ministries; ii) delegation involves passing some authority and decision making power to local officials while the central government retains the right to overturn local decisions and to take these powers back; iii) devolution is the strongest form and it grants decision making powers to local authorities and allows them to take full responsibility without reference to the central government (UNDP 1993:67).

Others concentrate and examine five key dimensions or variables of decentralization: i) the type of activity over which power or authority is transferred; ii) the type of power or authority which is transferred iii) the level to which power is transferred: iv) the individuals or organizations to which it is transferred; v) the type of political and administrative or legal machinery used to make the transfer. (Conyers 1990, Bulti 1994).

But it should be noted that the terms decentralization and centralization, as Tienbergen explained, may refer to geographical as well as institutional decentralization and centralization (Tienbergen 1956). Division of power can occur between the center and sub-national levels of governments

and also within organizations. He defines decentralization as the substitution of two or more autonomous policy makers for a single one, and not merely the execution by a larger number of agencies of a centrally designed policy.

In the fiscal federalism literature, one of the big issues is the controversy between the proponents of centralization and decentralization. There are differences of opinion as to how much to have of each, as it is believed it is impossible to have purely centralized or decentralized governmental set up. The controversy emanates from advantages and disadvantages each have. Among the advantages of decentralization some of the following are mentioned." i) Sub-national governments are closer to the people than national ones and are therefore most likely to be responsive to their needs. ii) Decentralization takes greater account of regional differences in resource endowments and makes it possible for sub-national units to specialize in economic activities that are more consonant with their respective comparative advantage. iii) Decentralization could promote competition between regions in attracting investment, thereby leading to greater efficiency" (Eshetu 1994:170).

Among the advantages of centralization, which is also weakness of decentralization, the following are mentioned:"i) Some functions can not be performed by lower levels of government because of their country wide significance; and hence are the proper domain of national governments. ii) Some provision of goods and services are characterized by economies of scale; it is very costly to do it by lower levels. iii) Central provision is necessary to some goods and services where there are considerable external economies and diseconomies, i.e. spillovers. iv) There are ceilings on the capacity of society to generate revenue; some resources cannot be

divided between the center and the regions; and hence a need of some centralization v) Sub-national governments have limited capacity in areas of budget preparation, execution, tax collection etc, and attempts to improve their administrative capacity may lead to unnecessary duplication of staff and skills at the center and sub-national levels"(Eshetu 1994:171).

2.3. Economic Basis of Jurisdictional Design

The literature provides several theories which are the economic basis of jurisdictional design. According to Shah " there is a strong rationale for decentralized decision making on the grounds of efficiency, accountability, manageability and autonomy" (Shah 1994) He mentions the following principles that deal with this:

- i) Stigler's menu: It identifies two principles of jurisdictional design
 - a) A representative government works best when it is closer to the people.
 - b) People should have the right to vote for the kind and amount of public services they want.
- ii) The principle of fiscal equivalency (Olson): When the political jurisdiction and benefit area overlap, the marginal benefit equals the marginal cost of production, thereby ensuring optimal provision of public services. A related idea, the "correspondence principle", is also proposed by Oates. According to this principle the jurisdiction determining the level of provision of each public good should include precisely the set of individuals that consume it.
- iii) Decentralization theorem (Oates): Each public service should be provided by the jurisdiction having control over the minimum geographic area that would internalize benefits and costs of such provision.

To achieve the optimal number and size of jurisdiction, different implementation mechanisms are mentioned in the literature. Shah mentions the following (Shah 1994).

- i) Tiebout 's hypothesis of voting with your feet: People consider the price and public services menu offered by various jurisdictions in deciding where to live.
- ii) Voting by ballot: This suggests that collective decision making may not ensure the electorate's welfare maximization because of different goals of citizens and their government agents.
- iii) Voluntary association (Buchanan's theory of clubs): Provision of public services by clubs (associations of people) ensures the formation of jurisdictions consistent with the optimal provision of public services.
- iv) Jurisdictional redesign: An important process for community formation in modern societies is redrawing existing boundaries to create special or multipurpose services.

But jurisdictional arrangements are not decided by economic criteria alone; political and other factors may also play a greater role.

2.4. Assignments of Expenditure and Revenue

The assignment problem or the allocation of expenditure and tax functions to various levels of government, is the most fundamental issue in a federation (Shah 1994). Different levels of governments are given different tasks that they can handle. Some tasks can only be handled by one particular level while different levels could manage others. Though there are similarities in assignment responsibilities among countries there are also some country variations in practice.

Regarding expenditure assignment, Oates says public services are provided most efficiently "by the jurisdiction having control over the minimum geographic area that would internalize benefits and costs of such provision"(Shah 1994). The central or national government is given responsibility of public services whose benefits are considered national in scope; e.g. defence, foreign policy, monetary policy, etc. Regional governments are more involved in providing education, health, some economic and social infrastructure etc., though central government also has its share of setting policy standards in these areas. Local governments take responsibilities of fire protection, refuse collection, street maintenance, police service, etc.

The other assignment is that of tax. In many countries sub national governments have limited power of taxation. A larger part of the tax is centralized because it is one of the main sources of inter governmental grants which are necessary for the objectives of redistribution. Even so there are different types of taxes that suit the different levels of governments. Musgrave has forwarded on the basis of equity and efficiency criterion, the most widely accepted theoretical principles for revenue assignment as follows: (Shah 1991)

- i) Progressive redistributive taxes should be central
- ii) Taxes suitable for economic stabilization should be central; lower level taxes should be cyclically stable.
- iii) Tax bases distributed highly unequally between jurisdictions should be centralized.
- iv) Taxes on mobile factors of production are best administered at the center.
- v) Residence based taxes, such as sales of consumption goods to consumers or excise are suited for states.
- vi) Taxes on completely immobile factors are best suited for local level.
- vii) Benefit taxes and user charges might be appropriately used at all levels.

Despite these guides actual practice could vary depending in the specific situation of the country or the capacity of each level of government and on the characteristics of the tax.

Table 2.1 Conceptual Basis of Expenditure Assignment

Expenditure Categories	Service Responsibility	Provision of Services	Comments
Defense	F	F	Benefits / Costs National in Scope
Foreign Affairs	F	F	Benefits / Costs National in Scope
International Trade	F	F	Benefits / Costs National in Scope
Environment	F	S,L	Benefits / Costs National in Scope
Currency, Banking	F	F	Benefits / Costs National in Scope
Interstate Commerce	F	F	Benefits / Costs National in Scope
Immigration	F	F	Benefits / Costs National in Scope
Unemployment Insurance	F	F	Benefits / Costs National in Scope
Airlines /Railways	F	F	Benefits / Costs National in Scope
Industry & Agriculture	F,S,L	S,L	Significant Interstate Spillover
Education ,Health & Social Welfare	F,S,L	S,L	Transfers in kind
Police	S,L	S,L	Primarily local benefits
Highways	F,S,L	S,L	Some roads with significant interstate spillover; others primarily local;
Natural Resource	F,S,L	S,L	Promotes Common Market

Table 2.2 Conceptual Basis of Tax Assignment

Tax	Determination of		Tax and Collection Administration	Comment
	Base	Rate		
Custom	F	F	F	International Trade
Income tax	F	F,S	F	Redistribute, Mobile factor
Estates & Gifts	F	F,S	F	Redistribute
Corporate tax	F	F,S	F	Mobile Factors
Resource tax	F	F,S	F	Unequally distributed
Retail Sales	S	S	S	Higher Compliance cost
	F	S	F	Harmonized, lower compliance cost
VAT	F	F,S	F,SC	Border tax adjustments possible
Excises	S	S	S	Residence based taxes
Property tax	S	L	L	Completely immobile factors, benefit tax
User Charges	F,S,L	F,S,L	F,S,L	Payment for services received

Notes: - F= Federal; S= State /Province/

L= Municipal/ Local; SC= The Council of States

Source: Shah: The New Fiscal Federalism in Brazil

2.5 Intergovernmental Transfers and Other Solutions for Fiscal Imbalance

Assignment of responsibilities in a federal structure can face two sets of fiscal problems or fiscal imbalances: vertical and horizontal imbalances. As defined by Shah (1994) vertical imbalance is the disparity between revenue means and expenditure needs at various levels of governments in a

federation. Horizontal imbalance is the inconsistency between revenue raising ability and fiscal needs of government at the same level in a federation. Since the design of allocation of expenditure and revenue between the center and lower levels of government can not be absolutely perfect, and because sub-national entities differ in resources, some degree of imbalance is expected in all such arrangements. Governments have to correct or minimize these problems through various mechanisms like revenue sharing and intergovernmental transfers.

One of the major topics in the inter-governmental fiscal relations is that of grants. As defined by Fisher, "intergovernmental grants are transfers of funds from one government to another, most often from a higher level government in the federal system to a set of lower level governments. Grants are intended to improve the operation of federal system of government finance" (Fisher 1987). The importance of grants varies among countries but in most developing countries they are the dominant source of revenue for sub national governments. Though grant is widely used for equity purposes, i.e. to narrow regional inequalities, it can also be used for promoting efficiency.

Grants or transfers are considered by some as "compromise solution to the debate over the division of revenue raising authority and expenditure responsibility, because they permit federal governments to retain the authority to tax productive resource bases, while guaranteeing state and local governments a flow of revenues"(Luelseged 2000).

John and Cullis identify different types of grants. Grants can be conditional (depending on the behavior of the recipient) or unconditional. Conditional grants can be matching (where the central

government agrees to match a certain proportion of the expenditure of the local authority) or non-matching. Grants can also be open or closed. There may or may not be an upper limit beyond which the central government will not go (John & Cullis 1998). Conditional grants are allotted to encourage expenditures which are given priority by the central government. The sub-national governments can only get it if they involve themselves in such activities. Unconditional or block grants are lump sum additional resources for the recipient so that it can spend it in a way it prefers.

The rationale for inter-governmental grants as summarized by Shah (1994) are bridging fiscal gaps, benefit spillover compensation, ensuring minimum standards of public services, fulfilling the governments redistributive functions, preserving common internal markets, reducing net fiscal benefits across jurisdictions, achieving stabilization objectives. To be effective, grants should be well designed. Again Shah mentions several criteria in the design of intergovernmental fiscal arrangements: autonomy, revenue adequacy, equity, predictability, efficiency, simplicity, incentive, safeguard of grantor's objectives. (Shah 1994).

Borrowing is used as one source of finance/revenue by sub national governments when their expenditure needs could not be fulfilled by own revenue and transfers. "While there is no clear cut theoretical guide with respect to borrowing, country experiences show that direct foreign borrowing by lower government units is resisted particularly in developing economies because this could run counter to the political as well as the overall stabilization objectives of a central government" (Kibre 1994). Even local borrowing may not be allowed or is very much restricted in some countries. But others recommend that "there is a strong case for regional governments to

borrow for financing capital projects. These projects have long life hence it is reasonable that they can be paid as they are used up. Not to allow this form of financing is to introduce a bias against capital spending and in favor of consumption spending which is not likely a policy in the interest of most sub national governments in most developing countries" (Lulseged 2000). Some of the major issues in loan finance, in addition to the extent to which regions are allowed to borrow, are upper limits of borrowing (including grace period, interest obligation and repayment period), criteria for eligibility (e.g. project tied or not), procedures to be followed to acquiring them, etc. (Eshetu 1994).

One other solution is that of tax or revenue sharing. This system refers to the practice where a tax is levied by one government (generally the federal government) and the proceeds are shared by two or more governments (Bhatia 1998). Such practice helps in efficiency of tax administration and reducing cost of tax collection. It is usually done in tax types which are more productive so that regional governments could share some of it. The sharing is done according to criteria agreed upon by them.

2.6 Summary of Intergovernmental Fiscal Issues

Fiscal federalism encompasses principles of fiscal relations between central and sub national levels of government, that is the command over resources by the various levels of government, and the direction and size of intergovernmental fiscal flows (Kibre 1994). Shah and others have summed up some of the salient points of intergovernmental fiscal issues as follows.

1. As much as possible, regional governments should have broad autonomy in determining their own priorities with respect to functions assigned to them.
2. Revenue assignment should ensure that as much as possible, there is a matching between expenditure needs and revenue generated from their own sources.
3. Where there is mismatch between the two, there should be adequate provisions for resolving the matter, through revenue sharing, transfers and loans.
4. Attention should be given to ensuring equity between regions.
5. Center-region relations should be characterized by transparency and simplicity, which means there should be no room for arbitrariness regarding what regions can get from the center, and the rules and procedures should not be unnecessarily complicated.
6. A concern with equity should not, however, lead to the undermining of efficiency.
7. The system should as much as possible, give incentives to sub national governments to maximize their resource mobilization efforts.
8. Whatever relationships are established between the center and the regions should not jeopardize over all fiscal management (Eshetu 1994:177).

Chapter 3 Fiscal Federalism in Ethiopia

3.1 Introductory Background

Ethiopia was a highly centralized unitary state before the change of government in May 1991. All power was concentrated at the center and the administrative divisions had only limited task of implementing mainly in conformity with the center. Because of the pressure that came from the different interests of the diverse population, ethnic composition, geographic and other economic conditions etc, some form of decentralization in the administration by way of some regional arrangements was contemplated even under the previous governments. Some changes were made in the provincial regional administrative set ups during the monarchy and the military regime.

An attempt to decentralize local and regional government in Ethiopia was made by Emperor Haile Selassie towards the end of his reign. The Imperial Government proposed the Awraja self Administration proclamation as a pilot project in some Awrajas to make them self administering units with considerable autonomy (Cohn 1973). Some of the reforms were driven by the need to have regional development plans. Models like Awash Valley Authority (AVA) which focused on agricultural and other related development activities in the surrounding areas were introduced. (Teshome 1985). But the different reforms attempted in this period were not successful because of conflicting interests, and the experiment at divestiture ended when the military government took power in Ethiopia.

The Derg had its own plan of reorganizing the country's political and economic structure. Mass associations of peasants and urban dwellers were organized so that they could take the responsibility for administering the local affairs. The Derg reorganized its administration and created autonomous and administrative regions. Those that were accorded autonomous status were " the troubled areas where both ethnic /civil conflicts were raging and sentiments for separation were running high through out most of the 1970s and 1980s" (Mehret 1998). Whatever names were given to the regions, Ethiopia remained a highly centralized unitary state and the entities at sub national level had only nominal power.

The fiscal system was also highly centralized. All the decisions regarding revenue, expenditure and other fiscal issues were decided at the center. The branches of Ministry of Finance at the provinces were mere collectors and facilitators. Besides the dominance of the center we see high discrepancy between the provinces in their revenue collection ability and expenditure allocation. Economic activities concentrated in the capital, Addis Ababa and very few other places.

Tax collection points were few: of the total domestic revenue collected between 1979-89, Addis Ababa accounted for 70.6 % of the collection while 14.6 %, 3.9 % and 3.7 % were collected from Eritrea, Shoa and Harar respectively. Regarding expenditures, recurrent and capital expenditures were directly paid out from the Central Treasury. If we look at the fiscal regional balance, only the above stated provinces were able to collect revenue to cover their current expenditures. The ratio of revenue collection to current expenditure of Eritrea, Shoa

and Harar was 4.95, 1.18 and 1.66 respectively. All others had ratios ranging between 0.26 and 0.76 hence resulting in deficit of different magnitude which was covered by Central Government subsidy (Wogenie 1994). But we should take care in interpreting these figures. It does not mean that the provinces that collected the highest share were also the sources of all the revenue they collected. The other provinces were also original sources for some of the items. Hence the figures can not be taken as measures of viability.

Budgetary deficits were typical of the heavily centralized fiscal administration of the Military Government of Ethiopia. The gaps between government expenditures and revenues were widening and to finance its ever-growing deficits, the government resorted to domestic bank borrowing (Teshome 1993).

With the coming to power of EPRDF (Ethiopian Peoples Revolutionary Democratic Force) in May 91, the country entered into a new political environment. The highly centralized unitary structure was replaced by a federation of states reorganized dominantly along ethno-linguistic basis. Power was shared between central government and regions. This radical shift sparked controversies in different issues of politics as well as economics.

The issue of decentralization of power as solution to internal problems is not confined to Ethiopia alone. Different countries with similar background in regional and ethnic problems have opted for power sharing in federal arrangements. Examples include India, Nigeria, and Yugoslavia. Former Eastern Block countries and other developing countries with unitary tradition are also in the process of decentralization in one form or another. It is believed by

many that though there could be some extreme cases of weak application of the principles, if wisely handled, decentralization could be beneficial to facilitate the path to peoples participation in economic development and attain peace and stability in the country and its surroundings. But differences arise on how to apply the principle in practice, i.e. how much power to devolve, on what basis should the arrangement be made, etc. There are no problem free formulas for designing the relation between the center and the sub national entities. Countries adopt one that suits their situation with the least problem.

Ethiopia's recent history was one of prolonged wars dominated by movements for self-determination. The central government was determined to hold its power to preserve the unity of the country. Despite their differences in ideology, strength and other criteria, some of the movements struggled to improve their situation within the union. Others aimed to break out of it. As a large number of the groups were organized along the national question, we can infer that the feeling of alienation from the center was strong.

This also meant that most of the former provinces were no longer basis for organization of the movements, hence implicating that most were not strong economic regions that transcended ethnicity. In fact most were political arrangements of the dominant regional groups. As one scholar has expressed it: "In the drawing up of the regional administrative division, economic and social factors were not taken as criteria and the major concern was with 'stability consideration' (Asmelash 1988).

The stiff resistance or opposition to the center was a consequence of not solving the basic problems of the country. The consolidation of centralized government during Menelik and Haile Sellasie was a result of forceful measures assisted by gains of modernization. As Cohn puts it: "Through out its long and complex history, the Ethiopian state has been threatened by centrifugal forces of regionalism which were nurtured by geography, ethnicity, religion and many other disintegrative factors" (Cohn 1973). In all the three regimes of Menelik, Haile Sellasie and the Military, the policy of undermining the identity of the various entities was implemented.

Investigating the deep rooted problems of the country and trying to provide a solution has been the concern of many Ethiopians for many years. The solution attempted varied, as there were different alternative views by different groups and individuals. Those who tried to bring the solution by forming multinational organization while neglecting the different small national movements could not reach the desired result. The past three decades seem to prove that those forces that said that the national question is the primary issue that should be dealt in order to solve the various other problems of the people and achieve unity and progress seem to have gained acceptance.

"Ethiopia is a perfect candidate for decentralized government and administration. The Country's enormous ethnic, linguistic and cultural diversity requires a state organization that permits a great degree of autonomy and decision making authority at regional and local levels. Until recently (i.e. before 1991) the Ethiopian state has been embroiled in ethnic and civil conflicts between a centralist regime and forces bitterly opposed to its rule .A highly

centralized and rigid bureaucratic system of political administration is ill-suited for a country as diverse and as big as Ethiopia.”(Mehret 1998). Though there are different forms of decentralization, Ethiopia's history can only lead us to believe that a government structure that doesn't consider the right of the different nationalities will only repeat mistakes committed by the past rulers. Hence a federal relation is currently the most appropriate form.

3.2. Analysis of Institutional setting for Fiscal Federalism

3.2.1. The proclamations

The main proclamations on the decentralization process are: the Transitional Charter of June 1991, proclamation 7/1992, which declared the establishment of regional governments, proclamation 33/1992 which defines the sharing of revenue between the central and the regional governments and proclamation 41/1993, which defines the powers and duties of the center and regional executive organs of the Transitional Government. Proc.41/1993 was amended by proc. 4/1995. The ratification of the Constitution later in 1994 was followed by the establishment of the Federal Democratic Republic of Ethiopia (FDRE) in 1995.

3.2.2 Structure of Government

The Federal Democratic Republic of Ethiopia consists of the Central Federal government and Regional governments. Currently there are nine regional states and two city administrations. They are Tigray, Afar, Amhara, Oromia, Somali, Benshangul-Gumuz, Southern Nations, Nationalities and Peoples (SNNP), Gambella, Harari, Addis Ababa and Dire Dawa. Besides the federal and regional levels, zone, wereda and kebele are the different hierarchies that exist today. Though the wereda was taken as the basic administrative hierarchy in Proc. 7/92, later the

Constitution gave the power to establish lower forms of government to the regional councils. Currently there are 66 zones and 556 weredas in the country. Municipal administrations also exist in many urban centers.

The form of government in Ethiopia is parliamentary. The Federal and Regional governments have legislative, executive and judiciary branches. At the Federal level there are the two Houses- the House of Peoples' Representatives which is the highest authority of the Federal Government, and the House of Federation which is the representation of the nationalities both of which are the legislative branch. The President is the head of state. The Prime Minister, the Council of Ministers and the different ministries are the executive branch. And there is the judiciary with the Supreme Federal court at the top.

At the state (region) level, there are regional councils, executives elected from among the council members, the different bureaus, and the courts. There are differences in the organization structure of zones and weredas among regions. While all have elected wereda councils and executives, only few have elected zone councils. The majority of the zones are led by executives elected by the regional councils.

Though different in the degree of responsibilities, similar tier systems also existed in the previous governments of Ethiopia. What distinguishes the current decentralization process is the federal arrangement with strong emphasis on the right of nationalities. FDRE constitution Art. 46(2) clearly stated that "states shall be delimited on the basis of the settlement patterns, language, identity and consent of the people concerned." So, the regions of Ethiopia have mainly

ethnolinguistic basis, though other factors are also in effect; for example that of the Southern Nations, Nationalities and Peoples Region which is a voluntary union of different regions (of several nationalities) that were established by Proc. 7/92

The forces that came to power in 1991 and the participants of the Transitional and Constitutional Conferences believed that the nationalities question in Ethiopia was an issue of prime importance that it should deserve a fundamental solution. As the preamble of the Transitional Period Charter of Ethiopia puts it...“whereas the military dictatorship was in essence, a continuation of the previous regimes and its demise marks the end of an era of subjugation and oppression thus starting a new chapter in Ethiopian history in which freedom, equal rights and self- determination of the peoples shall be the governing principles of political, economic and social life and thereby contributing to the welfare of the Ethiopian Peoples and rescuing them from centuries of subjugation and backwardness.”

The spirit expressed in the preamble of the Transitional Charter is confirmed in Art. 2 of the Charter itself and Art. 39 of the FDRE Constitution. In the words of the constitution:

“Every nation, nationality and people in Ethiopia has an unconditional right to self determination, including the right to secession...Every nation, nationality and people in Ethiopia has the right to a full measure of self -government which includes the right to establish institutions of government in the territory that it inhabits and to equitable representation in State and Federal governments.”

Although it is a normal evolutionary process in all countries that the way the different parts of a country are organized may change over a long period, there is high probability that the process of administrative arrangements in Ethiopia could change in not so long period. Even with out

mentioning the possibility of seceding of particular people out of the union which could change the map of the country once again, there is a possibility of rearrangement within the country itself. Formation of zone and wereda within a region is determined by the respective regional government.[proc.7/33 (Art.5) and FDRE constitution Art 50(4)]. Some of the nationalities contained in the already recognized regions could also demand to establish regional states [Art.47 (2) FDRE constitution]. Aside from the separation aspect, there is also the possibility of the amalgamation of regions (as experienced by Southern Ethiopia) and also possibility of rearrangement of zones and weredas.

While the right to set up own administrative territory may solve the demand of a given people, it has its effect on the resource of the country. The recurrent budget will rise significantly if many of such cases occur. Each administrative unit will desire to have many of the establishments or activities that are available in other previously established similar administrative levels.

Another point that can be added in relation to this is that the number of zones and weredas in some of the regions are too many compared to their area and population size. For example, the Harari region which has smaller area and population than some of the weredas in Oromiya and Amhara, is divided into 3 zones and 19 weredas (MEDaC1998). While the justification for this is not clear, the recurrent cost implications are quite obvious. The central government has to bear the expenditures. One particular indicator could substantiate this fact. According to MEDaC (1998), the average number of permanent civil servants in the country per thousands of

population was 4.4 in 1996. But for Harari and Gambella regions it was 18.8 and 13.0 respectively.

There were and still are some problems in the current federal arrangement. Some have been solved; others await solutions. Few examples will be cited. Boundary disputes between some regions e.g. between Somali and Oromia; demand for recognition as separate nationality e.g. Silte; demand to establish own region zone or wereda e.g. Wolaita's demand for zone; the unsettled case of DireDawa; restricted political participation of some nationalities in Harari etc. and the uncomfortable relations in some regions between the original inhabitants and other people who came due to past population dynamics etc.

The organizational structure of central ministries and regional bureaus now seems to be stabilized after some change with the formation of FDRE after the transition period. There are different ministries and commissions at the Federal level. Besides them there are also a number of authorities and offices with different tasks independent of the established ministries. Similarly at the regional level there are a number of bureaus and offices. What we see different at the regional level is that some of the bureaus are structured differently from the central ministries and also there are differences in the organizational structure of the bureaus among some regions.

Proc. 41/93 Art 33 allows the regional governments to establish the necessary bureaus they need as follows: "The regional government may, where it finds proper having regard to the type and scope of activities and the utilization of resources and manpower, merge under one bureau

several of the bureaus to be established.” As an application of this we can see the following examples. While there are for example Ministries of Trade & Industry, Transport & Communication, Culture & Information, Education, Tourism commission independently at the federal level, some regions have different combinations of these as follows. Trade, Industry & Transport bureaus (in Amhara, Oromia, Tigray,) Trade, Industry & Tourism (in Addis Ababa,) Transport bureau separately in Addis Ababa, Culture, Tourism & Information (in Amhara, Oromia, Tigray Southern Ethiopia), Education & Culture (in Afar) etc.

Regarding the organizational structure below the regional level, though the structure and strength differ from region to region, many regions have most of the bureaus at zone and wereda level. But some bureaus do not exist at wereda and even at zone level in some of the regions. Especially in the so-called relatively backward regions, the organization of the bureaus at region and wereda is a bit different than others, given the critical manpower situation they are in. For example at the weredas sector activities like agriculture, education and health are lumped together in one office called “Economic and social services office.”

3.2.3 Expenditure Assignment

As expenditure assignment is one of the fundamental issues in intergovernmental relations, proclamations 7/92 of the Transitional Government and the Constitution of FDRE have made divisions of functions between the center and the regional governments. The items included in any expenditure assignment are the powers and functions that are given to the different levels of government. It is to perform these functions that a government plans expenditure budgets. In Ethiopia, the tasks given to the Federal Government are what usually most central governments

do. But due to the emphasis given to the right of nationalities to administer their own affairs, major social and development activities are assigned to the regions. In addition, as the Art. 52(1) of the constitution puts it “ all powers not given expressly to the Federal Government alone, or concurrently to the Federal Government and the States are reserved to the States.” So, in contrast to the previous unitary and highly centralized tradition, the regions under the current government are assigned extensive responsibilities.

The details of the expenditure assignment are shown in table 3.1. As we can see, the division of assignment is between the center and the regions alone. There is no specified task assigned to the lower levels of zone and wereda or municipalities. As subordinate organs of the regional governments, their formation and their responsibilities are to be specified by the regional councils. The central government’s responsibilities were indicated in a highly condensed form in Proc. 7/92 and some important functions were omitted. Later its power and functions was expanded relatively better in the constitution. In contrast, the power and functions of the regional governments was relatively condensed in the constitution. Some items specified in the list of regional governments' tasks in Proc. 7/92 (such as power to establish, direct and supervise social and economic development establishments or enterprises) were dropped in the constitution.

There are some problems with the assignment of expenditures. The responsibility of economic and social policy is stated in FDRE constitution Art 51(2) as follows: “The Federal Government shall formulate and implement the country’s policies, strategies and plans in respect of overall economic, social and development matters.” And according to Art. 52(2c) regional governments are also given the power and functions “ to formulate and execute economic, social and

development policies, strategies and plans of the state.” It is not clear if regions could formulate and execute policies that could differ from the Federal Government and how it could be resolved if in case it happens. Incidentally, the proclamation that established regional governments (7/92) in Art. 10(3) indicates that National Regional Self-Governments shall have the power and duties “to plan, direct and supervise social and economic development programs in accordance with the relevant policy of the Central Transitional Government”. So, it seems the regions' responsibility is to formulate policies which suit the region given the overall national policy.

Current constitutional provisions do not mention clearly whose responsibility it is to provide or manage institutions like tertiary education and similar level public services. We may take it as indirectly specified in the article concerning establishment of development enterprises in the proclamation but the responsibility is not clear. So far the practice has been for universities to be under Federal Government and for the other lower public schools and vocational training schools to be under regional governments. The Constitution in fact only mentions that the Federal and regional governments formulate social and economic policies in addition to the setting of national standards in education, health and other areas which are the responsibilities of the Federal Government.

The ambiguity created in Proc. 7/92, Art. 9 (1), regarding the establishment of 'major' development activities/enterprises/ was resolved in the constitution (Art.51) by specifying that Federal Government's involvement is in activities which have nation wide benefits. But in Art 51(13), there still occurred translation discrepancy which could lead to ambiguity. While the English translation reads "It shall administer and expand all Federally funded institutions that

provide services to two or more states," the Amharic text reads as "institutions that cover one or more than one state". Considering the uniformity of language used in other sub articles of article 51(regarding federal government's involvement in the inter regional activities), the error must be in the Amharic version, though the constitution authorizes the Amharic version as the final legal repository of authenticity.

Table 3.1 Expenditure Assignments in Ethiopia

Federal Government

- Defense
- Foreign affairs
- Formulate and implement overall economic and social policies,
- Formulation and execution of the country's financial, monetary and foreign investment policies,
- Enact laws for the utilization and conservation of land and other natural resources, historical sites and objects,
- Printing of currency,
- Establish and administer air, rail, waterways and sea transport and major roads linking two or more states, as well as postal and telecommunication services,
- Levy taxes and collect duties on revenue sources reserved to it and draw up and implement federal government budget,
- Regulate inter-state foreign commerce,
- Administer federally funded institutions that provide services to two or more states.
- Establish uniform standards of measurement and calendar.
- Conferring of citizenship and administering immigration related issues,
- Deployment of army in situations beyond capacity of regional governments,
- Declaration of state of emergency,

(N.B. The list is selective; there are other items not included here.)

Regional Governments

- All powers not given expressly to federal government alone or concurrently to the federal and the states, are reserved to the states;
- Establish state administration,
- Enact and execute state constitution other laws;
- Formulate and execute economic, social and development policies, strategies and plans of the state;
- Administer land and other natural resources in accordance with federal laws;
- Levy and collect taxes and duties on revenue sources reserved to the states, and draw up and administer state budget;
- Enact and enforce laws on the state civil service and their condition of work;
- Establish and administer a state police force, and maintain public order and peace within the state.

Table 3.2 Revenue Assignments in Ethiopia

Federal Power of Taxation (Art. 90)

1. Levy and collect custom duties, taxes and other charges on imports and exports;
2. Levy and collect income tax on employees of the Federal Government and international organizations;
3. Levy and collect income, profit, sales and excise taxes on enterprises owned by the Federal Government;
4. Tax the income and winnings of national lotteries and other games of chance;
5. Levy and collect taxes on income of air, rail and sea transport services,
6. Levy and collect taxes on income of houses and other properties owned by the Federal Government, it shall fix rents;
7. Determine and collect fees and charges relating to licenses issued and services rendered by organs of the Federal Government;
8. Levy and collect taxes on monopolies;
9. Levy and collect Federal stamp duties.

State Power of Taxation (Art 99)

1. Levy and collect income taxes on employees of the state and of private enterprises;
2. Determine and collect fees for land usufructuary rights;
3. Levy and collect taxes on the incomes of private farmers and farmers incorporated in cooperatives associations;
4. Levy and collect profit and sales taxes on individual traders carrying out a business within their territory;
5. Levy and collect taxes on income from transport services rendered on waters within their territory;
6. Levy and collect taxes on income derived from private houses and other properties within the state; collect rent on houses and other properties they own;
7. Levy and collect profit, sales, excise and personal income taxes on income of enterprises owned by the states;
8. Consistent with the provisions of sub-article 3 of Article 98, levy and collect taxes on income derived from mining operations, and royalties and land rentals on such operations;
9. Determine and collect fees and charges relating to licenses issued and services rendered by state organs;
10. Fix and collect royalty for use of forest resources.

Concurrent Power of Taxation (Art 98)

1. Jointly levy and collect profit, sales, and excise and personal income taxes on enterprises they jointly establish;
2. Jointly levy and collect taxes on the profits of companies and dividends due to share holders;
3. Jointly levy and collect taxes on income derived from large-scale mining and all petroleum and gas operations, and royalties on such operations.

3.2.4. Revenue Assignment

Another important assignment and one that is very relevant for the issue of fiscal decentralization is that of revenue or tax assignment. The different layers of government require means of financing the different tasks or expenditures they have been assigned to. In the Ethiopian case, the revenue assignments or implementation of revenue, borrowing and transfer tasks are elaborated under proclamations 33/92, the FDRE Constitution, Financial Proclamation 57/96 and Council of Ministers Financial Regulation 17/97.

The center- region revenue sharing arrangements are provided in proc.33/92. The Proclamation gives the objectives, basis of revenue sharing, categories of revenues stipulated for the Central and regional governments, joint revenues and administrative procedures, relations and issues of subsidies and borrowing.

The objectives of revenue sharing are stated under Art. 3 (1 to 4):

1. enable the Central Government and the National /Regional Governments efficiently carry out their respective duties and responsibilities,
2. assist National /Regional Governments develop their regions on their own initiatives,
3. narrow the existing gap in development and economic growth between regions,
4. encourage activities that have common interest to regions.

As the basis of revenue sharing between central government and regions, the following principles are considered under Art 4 (1 to 5).

1. ownership of source of revenue,
2. the national or regional character of the sources of revenue,

3. convenience of levying and collection of the tax or duty,
4. population, distribution of wealth, and standard of development of each region, and
5. other factors that are the basis for integrated and balanced economy.

There are three revenue categories identified by the Proclamation: central (federal), regional (state) and joint (concurrent). (See in table 3.2).

There is no basic difference between Proc.33/92 and the Constitution regarding the categorization of the revenues save for minor ones. Forest royalty, previously a joint revenue, has been assigned to regions. Collection of taxes on monopolies and federal stamp duties have been added in the list of federal government revenues. While the land rentals on mining operations stipulated to the regions is for the regions themselves, rent of land collected from large scale mining and all petroleum and gas operations which was under joint revenue in Proc.33/92 has not been mentioned in the Constitution.

There is problem regarding excise tax. Proclamation 33/92 doesn't mention it at all. In both the proclamation and constitution some common types of taxes are not identified. It would have been better to include some of the most common ones, in order to avoid ambiguity. Since in some of the tax literature taxes like VAT and excise are taken to be parts of sales tax, it may be possible to guess that excise is some how included in the categorization of taxes in the proclamation. But we can not be sure. In fact, in the constitution it is mentioned in some parts and omitted in others where it is expected to be. It seems there is no consistency in usage. We can not be sure whether it was simple omission or deliberate one in order to bring

it in the list of those taxes not identified and therefore are decided by the joint session of the parliament. In the Constitution, excise is mentioned in federal and regional and jointly owned government enterprises But it is not mentioned if there is excise taxes levied by the different levels of government for individual businesses and corporations.

Unlike the definition of power / tasks between center and region which says any residual power (not specified as center or region or joint) is that of regions, there is no such residual power of taxation to either of them. Article 99 of FDRE Constitution states the undesignated powers of taxation as follows “ The House of Federation and the House of Peoples' Representatives shall in a joint session, determine by a two thirds majority vote on the exercise of powers of taxation which have not been specifically provided for in the constitution.”

As can be seen from the categorization, the federal and regional governments have the power to collect their assigned tax types. In proc.33/92 it was clearly expressed in Art 9(1) that the central government collects those revenues that are specified for it and the joint ones, and also whenever deemed necessary the collection of such revenues may be delegated to regional governments. But since Art.98 of the constitution expressed the procedure of collection of joint revenues in vague and impractical terms (that joint revenues will be levied and collected jointly) it seems problems arose in practice. So in 1997 the FDRE constitution faced its first occasion of amending a point in the constitution and the only one so far. Article 98 was modified. The task of collecting joint revenues was given to the Federal government.



Regarding the types of taxes assigned to Federal and regional governments different comments can be forwarded. As will be seen later (in the section that analyzes the data) the revenue assigned to the center is greater than the regions. But this does not mean that assignment of the different taxes to the different levels of government is contrary to what economic theory and practice tell us. The categorization is taken to be fairly standard by many commentators despite other problems that exist. Though practices differ among countries to which type of tax should be to central or regional governments, most countries assign foreign trade taxes and other taxes with progressive redistributive incomes to the center. This is what is in the Ethiopian case. In fact some of the taxes that are usually taken for center, like income tax are partly regional in Ethiopia. But equally some of those which could be regional are assigned for the federal government.

One strongly stressed point in the literature of fiscal decentralization is that revenue or tax assignments that give more power to the sub national levels as opposed to center hinder the central government in its task of macroeconomic management and redistribution role (Teresa Ter-Minassan 1997). Also the trend of growing centralization of revenues in many countries is expressed in different studies. While we can see that the assignments in Ethiopia are not of the type that could deprive the federal government from fulfilling its task of macro economic management, it needs further observation and research to see if there is or will be growing trend of centralization of revenue.

There are other points we can raise in the tax assignment issue: the tax power given to regions. In the constitution (Art .94) it is stated that “the Federal government and the states

shall respectively bear all Financial expenditures necessary to carry out all responsibilities and functions assigned to them by law.” One source of revenue that would help them to fulfil their task is the power to levy taxes and collect duties on revenue sources reserved to each of them. Though FDRE constitution articles 51(10) and 52 (e) and also proc. 7/92 Art. 10(1) clearly put the power given, there seems there is some restriction on the power of the regions to tax. Proc. 33/92 justifies there should be tax harmonization. In Art 8 it is stated “ In order to avoid cascading incidence effect of the tax levied by the Center and the Regions and to enable the harmonized implementation thereof, the tax rates levied on types of taxes jointly owned by the Central Government and Regional Governments shall be fixed by the Central Government.”

This points are also stressed in the Financial Proclamation and the Financial Regulation, issued later after the ratifying of the Constitution. In the section dealing with federal and regional financial relations, Proc. 57/96 Art.58 (1&2) puts tax harmonization as follows:

“Tax systems at the federal and regional levels shall have harmonized tax bases.”

“ The Ministry of Finance, through research and administrative support, shall facilitate such harmonization and standardization”

Council of Ministers Financial Regulation 17/97 further clarifies it in Art. 76 (1&2) as follows:

“ Consultations between federal and state governments shall take place on all new or changed taxes at both levels of government to ensure that the tax bases are harmonized and standardized.”

“ The Minister of Finance shall provide, as required, research and administrative support to state governments to facilitate the harmonization and standardization of these tax bases with those of the Federal Government.”

So far we have seen that though they could be justifiable on economic grounds (greater revenues to the center so that it can help it in its macro management and redistribution tasks, and greater tax administration power to the center so that unnecessary cascading effects are minimized on the society), the regions have fewer revenue sources and limited power of taxation. It seems some of the right/ power they have been given has been restricted for the causes stated above. Given this situation, it is possible that regions could be in difficulty of knowing what exactly their power of taxation is. They are not able to determine or change rates, introduce new taxes, depending upon their needs. Setting tax rates levied on those jointly owned taxes is given to the center. For other cases also there is much central involvement. The role of MOF in the harmonization process has been mentioned above.

Among the comments forwarded one deals with the split in the tax collection responsibility. As one World Bank report has remarked, "The assignment in Ethiopia is some what unusual in the sense that the jurisdiction of the federal and regional governments are to a considerable extent, structured according to tax payer categories, rather than by types of taxes" (World Bank 1999). The report mentions the case of public enterprises where ownership determines jurisdiction; income of employees, sales, profit, dividends and production of federal enterprises are taxed by federal government, while those from regionally owned public

enterprise are taxed by the regional government. Similarly in the case of private companies, profits and dividends are taxed jointly by the federal and regional governments.

Such division of responsibilities may have some problems; there is cost to be incurred. Federal Inland Revenue Authority (FIRA) and Regional Finance Bureaus are the main organs that collect revenues (aside from Customs Authority). In places where FIRA doesn't have branches taxpayers are forced to go to where it is; since it has not delegated the regional finance bureaus. It creates inconvenience for the taxpayers to deal with two authorities for the same business. It has cost implication for the government. There is duplication while it could be handled by a single agency. But we should not forget the justification for such an arrangement; it is to give the regions revenue they can control. So, even though there is some inconvenience, the arrangement can work especially by designing solution to some of the problems in the tax administration.

Another point worth mentioning is regarding some joint revenues, specifically the taxes collected from “ large scale mining and all petroleum and gas operations.” In Proc. 33/92 it is stated that the words ‘large scale mining, petroleum and gas operations’ shall have their respective meanings assigned to them by the mining and petroleum proclamation or by regulations issued there under. Especially the word ‘large’ could be interpreted in different ways, which because those that are not stated ‘large’ are in the regions' domain.

It is in the Council of Ministers Mining Operations Regulation No.182/1994 that we find the words defined. In Article 2 sub articles 2 and 3, the definition differentiates small and large

scale mining operations by the amount of 'annual run -of- mine ore'. It puts different figures (in tons and metric cube) for the different mineral categories; precious minerals, metallic minerals, industrial minerals, construction minerals, mineral water, thermal power, and salt. Small-scale operations go up to the figure indicated. Large ones are those that exceed. But the article makes one exception. It defines 'large scale' mining operation as a mining operation of which the annual run -of- mine ore exceeds the limits stated (which are different for the different mineral groups mentioned, with the exception of precious and semi precious stones. The exemption is not clearly put, but we can guess that precious stones are specially reserved for large-scale operations. The very technical definitions can only be understood by professional of that particular field. And it seems that a company can only be labeled large or small if the quantity figures of its operations are known-a process that can come only after it estimates its yearly capacity.

The different tax types have different contributions / consequences in the present situation. Ethiopia's revenue source is mainly from foreign trade taxes and non-tax revenues. Besides being the most productive, they are easy to collect. Most of the non-tax sources are from government owned enterprises most of which are around Addis Ababa and few other places. The taxes assigned to regions are currently with difficulties. For example, the income from agricultural taxes has been low due to the dependence on weather and backward techniques. The taxes from small traders has also its own problems; the sector is weak, and there is difficulty in collecting. Other revenue sources to regions include rent of houses, taxes from enterprises owned by regional governments, taxes from mining activities, etc, which at this stage have very low or insignificant contribution in some regions. So we can say that, the

revenue assignment, though it may not be far from what economic theory suggests, in practice it has problems. The regions have few resources at hand that is insufficient to cover the highly devolved expenditure assignments

As part of the revenue assignment, the issue of joint revenue and the procedures of sharing it are worth discussing a bit further. The items in this category are less important for most regions because the big private corporations, large mining operations and enterprises jointly owned by regional and central governments are concentrated in few places or do not yet exist at all. But they have a potential to grow in the near future (especially some of them) in some regions.

Proclamation 33/92 (Art 6) states that there would be a committee for revenue sharing. The committee whose function is to study conditions and submits recommendations guiding sharing of revenue is designated by the Prime Minister and accountable to the Council of Ministers. The members of the committee are representatives of central government and the regional executive committee concerned with the agenda to be discussed. Article 6(3) states that “based on the objectives and principles of revenue sharing indicated in the proclamation, the committee shall study and submit its recommendations to the Council of Ministers on:

- a) the percentages in which the joint revenues of the central government and National / Regional governments are shared;
- b) measures for resolving issues that may from time to time arise regarding sharing of revenues;

c) amendments or changes as the case may be, to the revenue categorization.”

The proclamation further hints that the details of the duties and responsibilities of the committee are to be defined by directives to be issued by the council of ministers.

Later in the constitution, some change was made regarding the procedure of decision. The House of Federation was given the power to “ determine the division of revenues derived from joint federal and state tax sources and the subsidies that the Federal Government may provide to the states” [FDRE constitution Art 62(7)]. So the committee that is responsible to study brings its recommendations to the House of Federation for decision.

3.2.5. Intergovernmental Grants

For Ethiopia and many other developing countries, intergovernmental transfers (also called grants or budgetary subsidies) are important sources of financing sub national governments. Proclamation 7/92 and the Constitution have identified grants from central government to the regions as one source of finance for the regions. Procedures for Federal Government grant or subsidy to the states are elaborated in Proc.33/92. According to Article 7, subsidy shall be granted for the fulfillment of the following objectives:

- a) to promote social services and economic development of the National /Regional Governments;
- b) to accelerate the development of the hither to neglected and forgotten areas;
- c) to narrow down the gap in per capita income between regions
- d) to support projects that will help control negative economic externalities that may be reflected from region to region and strengthen projects that provide common benefit to neighboring regions,

e) to encourage foreign currency earning projects and other projects of national interest.

However, the regions are required, before approval of their budget, to submit to MOF and MOPED (now MEDaC) their subsidy requests together with the total expenditure required and their revenue collection forecast. After this MOF and MEDaC review the request of the regions and the central government's revenue collection capacity and submit proposals to the Council of Ministers for decision. Unfortunately, the English translation of the article [Proc.33/92 Art.7 (4)] omits Council of Ministers while it is there in the Amharic version. The translation errors that occurred in such important documents should be recognized as a major weakness, a weakness repeated in other important documents including the FDRE Constitution.

Other relevant information regarding grants stated in the documents include, the power given to the federal government to audit and inspect the proper utilization of subsidies it gave to regions. (Constitution Art 94(2). The Financial Proclamation also emphasizes the management aspect of subsidy. It states that Council of Ministers should ensure the regional governments remain accountable for the subsidies; and for this to be implemented, the regional governments shall have a financial management and reporting system, which in the opinion of the Council of Ministers is consistent with the financial proclamation.”(Proc. 57/96,Art.62). The Financial Regulation in Art 77(1) insists the Federal Government shall inform the state governments of their budget subsidy ceilings on time so that they could prepare their regional budgets. It also assigns MEDaC for the preparation of estimates of regional subsidies [Art. 4(4)]. But ultimately it is through MOF that the regional budget

subsidy along with the federal recurrent and capital budget goes to the council of Ministers. Besides submitting, MOF also gives recommendations on the consolidated annual budget and administers the approved budget [Proc 4/95 Art 19(1)].

We can see from the different documents that intergovernmental transfers is given great importance to alleviate the problems of the regions in general and accelerate the development of the relatively backward regions in particular. Because of the balanced development objectives that the government stresses, Art 94(2) of FDRE Constitution warns that care should be taken that assistance and loans that it gives to regions do not hinder the proportionate development of states. Hence we can say that the grants are dominantly equity based.

There are some points about grant that are not stated. The proclamations don't tell if formulas will be used to determine the amount to be given. Nothing is said about the details or criteria for accepting or rejecting the request and also what could follow if there are failures in implementation by the regions.

An important shortcoming is the scope of the grant system that is indicated in the proclamations. No mention is there if there are different types of grants. The one particular point mentioned in Proc. 33/92 Art7 (2) is that “the amount of subsidy to be granted should be proportional to the contribution made from the revenue collected by the regions.” From this we understand that the grant is matching type. The region will provide some amount, and the central government will add a certain amount proportionally. Other than this, the later

documents don't specify if there are changes or if there are other types of grants. Looking at the procedures, MOF & MEDaC approve after studying the region's demands and of the revenue capacities of both the region and the center. While the request could be for different purposes it seems the respond is a certain lump sum amount. There is no mention if the region can use the amount for whatever it wants, or if directive is given to it in areas it can /can not use etc.

As we will see later (in another section) some of the issues raised concerning the lack of clarity of the earlier procedures have been solved to some extent. The constitution in Art 62(7) declares that the House of Federation has the power to determine the subsidies that the Federal Government may provide to the states. It was MEDaC's Regional Planning and Development Department that prepared the various formulas that evolved in the period. The grant allocation procedure changed from that of ad hoc basis to that of formula. Besides the procedures, the type of grant was no more matching grant as hinted in Proc. 33/92, but block grant. Regions were free to use it in their priority, for capital as well as recurrent budget. Of course since this subsidy also includes those funds from foreign loan and aid, it has a specific grant component in it that donors particularly want to be implemented using that budget in a particular area. So it is only appropriate to call the fund from central treasury and any non-particularly specified donor grant as block grant.

3.2.6. Borrowing

Internal borrowing is indicated as one source of financing for regional governments in Art.35 of Proc. 7/92. The constitution also states that the federal Government shall determine by law

the conditions and terms under which states can borrow from internal sources in Art 51(9). Though not specifically stated, external borrowing is not allowed for sub national governments in Ethiopia because foreign relation is the domain of Federal Government. Countries differ in the way they handle borrowing by sub national governments. The most common practice is to restrict them due to the problems it creates in the overall economy.

The procedures or details of internal borrowing are stated in proclamations 33/92, 83/94,57/99 and regulation 17/97. But the most detailed information is in Article 10 of Proc. 33/92. It elaborates the conditions that had to be fulfilled for regions to exercise their right to borrow from domestic sources as follows:

1. Regions should submit to the Ministry of Finance or to the Ministry of Planing and Economic Development the loan amount required to cover their deficit together with statements showing the relations of the requested amount with their revenue collection forecast and with economic indicators of the regions. They are also required to attach a copy of the their consolidated budget and the feasibility study report of the project for which the loan is required with the loan application form.
2. The ministry to which the request has been submitted evaluates the accuracy of the information on the basis of relevant general economic indicators. After taking into consideration the effect such request will have upon national budget deficit, the ministry shall obtain decision on the amount that each region may borrow with in the national limit set by relevant laws. It will then communicate the decision to the National Bank and the regions.
3. The National Bank of Ethiopia authorizes the disbursement of loan on request.

There seem to be some unclear points in the procedure besides being very restrictive. Once the detailed information is forwarded by the regions and the relevant ministries study it, the final step is decision. But the article does not mention who decides ultimately. It only hints that the relevant minister “shall obtain decision on the amount”. Probably it could be the Prime Minister’s Office.

In Financial Proclamation 57/96 the organ that is responsible for decision is more clearly identified. Art 59(1) says “ the regional governments shall provide the Ministry of Finance 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 limitation imposed by law or agreement.” The responsible organ has now become Ministry of Finance (in contrast to MOF and MEDaC of Proc. 33/92). But another point in Art.52 (6) of Proc. 41/93 seems to contradict with this. It states that the Regional Finance Bureau has the power and duty “to negotiate and sign in the name of the regional self government credit agreements obtained from domestic lending sources, supervise and administer such debts.” What we can guess from this situation is that as the decisive force is Ministry of Finance, the regional bureau only handles the requests representing the regional government, and administers it after it receives the loan by the stated procedure from the National Bank of Ethiopia through MOF.

But the problem of borrowing does not end there. In the Monetary and Banking proclamation No.83/1994 Art. 27 it is stated that “ the Bank (NBE) shall not extend direct credit to any

person other than the central government, banks and other financial institutions.” Further, it says “ except as provided in sub article 3 of Article 25 hereof (they are limits on what the government can borrow) the Bank shall not directly or indirectly extend any credit to the central government, government owned autonomous institutions and enterprises, agencies, boards, local government bodies and political subdivisions of Ethiopia”. Hence, from the monetary and banking proclamation, regions do not have any ground for borrowing directly.

Because of the ambiguities and difficult procedures that exist in the different documents regarding borrowing, Befekadu envisaged the process to be as follows:

" A very generous interpretation of the credit clause of the regional governments would have to transfer the exercise of this right to the central government. What may happen under such circumstances is that once the volume of credit to regional governments is approved, this is passed over to the National Bank of Ethiopia for disbursement. If such is the case, then the borrower and therefore the debtor is the central government and the source of credit would be the National Bank"(Befekadu 1994).

We can infer other difficulties as well. The loan is expected to be project related only and the projects are critically examined by the ministries. Besides, because there is a ceiling which considers the overall budget, a restriction that MOF can not pass, the loan size is very limited. Another problem referred is the failure to mention the instrument of debt. "Whereas the central government could borrow from domestic sources by issuing treasury bills and bonds,

no such instrument of debt is acknowledged by or identified for the regional governments”(Befekadu 1994).

Other issues raised in relation to domestic borrowing in the Financial Proclamation and Regulation are those that deal with the administration aspects. Proc. 57/96 Art 59 says that “disbursements on borrowings of regional governments shall be managed by the National Bank of Ethiopia, unless these borrowings are from entities other than the NBE.” It further states “if regional governments borrow from entities other than the NBE, the respective regional governments and MOF shall jointly agree on the administrative arrangements related to such borrowings.” In the Financial Regulation 17/97 Art. 75(2) the MOF is “empowered to monitor the disbursements of the NBE and any other entities against borrowings of state governments and reconcile these with the periodic reports it receives from state governments.” So we see MOF has an important role in all aspects of the issue of borrowing, from checking and accepting requests, monitoring the disbursements and following the reports.

Another point that shows the centers dominance but which gives due consideration to the role of the region in the borrowing agenda is put this way: “The financial requirements of the state governments shall be closely aligned with the federal Government’s fiscal plan and budget and both levels of government shall ensure that their respective financial organizations maintain close working relations during the course of the fiscal year to minimize overall borrowing costs and to act in the best interests of the national economy” (Financial Regulation 17/1997, Art. 75(1)).

In conclusion we can say that borrowing as an instrument of financing for regional governments was set to be very restrictive from the beginning. There is Federal Government's big role in the whole process, from critically examining at the application stage, limiting the amount to be approved, and monitoring the implementation. It demands much effort, capacity and time to fulfil the requirements that justify the loan request. In particular, this strict criteria may be to the disadvantage of the relatively backward regions, because they have low man power capacity to fulfill procedural obligations and also low capacity of repayment given their current development level. It may be due to all these factors that it has been of limited use until now.

Of course it can not be said that such process is totally irrelevant. Borrowings, internal as well as external have been sources of many problems in the economies of different countries. And in Ethiopia, besides the heavy debt burden due to foreign loan, the previous military government was borrowing from local banks so much that such practice crowded out the private sector and also spoiled the financial discipline. But even so, there will be situations where sub national governments would have capacity to handle borrowing, and make use of it wisely. Hence the difficult and vague procedures should be cleared.

A related issue is that of the administration of foreign currency. In Proc. 33/92 and the Constitution, it is clearly stated that management of foreign currency is the responsibility of the Federal Government. There have been some changes regarding the way regional governments can acquire foreign currency they demand. In proc 33/92 Art. 11, it was

indicated that regions submit their annual requirements with detail statements to MOPED (MEDaC), and MOPED obtains the decision of the Council of Ministers on the amount approved to each region, after which it communicates to the regions. The channel was MOPED and final approval point was Council of Ministers. Later, in the Financial Regulation 17/97, Art. 77(3) it is indicated that the regions submit their requirement to Ministry of Finance. So, the channel now is MOF.

3.3 Administrative Aspects of Fiscal Decentralization

3.3.1. Some Issues in Government Budgeting

The government's budget represents a plan /forecast by government of its expenditure and revenues for a specified period. It is to implement its economic functions that a government raises revenues and spend them in different programs and activities. Budget structures are the formats that organize budget data. In addition to providing information on what the government proposed to do, the budget structures indicate the full responsibility of the spending agency (Nesanet: 1998).

Though there are different classifications, the first important classification of the budget is between revenue and expenditure. Revenue budget represents the annual forecasts of revenues to be raised by government through taxation and non-tax sources. In Ethiopia the revenue budget is usually structured into 3 major headings: ordinary revenue, capital revenue and external assistance. Ordinary revenue includes both tax and non -tax revenues. Main categories of tax revenue include direct taxes, domestic indirect taxes and foreign trade taxes. Non tax revenues include charges and fees, investment revenues, miscellaneous revenues, and

pension contribution. Cash grants and technical assistance are included in the external assistance part of the revenue budget. In the third part, (capital revenue) domestic sources, external loan and counterpart funds are included. Government expenditures for administration and development activities are handled through the expenditure budget, which is categorized into recurrent and capital expenditures, which in turn have categories of general administration, economy, social, and other services. Revenue and expenditure budgets are structured in detailed categories with standard code numbers that represent the various items (Nesanet 1998).

Budgeting from the initial stage of forecasting the annual revenues and expenditures, to the final stage of approval of the annual budget passes through a sequential and an iterative process (Nesanet 1998) In Ethiopia, the budgeting process and the directions to be followed are indicated in the Financial Proclamation 57/96, Financial Regulation 17/97, in the Constitution and other manuals prepared by MOF and MEDaC.

The Constitution of FDRE states that the Federal and Regional Governments shall levy taxes and collect duties on revenue sources reserved for each of them, and also, each shall draw up, approve and administer their own budget. [Art 51(10) and 52(22)] In the Constitution, Proclamation and Regulation, the different organs responsible for the different functions of the budgeting process are mentioned. At the federal level MOF and MEDaC in association with PMO and Council of Ministers are the main organs in the final preparation and review of the budget, and it is the Council of Peoples' Representatives that approves it at the end. The House of Federation has the power to determine the division of revenues derived from joint

federal and state tax sources and the subsidies that the Federal Government may provide to the states. At regional level, regional finance and plan bureaus in association with the executive committee of the region finalize the budget of the different sectors and localities and the regional council approves it.

The main responsibility of the budget preparation at the federal level lies on MOF for the recurrent budget and revenue budget and on MEDaC for capital budget and also for a 3 year rolling plan of Public Investment Program (PIP). The different public bodies mainly interact with these two ministries for the direction they have to follow, for submission of their budget, and they are also notified about the final approved budget by them. But finally it is the MOF which has the power and duty to “prepare and submit to the council of ministers, together with recommendations, a consolidated annual budget of the federal government upon analyzing recurrent budget proposals received from general government organs, capital budget proposals prepared and forwarded to it by MEDaC and requests from regional governments for budgetary subsidies, and administer the approved budget” Proc. 4/95 Art.19(1).

The details of the budgeting procedures are presented in Financial Proclamation and Regulation. In Financial Proclamation 57/96 part4, Articles 15 to 22 deal about the format and ceiling of budget, budget approval and notification, budget transfer mechanisms and restrictions with in and between public bodies; also included are issues like transfer of emergency expenditure and supplementary budget. In part 5, Articles 23 to 26 deal with the public disbursement procedures, limits, commitments and special conditions. In part 6, Articles 29 to 32, deal with management of unspent funds. In Financial Regulation 17/97 part

3, Articles 7 to 11 deal with preparation, submission and approval and calendar of the PIP (Public Investment Program). In part 4, articles 12 to 16 deal with the budget estimate preparation, submission and approval, and budget calendar. In part 5, Articles 17 to 20 deal with budget execution issues like budget transfers, budgetary control and supplementary appropriation and budget requisition. In part 6, Articles 21 to 24 deal with public disbursements, the procedures and mode of payment.

One unclear point in the financial proclamation 57/ 96 is regarding Art. 15(1) which says “MOF and MEDaC in consultation with the appropriate government authority shall establish the format for annual budgetary submissions and the maximum amount on which each budget request is to be based.” The authority to be consulted is not stated. But this role can only be that of PMO. Though not directly mentioning the format and ceiling of budget, Financial Regulation 17/97 Art. 14 hints that once the budget has been finalized by the coordinating ministries, it will be presented to Council of Ministers for revision and recommendation before it goes to the Council of Peoples' Representatives for approval. The appropriate government authority that consults MOF and MEDaC in establishing the format and ceiling as well as guide them in their coordinating tasks can only be PMO (Prime Minister's Office). The budget manual prepared by MOF and MEDaC confirms that this is the practice.

It is known that after the macroeconomic and fiscal frame work are prepared and the revenue and expenditure estimators are made, the PMO will decide on the shares of federal government expenditures and subsidies of regional governments. While it is clearly stated that the regions subsidies from the center are to be decided by the House of Federation by

way of a proposed formula, the method or procedure how the total resource is divided between budget for central government and subsidy for regions is not stated in any document.

So far there is no approved method to decide the division of resource. MEDaC says the division is made on the basis of the existing assignment between the federal and regional governments. But because of the difficulties in estimating every expenditure and lack of data, they usually follow the residual approach. After deciding the amount for the main Federal Government expenditures, the rest is given as subsidy. The practice follows the pattern of distribution that has been since the Transition Period, and is allocated proportionately. Some estimates were known from the expenses required for each government at the time they shared the responsibilities for the different on going projects. The best way would have been to bring a mechanism of sharing after studying the minimum necessary budget for each function of the different level of governments. But it is difficult, takes much time, and also there is problem of how to define what minimum could be.

If we view the practice of budgeting as expressed by the official document (Negarit Gazeta) after 1983E.C, there were some changes of presentation. In 1984 and 1985E.C, only consolidated budget was prepared. There was no separate budget for federal and regional government. So the previous practice was more or less followed. In 1986 and 1987, budget was prepared for federal and regional governments and also the national total; for all of them subdivided into recurrent, capital and total expenditures. The Negarit Grazeta of these two years contained details of revenue and expenditures and other relevant summaries. For

example the 1987 Negarit Gazeta had 227 pages each for both Amharic and English languages.

Starting from 1988, the budget declared on the Negarit Gzeta contained Central Government budget that includes the subsidy to be given to each region. The practice adopted in 1986 and 1987 of presenting details of regions was changed. Federal Government has its Federal Negarit Gazeta and the Regional Governments were expected to declare their budget on their regional Negarit Gazetas.

Observations of the shortcomings in the budgeting process include some of the following. (Asrat 2000, Nesanet 1998)

- Lack of authoritative binding budget calendar; the only dates mentioned so far are dates for approval and notification.
- Notification of federal subsidy to regions is always late; this creates difficulties in the regions' annual planning process.
- The different planning practices (i.e. the annual budget, the 3-year rolling Public Investment Program (PIP) and the long term Sector Development Programs (SDP) are not yet fully harmonized.
- Some activities and sources of revenues are not included in the Federal or Regional budgets,(due to problems of information coordination)
- While it has been standard procedure to publish the yearly budget on Negarit Gazeta, some regions have not able to fulfil this task, and also there are some differences in the

presentation of those that have been published; this creates gaps in knowing how the nations total public resources are being utilized.

- There is lack of coordination in recurrent and capital budget preparation in many public bodies.

The Budgeting process at the Federal level

Nesanet (1998) has outlined the different steps as follows :

1. preparation of the macroeconomic and fiscal framework revenue forecast and determination of budget ceiling;
2. Determination of Federal government expenditure and subsidy to regional governments;
3. Allocation of federal government expenditure between recurrent and capital budgets;
4. Budget call and ceiling notification;
5. Budget review by MOF and MEDaC;
6. Budget hearing and defense;
7. Review and recommendation;
8. Submission of the consolidated budget to the Council of Ministers;
9. Submission of the budget to the Council of Peoples' Representatives;
10. Notification and publication of the budget in the Negarit Gazeta;
11. Allotment.

The Budgeting process at the Regional level

There is similarity with that of the budgeting process at the federal level. At the same time there are some variations between regions. The responsible organs for the final preparation are Regional Finance and Plan Bureaus for recurrent and capital budget respectively, and the regional council is responsible for the appropriation of the region's budget.

The budgeting process at the regional level is usually done in two processes. Pre-ceiling budgeting is the practice of budgeting before the region receives its subsidy from the Federal government. It usually starts at wereda level. The Finance Office consolidates the budget of the sector offices and submits it to the wereda council. From the wereda it is sent through two channels (through the executives and sector offices) to the zone. From the zone also it goes to region in similar two channels.

Post ceiling budgeting is done following the notification of subsidy from the federal government. The regions total budget will be split between recurrent and capital expenditures, first for the recurrent expenditure and the remaining for capital expenditure, It is then distributed to the sector offices. In some regions (Southern Ethiopia, Amhara) a lump sum amount is allocated to zones where the zones distribute it into its priorities for the wereda and sector offices.

Due to the gap in the assignment of responsibilities between revenue and expenditure, major part of the regions' budget is subsidized by the central government. But because of the problems in the budgeting process both at federal and regional levels, not all activities are done on their set time. As one World Bank report comments: “ the sub regional governments rarely know the envelope they are working with as they create their budgets. The information they pass up to the regional government is thus more of a wish list than a calculated, well debated development plan that is based on realistic resource constraints.”(World Bank 1999) In other words the attempts of bottom up approach exercised at wereda and zone levels have deficiencies because they start before the whole resource they can use is exactly known. The

information about subsidies comes late. Also, the precise amount a region gets can not be predicted because of unforeseen factors such as not getting the expected (promised) foreign assistance and loan. The actual amount a region receives is one that has been cut by a process called 'budget offset'. It is the process of reducing the foreign finance, which can only be distributed when it is available.

3.3.2. Relation between Central Ministries and Regional Bureaus

It is normal to expect that the new federal structure would face difficulties in the exercise of tasks relating to responsibilities of federal and regional governments. Unlike the previous governments' provincial bureaus which were totally subordinate to the central ministries in every aspect, the present regional bureaus have autonomy in their specific area. They are accountable to their regional councils. But they are not totally unattached to the central ministries. Their relation is stated in the proclamation that defines the power and duties of central and regional organs.

In Proc. 41/93 Art 4(1d) it is stated that "each ministry shall in its field of activity give assistance and advice to regional self governments, and follow up the proper implementation of laws, regulation and directives by their executive organs," in addition to other tasks given. Proc. 4/95, which came out after the establishment of FDRE, had modification over the previous article of duties of ministries that was assigned during the transition period. In Art 10(1d) it says that " each ministry shall, in its field of activity, give assistance and advice, as necessary, to regional executive organs." It seems that the obligations of the central ministries in the regions has been reduced to that of the role of assisting only.

But actually when we see the specific duty of each ministry it has more role than just assisting. The central ministries initiate national policy proposals, and overall basic research activities in their area. They also prepare directives which can be modified or applied by the regions depending on the specific situation. They coordinate some programs that are to be implemented on nation wide or across some regions. Other additional responsibilities are also given to the Ministry of Finance in the Financial Proclamation and Regulation because it is the main organ of government which guides how government resources should be controlled. So, the role of central ministries can not be underestimated just because regions are autonomous or the regional bureaus are accountable to their region's council. In fact it is a standard procedure at all levels that bureaus /offices at wereda, zone, region level follow the two way reporting system to their council and at the same time to their sector office, which means the regional bureaus regularly report to the ministries at the center.

The actual practice may differ from what it should be. The delineation of roles of each organ may not be easily identified. Each could attempt a task separately believing it is its role, or might not attempt it believing it is the others role. Even without this obfuscation, there are shortcomings that each one commits. Regions expect a lot of assistance from the ministries, (e.g. training, material, directives, comments on reports etc.). The expectation is justifiable, because it is the ministries that have experience, access to different sources of resources and capacity. If not done to the desired level the regions may complain or be frustrated. Like wise central ministries would expect regions to specifically identify their problem to be solved,

receive reports they are entitled to receive on time etc. If this does not happen to their expectation they may neglect the relationship.

Complaints of the regions on the central ministries include the following: greater share of chances of training's, workshops, is taken by the center and less for the regional staff; there is delay of feed backs on some reports; budget ceiling is notified very late that it affects the regional budgetary process; information on foreign aid and loan does not come on time; regions are not aware about the joint revenues; etc. The central ministries on their side also pose some problems of the regions: regional bureaus don't send reports and other relevant information on time and to the desired criteria; some reports have exaggerations; some recommendations are neglected, etc

As a result of low capacity of the regions' manpower and also the weak center region relations, many regulations and standard procedures are violated and they are not corrected on time. We can cite some examples from Afar Region. In 1989E.C., the region collected foreign trade tax on salt which came from Assab. In the revenue sharing proclamation such taxes are in the domain of federal government. It continued till mid year 1990 when it was corrected by MOF. The point is, if there was proper relation such cases could have been stopped with in the same year the mistake occurred. Another example is the case of controversy over who should tax those private corporate businesses who took license from central government but work in the region. A marble factory and some contractors were asked to pay taxes there, but later the region came to know the issue was the task of the center.

Some activities of revenue collection were not properly done because Federal Internal Revenue Authority (FIRA), the government organ which collects joint revenues such as taxes from corporate businesses did not have branches in many places or did not delegate regional finance bureaus for such activity. Businessmen were forced to come to where FIRA had offices in order to pay. It is possible that some that did not want to take the trouble or the inconvenience might have kept silent by not paying. Few businessmen in some places paid this tax to Regional Finance Bureaus. But the amount is very small.

Whatever the causes of the minor problems in the relations, each central ministry as well as regional bureau has to have the concern and effort to improve it. While the Prime Ministers Office, because it has the coordinating role, has to watch the problems and take corrective measures when they arise, the concerned ministries should not await for the high executive organ to act for any issue which is within their sphere of activity. They should take their responsibility. The various interviews with the regional bodies confirm that none of them blame the central ministries for unnecessary interference. The criticism is more on the other side; that central ministries have not contributed in the relation to the desired level.

One important point stressed by all the interviewed was the importance of the joint forum where different issues are discussed between the regional and central bodies. They commented that it lacked continuity and suggested that PMO take active role in coordinating it.

Despite the shortcomings, the regions admit and appreciate the assistance they got so far from the central ministries and other governmental, non governmental and international agencies. To cite some examples MOF sent professionals to assist in closing accounts in Afar. The National Income Accounts that was prepared for the Tigray Region was accomplished with training and assistance given by MEDaC. Various offices got computer training and equipment from many organizations etc.

3.3.3. Auditing Activities

Though the emphasis in the literature of fiscal decentralization has been “more on policy than administrative issues, there is little doubt, that sub-national devolution of revenue- raising and expenditure responsibility poses new challenges for tax administration and for public expenditure management”(Theresa Ter- Minassen 1997). Among the administrative issues to consider is auditing, which is a check up or correcting mechanism for the government finances activities. Due to its relevance in showing us the capacity, problems and lack of experience in financial management in decentralized situation, some inquiries in the auditing problems of federal and regional governments is essential. Among the various auditing activities the study concentrates on the auditing activities between federal and regional levels of government.

In the previous governments the Auditor General Office was established at central government level to the task of inspecting accounts of government offices to ensure that they are properly made according to approved procedures and to the assigned purpose. As is the usual practice in other countries also, the Audit Office is responsible to the legislative branch

(Parliament) and not to the executive, because it is the organ established to check, corrects the different ministries or bureaus.

After the change of government the office was organized at regional levels following the federal structure. But due to various factors the establishment of offices at regional level and the restructuring of the main office were done later. Proclamation 7/92 that established the regional governments mentioned audit and control office would be one of the organs to be established at region and wereda level (Art. 8(1) and Art.39). But from the information of Afar and Tigray regions, it was at the end of the transition period that regional audit offices were established. So, we can say that no external auditing was done by the regional governments in the transition period.

The constitution and other proclamations mention the role of the different organs in the auditing task. As Art. 94(2) of the constitution states, “the federal government shall have the power to audit and inspect the proper utilization of subsidies in grants to the states.” The function is done by Ministry of Finance (MOF) and the Office of the Federal Auditor General (OFAG). Council of Ministers Regulation 17/97 again affirms the role of both organs. “The MOF shall have access to the accounts of the state organs necessary for it to conduct audits of their use of budgetary subsidies received from Federal government” Art. 80(1). “The Auditor General, as part of his or her own normal audit program should audit the Federal Governments record of its financial transaction with State Governments” Art. 80(2).

Hence we can say that besides internal auditing in organizations or bureaus and the Regional Finance and Audit Bureaus, the Central Government organs of MOF and OFAG are involved in the auditing activities of the regions. Unlike the OFAG and the Regional Audit who are accountable to the legislative branch, MOF and Regional Finance Bureaus are responsible to the executive. There seems some duplication of tasks or redundancy. The same task of checking how the subsidy was utilized is done by different offices. But because they are accountable to different bodies, there is difference. The purpose of separate accountability emanates from the nature of separation of power of government between the legislature and the executive.

MOF's Inspection department started to audit regions' subsidies starting from 1986 EC, when the budget started to be arranged on federal and regional levels. Because of manpower and resource constraints, they only did selective tasks of auditing in some bureaus of the regions. One problem raised was the view that unlike the capital budget which was totally covered by the federal subsidy, the recurrent budget used in the regions was partly composed of regions' own revenue, hence auditing by federal organs would be beyond their responsibility. They later solved it by devising means to see the particular case.

OFAG, as the main authoritative body for external auditing started late to work in the regions. During the end of the Transition period, some regions had refused OFAG auditors permission to work on subsidy auditing. This move could be a result of, on the regions' side, misunderstanding their autonomy position, or probably the fear of being exposed if there is any malpractice. OFAG actually started its function in the regions in 1990 EC.

In discussions with many of the auditors, plan and finance workers, they admit that corruption and poor financial management is not a specific problem to the regional governments alone. It also was and is frequently encountered in many of the central ministries and other offices here in Addis. But because it was accompanied by many shortcomings and other political problems of some of the newly established regions, it became a frequent news story in the media. There was frequent change of leadership in some of the regions mainly attached to such malpractices. Many believe there is improvement today from what it was in the early transition period. The central government is also playing its role of giving financial directives to and checking the activities, of which were very loosely done during the transition period.

Professional manpower shortage in the regional governments ranks top in the list of problems. One of the professions which are in very short supply is that of auditors. The capacity of two regional Audit offices can show us the level of the problem. In Afar region where there are around 300 government offices/bodies that can be audited, the Audit Office has 4 teams of 3 people each. This can only handle about 5 percent of the offices within a year. Similarly in Tigray, where there are around 400 offices, the capacity of the Audit office is 8 teams of 3 people each. One team can only handle 4 to 5 auditing tasks within a year. Due to this shortage, they can only handle few offices which have maximum government outlays or cases which are ordered by the courts. They are forced to be selective and to work on sample basis.

One factor for the limited manpower in them is that the market has high demand for such profession (accountants, auditors) and also it pays them more than what the government does. Another disincentive is the salary difference which is higher in Addis Ababa and lower in other regions. Considering the different advantages, facilities, one gets in Addis; it should have been the reverse, i.e. higher in the regions. So, not many are attracted or committed to work in the regions. Repeated vacancy calls have not been fruitful.

Auditing activity is given little attention be it at federal or region level. Many don't understand it. They do not take it as supportive or corrective organ, but as one which is faultfinder. As a result they don't cooperate with it. This problem arises due to low attention given to resource control. Many public body officials and staff don't give due attention to the financial management aspect of their organization. People with lower skill are recruited or posted in tasks related to finance and other resource control activities. Financial laws and regulations are violated or not properly implemented in many departments at federal and regional level. Other shortcomings, or errors include the following: - accounts are not closed on time; transfer of budget to where it is not allowed; mixing of items in reporting (for example of loan and aid accounts); not following the proper procedures in contractual agreements; payments done without proper legal documents; responsibilities that should have been separately done by different individuals are done by one person in some offices; loose internal control; etc.

External auditors whether from OFAG or MOF can only handle limited share of the vast public resources. The major work of correcting public bodies in their management of

resources should be done by internal auditors within the organizations themselves. But currently, this branch is not strengthened. There is loose internal control. The relation between internal and external auditors, between auditors in different public organizations is weak. Auditors and accountants in public or private sector don't seem to play their role to a desired and possible level of what the situation demands.

The weak attitude or moral of the civil service and society as a whole is one of the hindrances in the fiscal management responsibility of the auditing profession. People don't expose or condemn corrupt individuals and practices. In fact there is admiration by many for those who became wealthy as a result of their malpractice out of government funds. If there is no societal support in following and caring for public resource, few auditors in some offices would have insignificant contribution. There should be a revival, an interest in caring for the Nation's resource by strengthening efforts at educating the people and the civil service.

An important aspect of the auditing activity is the stage where the Audit Head present reports of the activity of the office to parliament or regional council. Shortcomings that were seen are exposed and corrective measures are recommended so that they could be lessons in the future. It is expected that the suggestions are taken seriously and implemented. Though such forums are important, they were not effective as expected. Mistakes were seen to be repeated. Timely decisions were not taken on some major faults.

One supportive arm to the audit activity would have been committees in parliament or regional councils that could gather information on corruption and other shortcomings in

government offices and agencies, actively become involved in trying to implement the recommendations and generally create awareness on the necessity of public resource control. In the developed western countries, the usual practice for such tasks is to form a public accounts committee (PAC) dominantly formed by the opposition party members in the parliament. They can seriously follow shortcomings of the party in power. In the Ethiopian parliament, it is the Budget Committee that also acts as PAC, resulting in less attention towards it because it has a lot of functions to handle. And the opposition party members are not that strong. In Tigray Region PAC was formed from the regional council members. But their activity was not to the expected level. Most of the members are regional officials with lots of additional tasks, and they could not have enough time for their role in the committee. Some of the members also complain that because they lacked professional know how, they couldn't be effective as desired. Any way, though there are shortcomings, the move to establish PAC is a good start.

3.4. Review of Fiscal performance

3.4.1 Introduction

The Transitional Government of Ethiopia initiated a new economic policy and reform program. One of the main objectives of the reform program was to rectify the fiscal ills (that were experienced during the Derg period) and attain a consolidated budget. This objective called for rationalizing the state's role in the economy, implying reorientation of government expenditure and enhancing revenue performance at the same time. A number of policy and institutional measures have been taken along this line to achieve the stated objective (MEDaC 1999). The first phase of the economic reform program focused on two objectives :

1) liberalization measures to remove unnecessary government controls and to encourage private sector participation; 2) stabilization measures to contain inflation and reduce imbalance.

The fiscal policies that were enacted to help the economic program include:

1. Managing fiscal deficit to a sustainable level by avoiding inflationary financing especially from the banking system;
2. Measures to enhance government revenue, by reforming the tax policy; broadening the tax base, reforming the tax structure; (reducing many of the rates);
3. Measures to rationalize and control government expenditure; withdrawing from direct involvement in production; giving emphasis to social sectors and capital expenditures on economic infrastructure;
4. Institutional measures such as improving efficiency of the fiscal administration; restructuring the revenue collecting organs of the government to avoid corruption and enhance efficiency of tax collection;
5. Fiscal federalism – the restructuring of the fiscal system to fit the Federal system of government; an issue that defines the revenue and expenditure responsibilities and other relation between central and regional governments (MEDAC 1999).

3.4.2 Revenue

There was a steady growth of revenue during the period 1984 to 1990 E.C: from 2.2 billion to 8.4 billion years. It had a growth rate of 22% per annum. In this period the revenue was on average 15.4% of GDP or an amount of 5499.17 million birr per year. If we consider only the

5 year period between 1986 to 1990 E.C the revenue was 15.9% of GDP and yearly average becomes 6581.55 million birr.

In the given 5 years period (1986 to 90), non tax revenues and foreign trade taxes were the dominant sources for the country as a whole accounting for 32.8% and 27.7% of domestic revenue. Direct taxes and indirect taxes had 23.7% and 16.4% percent respectively. Categorizing the revenue as tax and non-tax, tax revenue accounted for 67.2% of domestic revenue and the non-taxes 32.8%.

When we see the revenues at different levels of government, for the period 1986 to 90 E.C., federal government had largest revenue from the non-tax revenues and foreign trade taxes (accounting for 33.8% and 33.4%), and direct taxes and indirect taxes had 16.95% and 16.57% each. Out of the non-tax revenues, government investment income is the dominant source of revenue. Since the federal government revenue collection has the largest share, the national trend ratio follows that of federal government's pattern.

The regions had raised 17.2% of the country's total revenue, the federal government having 82.8% on average over the period 1986 to 90 E.C. There was a slight improvement of the ratio in favor of the regions in the given period and this had an impact on the increase of revenue to the country. "One of the factors that contributed to the rise in taxes is the increasing effort exerted in improving the tax administration by the regional governments particularly since fiscal decentralization. The tax revenue collected from regions increased from 531 million in 1993/94 to 830 million in 1995 /96 and 984 million birr; almost doubling in just four years. This is a clear indicator that regional states have improved their tax collection capacity significantly" (AREE 2000).

But the dominant sources of revenue for the regions differ from that of the federal government. They heavily depend on direct taxes and out of the direct taxes, business profit tax is dominant for Addis Ababa, Oromiya, Somalia, Harari and Dire Dawa. For the other regions personal income is the dominant source of revenue. Recently, urban land lease fee is getting importance in Addis Ababa. Agricultural income tax and rural land use fee are important sources of revenue exclusively given to regions, though the amount collected has not been very large so far. While the ratios of federal regional shares of the indirect tax and non tax revenue was a disproportional amount of above 80 and below 20 for federal and regional governments respectively, that of direct tax was almost 59 to 41, signifying the importance of direct taxes in the assignment to regions.

The regions differ in their revenue raising capacity. There is Addis Ababa at the top with 388.2 million birr and at the opposite extreme is Gambella with only 5.704 million. Of the total regional revenue 85.38% is collected in Addis Ababa, Oromiya, Amhara and SNNPR, each contributing 34.3, 27.5, 12.22 and 11.36 per cent respectively. The other seven regions collect only 14.61%; and from these Gamballa, Benshangul and Harari had less than 1% each.

Table 3.3 Five Years Average Revenue: 1986-1990 E.C

Description	5 Years average revenue (In mil)			Federal; regional share			Percentage shares of		
	Federal	Regional	Total	Federal	Regional	Total	Federal	Regional	Total
Direct tax	924.164	632.804	1556.968	59.36	40.64	100	16.96	55.91	23.66
- Personal Income Tax	174.832	171.122	345.756	50.57	49.43	100	3.21	15.10	5.25
- Business Income Tax	746.23	250.874	997.102	74.84	25.16	100	13.69	22.17	15.15
- Agricultural Income Tax	-	81.722	81.722	100	-	100	-	7.22	1.24
- Rural Land use Fee	-	75.032	75.032	100	-	100	-	6.63	1.14
- Urban Land Lease Fee	-	45.808	45.808	100	-	100	-	4.05	0.7
Indirect Tax	903.84	177.682	1081.22	83.57	16.43	100	16.58	15.7	16.43
Foreign Trade Tax	1820.472	2.4	1822.924	99.87	0.13	100	33.41	0.22	27.7
Non Tax Revenue	1841.66	318.876	2160.536	85.24	14.76	100	33.8	28.17	32.83
Total Revenue	5449.536	1131.814	6581.35	82.8	17.2	100	-	-	-
Federal-Regional share	82.8	17,2	100	-	-	100	-	-	-

Table 3.4 Five Years average Expenditure: 1986-1990 E.C.

Description	5 Years average revenue (In mil)			Federal; regional share			Percentage shares of		
	Federal	Regional	Total	Federal	Regional	Total	Federal	Regional	Total
Administration and General Services	1514.736	744.244	2258.954	67.05	32.95	100	25.51	20.60	23.65
- Defence	1019.092	-	1019.092	100	-	100	17.16	-	10.67
Economic Services	1978.318	1124.77	3103.088	63.75	36.25	100	33.31	31.13	32.49
- Agriculture and Natural Resource	372.986	697.81	1070.828	34.83	65.17	100	6.28	19.32	11.21
- Roads	438.994	261.374	700.368	62.68	37.32	100	7.39	7.24	7.33
Social Services	599.772	1558.426	2158.2	27.09	72.21	100	10.1	43.14	22.6
- Education	324.656	972.562	1297.218	25.03	74.97	100	5.47	26.92	13.58
- Health	92.284	410.17	502.45	18.37	81.63	100	1.55	11.35	5.26
Others	1746.524	185.13	1931.652	90.42	9.58	100	29.41	5.13	20.22
- Public Debt	1275.714	-	1275.714	100	-	100	21.48	-	13.36
Total Revenue	5938.328	3612.56	9550.89	62.18	37.82	100	-	-	-
Federal Regional share	62.18	37.82	100	-	-		-	-	-

Source: Calculated from data of MoF (a)

3.4.3. Expenditure

Though there was reduction in the role of government (in contrast to the previous Derg government policy), absolute amount of expenditure on government activities was increasing. In the period 1984 to 1990 E.C. total expenditure increased at an annual growth rate of 16.7% but there was difference in the allocation pattern. Defense expenditure was reduced to a large extent and this helped other sectors to get sufficient fund- a trend opposite of that of the Derg period. Emphasis was given to social sectors and economic infrastructure. The capital budget was increased to roads, education and health mainly.

“An important development observed during the post reform period was the increasing tendency to fully finance the recurrent expenditure through domestic revenue. Allocation from central treasury to finance capital expenditure was also increasing. Reliance on external loan and assistance for up to 50% or more of capital expenditure until the eve of the reform program has fallen below 30% in the post reform years. This is a solid confirmation to attaining fiscal soundness, which was proved to be a difficult task for many sub-Saharan African countries. The increasing reliance in domestic sources of finance is also believed to have enhanced the implementation rate of development projects by reducing the inefficiencies of disbursement of external loan and assistance” (MEDaC 1999). Besides this, the government also continually tried to pay the past debts.

The expenditure ranged from around 4200 million birr in 1984 to over 11,800 million in 1990 E.C. If we particularly take the 5 year period 1986 to 1990, the average amount was 9550.89 million. Out of these, federal and regional governments spent 5938.316 million and 3612.56

million birr respectively. The yearly expenditure was divided on average in to 5978.812 million and 3572.078 million birr of recurrent and capital budget. Since the average revenue for the 5 year period was 6581.55 million birr, we have a deficit of 2969.34 million birr. For the period 1984 to 90 E.C. the annual expenditure was 28.12% of GDP. And for the 5 year period 1986 to 90 E.C expenditure was 29.36% of GDP.

When we look at the federal regional dimension, out of the total government budget a greater amount is allocated to the federal government. But there have been some changes over the years infavour of the regional expenditure. The average ratio for the 5 year period 1986 to 1990 E.C was 62.2: 37.8. Closely looking at the composition of the expenditure, in its recurrent and capital allocations, the ratio for the period was 62.6:37.4. If we separate this average ration for both levels of governments, we find that the federal ratio of recurrent to capital was 61.65:38.35 and the regions' ratio was 64.16:35.84, showing the regions devote more to recurrent budget, though there was a continuous increase of capital budget over the years.

Investigating the expenditure budget in detail shows there is difference in the federal and regional governments' involvement in the sectors – a fact that emanates from their division of responsibilities. Defense, payment of debt burden are 100% federal expenditures. Administration and general services though responsibility of both, showed a trend of increase in favor of the regions, as regional administrations were getting strengthened. In the economic sectors, though there is dominance of federal allocation because of the heavy infrastructure it handles, there is improvement in the regions share as well. But from this

sector agriculture is dominantly handled by the regions (above 73%), and the share is increasing. The regions dominate in the social sector expenditures (about 74%). They nearly handle three - fourth of the budget on average and in some years, some activities such as health are higher than that.

Looking at the expenditure discrepancies with in the regions, we find that the highest expenditure is that of Oromiya (average of 5 years is 1050.298 million), and the lowest is that of Dire Dawa (31.5 million). This amounts to 29.07% and 0.87% respectively of all regions' expenditures. Almost 86.5% of the expenditure is controlled by the most populated and/or better performing five regions of Oromiya, Amhara, SNNPR, Addis Ababa and Tigray.

Expenditure budget utilization can easily be calculated by financial implementation rate, though it does not tell the whole story of its efficiency. In the given period 1986 to 1990 EC, Addis Ababa and Tigray almost fully utilized their budget allocated from central Treasury, While there was lower utilization in other regions. Though not representative of the period, there was such extreme discrepancy as high figure of 209.5% in Addis Ababa and low figure of 34.2% in Afar (both in 1987 EC). But the overall utilization was improving and the discrepancy in utilization between the regions was narrowing. In general the low performance is mainly in the relatively 'backward' regions. "There is interregional difference because of variations in implementation capacity which is due to lack of skilled manpower for planning and implementation, machinery, material, inaccessibility in the regions, capability of contractors etc" (MEDaC 1998).

**Table 3.5 Financial Implementation Rate From 1986 to 1990
(From Central Treasury Source)**

	1986	1987	1988	1989	1990
National	73.2	89.5	90.2	100.4	95.3
Tigray	104.0	93.4	97.6	135.9	100.8
Afar	62.7	34.2	58.5	70.5	65.4
Amhara	59.5	72.2	100.7	95.8	63.6
Oromia	86.4	91.0	99.9	102.9	99.5
Somali	48.8	54.7	95.6	98.3	68.7
Benshangul	74.1	87.8	59.1	50.1	99.2
SNNP	52.4	89.4	81.4	101.4	101.3
Gambela	72.8	63.6	97.8	90.2	56.3
Harari		98.6	62.2	63.2	109.6
Addis Ababa	87.0	209.5	84.4	110.6	185.0
Dire Dawa	56.4	77.7	82.6	94.7	98.9

Source: MEDaC 1998 and 1999b

3.4.4 Defense budget and recent trends

From the various expenditure items of Ethiopia's government budget, defense expenditure had the characteristics of radically changing the pattern and trend of the over all budget. During the Derg period it took the largest share of recurrent budget affecting expenditures for other social activities. After the downfall of the Derg, defense expenditure was heavily cut resulting in significant contribution in the socio economic development of the country. And recently the war with Eritrea forced the government to reverse the trend of declining defense budget again affecting the development activities, though not on a magnitude as that of the Derg period.

In the five year period (1984 to 1988 E.C), the government spent on average about 871.1 million birr per year on defense. This is far lower than the last five year period of the Derg (1979 to 83 E.C) which was 1518.4 million per year. The defense expenditure was 7.6% and 8.3% of total expenditure for 1988 and 1989 E.C respectively, and 2.0% of GDP for both

years. This was a radical change from the 30.8% of total expenditure and 9.6% of GDP in the last 5 years of the Derg period. But just before the onset of the current hostilities with Eritrea there was a change in the trend. The government had more than doubled its defense budget to 2189.5 million birr. The following two years we have significant increases to 3045.7 million birr in 1991 E.C. and an estimate 4232.9 million birr in 1992 E.C. This years estimate is about 29.8% of total government expenditure and 7.62 of GDP.

“But there are plans and signs to cut the military expenditure significantly this year it self. The reduction was possible since the high levels of defense expenditures so far incurred contained a large proportion of one time exceptional expenditures” (World Bank 2000). The government seems to have reached its target of improving the defense force that was under funded in the first five years of its reign. Due to increase of recurrent expenditure on defense, capital expenditure to many social development projects which had earlier gained better ratio had declined. Similarly the total subsidy to regions was reduced though some regions were not affected.

The ratio of federal- regional resource allocation has also made changes. In the 5 year period 1986 – 90 E.C the trend was a decline of federal government share and increase of regions share. The average ratio for the period was 62.18:37.82. In the two years of the war period the ratio became 68.74:31.26. While federal government expenditure increased by 57.45% regional governments expenditure increased by only 17.68%, hence the increased dominance of federal government in the national budget.

3.5. Measures of Decentralization and Imbalance

In this subsection, some commonly used measures of fiscal decentralization and imbalance are used in order to show at what level the different assignments (expenditure and revenue) are found. The figures also help to compare the situation with other countries. While there are some aspects of decentralization that can not be subjected to quantification, financial flows can be estimated by quantitative measurement and can give us some hint about how much responsibilities are shared by the different levels of government or how much autonomy or dependency exists among them.

Among the several statistical ratios used for the analysis of decentralization, the following are mentioned: (UNDP 1993, Bulti 1994).

- a) the expenditure decentralization ratio, which is the percentage of total government expenditure spent by local government;
- b) the modified expenditure decentralization ratio, which takes into account the fact that some government expenditure can not be decentralized (specifically defense and debt servicing) and therefore involves subtracting such expenditures to give a modified expenditure decentralization ratio that measures the responsibilities that can in practice be decentralized;
- c) the revenue decentralization ratio, which is the percentage of local government revenue in total government revenue; it assesses the significance of local taxation;

d) the financial autonomy ratio, which is the percentage of locally raised revenue in total local expenditure, gives an indication of the local governments independence from central government funding.

There are other indicators of decentralization, one of which is the control over social spending. It can be shown for example by calculating how much of the total budget is devoted to social expenditure or how much of the social expenditure budget is handled by lower levels of government. "It is generally presumed that when local governments are responsible for education or health they use resources more efficiently and effectively, distribute the benefits more equitably and generally respond more sensitively than the central governments to the needs of the local community" (UNDP 1993:70).

Vertical imbalance which is the mismatch between expenditure needs and revenue sources, can give us some hint on the weakness or strength of the regional or local governments ability to fulfill their assigned tasks. Many formulas have been designed for measuring this imbalance, some of them incorporating many variables. In this study a simpler and common method which measures the degree of control exercised by the federal government over lower levels of government is used. The formula is:

$$\text{Vertical imbalance coefficient } V.I = 1 - \frac{[(R^S/R)]}{[(E^S/E)]}$$

where R^S = state revenues

R = aggregate revenues (federal plus states)

E^S = state expenditures

E = total expenditures (federal plus states)

“By this measure a coefficient of zero (low vertical imbalance) indicates that state governments are pretty much autonomous in their decision-making as their revenue and expenditure shares (in the aggregate) are the same. A coefficient close to one indicates absolute federal control over states, as the states’ revenue share (in the aggregate) is extremely small in comparison to the expenditure share” (World Bank 1999).

From table 3.6 we see that there was a vertical imbalance of 0.54 on average over the period 1986 to 1990 E.C. The expenditure decentralization ratio was 37.6. If we modify it by reducing defense and public debt, the ratio raises to 49.4; the federal and regional governments share nearly equal proportion of the expenditure budget that can be decentralized. For revenue decentralization the ratio is 17.2, and for financial autonomy 31.3 in average. While the expenditure decentralization ratio is high comparing with many countries, (refer table 3.7) the low revenue ratio has affected the financial autonomy of the regions. Regarding the social expenditures, there is a good emphasis by the regions; 43% of their expenditure is devoted to the social sectors. Out of the total national expenditure on social sectors, 73% is handled by the regions.

While they are important indicators of some aspect of inter governmental relations and assignments, this calculations may not tell us other aspects of the situation. For example, a small V.I figure indicates the sub-national governments have more autonomy; they are less dependent on the center. But a small figure could also be achieved in a situation where there is little decentralization in both revenue and expenditure. From table 3.7 we see that Mexico's

sub-national revenue and expenditure share is less than that of Ethiopia, 12.4 and 19.5 as opposed to 19.8 and 41.2. But Mexico's V.I. is lower than Ethiopia's, 0.36 vs. 0.52. This means the sub-national governments in Mexico are better able to fulfil their expenditure responsibilities than our sub-national governments. In Ethiopia, the decentralization in expenditure is not accompanied by a comparable decentralization in revenue. Hence vertical imbalance only shows the discrepancy between expenditure responsibilities and revenue sources, and not how much power is devolved.

Table 3.6 Some measures of decentralization and imbalance

	Measure	1986	1987	1988	1989	1990	Average
a	Expenditure decentralization ratio	33.87	36.21	40.15	39.65	37.98	37.57
b	Modified decentralization ratio	44.57	47.24	50.96	50.13	53.88	49.37
c	Revenue decentralization ratio	17.66	15.52	16.21	17.17	18.96	17.19
d	Financial autonomy ratio	28.51	27.61	29.74	32.89	35.43	31.33
e	Regional social allocation ratio	51.85	42.99	40.41	43.11	40.8	43
f	Total national social allocation ratio	25.65	21.54	22.56	22.52	21.71	23
g	Social expenditure decentralization ratio	69.14	72.28	71.89	75.9	71.34	72
h	Vertical imbalance	0.4786	0.5714	0.5963	0.567	0.5008	0.544767

Note. The calculations are based on expenditure & revenue data of MOF(a)

Table 3.7 Some Comparisons: Vertical Imbalance in Selected Countries

Country	Year	Sub-national Revenue share (%)	Sub-national Expenditure share (%)	Vertical Imbalance
Argentina	1995	40.30	41.50	.03
Australia	1996	28.20	37.30	.24
Bolivia	1996	6.8	19.80	.66
Brazil	1993	24.30	27.40	.11
Canada	1995	45.30	49.40	.08
China	1996	51.00	54.70	.07
Ethiopia	1996	19.80	41.20	.52
Germany	1996	24.50	28.90	.15
India	1995	28.00	39.10	.28
Malaysia	1996	9.70	15.50	.37
Mexico	1994	12.40	19.50	.36
South Africa	1995	3.80	30.90	.88
USA	1995	39.90	32.80	-.22

Source: - World Bank, 1999

Table 3.8 Regional Imbalance

Regions	1986	1987	1988	1989	1990	Average
Tigray	18.65	19.65	28.89	26.63	25.34	24.27
Afar	8.79	13.25	9.71	22.05	8.78	11.45
Amahra	18.76	17.45	18.58	19.11	22.65	19.42
Oromiya	29.19	27.44	29.65	30.06	31.11	29.65
Somale	60.03	42.53	24.45	22.98	13.87	26.83
Benshangul- Gumz	6.49	7.23	5.84	6.78	5.67	6.27
SNNP	19.26	18.70	21.51	23.15	27.54	22.31
Gambella	8.70	10.87	5.85	8.75	7.51	8.03
Harari	33.71	15.78	18.91	19.64	10.94	16.79
Addis Ababa	63.57	67.62	75.8	99.39	94.63	83.47
Dire Dawa	94.13	69.03	50.84	53.43	31.54	54.60
Total regions' revenue Total regions' expenditure	28.51	27.61	29.74	32.89	35.43	31.33
Growth rate of financial autonomy ratio	-	-3.16	7.73	10.59	7.73	5.72

Computed from revenue and expenditure data of MOF(α)

Regional fiscal imbalance, also called horizontal imbalance, is the inconsistency between revenue raising ability and fiscal needs of governments at the same level in a federation. It can be computed simply as a ratio of own revenues to total expenditures. The different regions have different capacity of covering their expenditures from own revenues. Regions with smaller ratio have lower capacity. The concept is similar to the financial autonomy ratio. Table 3.8 gives us the ratios for the period 1986-90. The average for the period is 31.33. Only two regions, i.e. Addis Ababa and Dire Dawa have ratios above the regions' average. The rest have ratios far below it, with seven of them not even able to cover a quarter of their expenditure by own

revenue. But there is improvement in most of the regions . When we compare the yearly ratios there has been on average a 5.72% increase in the period. But with in this general trend, decline and fluctuations were observed in some regions.

3.6 Some Issues and Problems in Inter-governmental Fiscal Relations

3.6.1 Developments in the Grant System

The objectives and the legal basis of the grant system in Ethiopia have been discussed in section 3.2.5 of this chapter. As the data indicate, the regions dominant source of finance is the grant from the central government. Because of its relative importance the design of the grant system should be given emphasis. In this section we will see the developments and problems in the grant formula.

“Federal transfers to regions first began in 1985 E.C. when grants were adhoc in nature, based on approved projects of the regions and assessment of required assistance for the individual projects. Formula determined grants date back only to 1987 E.C., when a fairly complicated formula was used to allocate grants among the regions. Grants for capital expenditures of the regions were determined on the basis of five indicators weighted differently: population (30%); I-distance, representing a region's relative developments based on eight factors against a hypothetical region (25%), tax effort (20%); capital expenditure in the previous year (15%), and area (10%). Recurrent expenditure grants were determined on the basis of the number of administrative units at the sub-national levels, the structure of bureaus and offices, and own revenues of the region.” (World Bank1999). The eight elements in the I distance indicator were length of rural roads,

share of urban population in total population, per capita-industrial production, per capita crop food production, density of telephone lines, numbers of post offices, hospital beds in relation to total population and pupils in elementary schools in relation to total population.

As we can see the early attempts were either arbitrary allocations without formula, or when a formula was designed it was a very complicated one. Given the newness of the experience and lack of data, such attempt could not be expected to achieve the desired result. A revised formula consisting of population, I-distance and budgeted state revenue each having equal weight (33.3%) was introduced in 1988 EC, and it was used to determine the total expenditure for the regions. No separate method was used for recurrent and capital. In 1989 there was change in the formula again. The eight elements I-distance indicator was substituted with a five factor development index consisting of number of health clinics, number of primary schools, number of telephone lines, electricity and road. But the previous weight was maintained, i.e. population, budget state revenue and I-distance index had one third each.

In the 1990 EC revision, population, development index and revenue were given 60%, 25% and 15% each respectively. The development index consisted educational level, health sector indicator, road density, electricity consumption, water supply and telephone coverage. The education and health indicators are made up of various sub components. This formula has been in use up to this year. The formula reads as follows: _

$$G_i = \frac{(0.6 \times \text{pop}_i) + (0.25 \times \text{Dev}_i) + (0.15 \times \text{Rev}_i)}{\sum [(0.6 \times \text{Pop}_i) + (0.25 \times \text{Dev}_i) + (0.15 \times \text{Rev}_i)]} \times 100$$

Where G_i = Percentage share of the grant entitlement for region i,
 Pop_i = Index of population indicator,
 Dev_i = Index of development level indicator,
 Rev_i = Index of revenue raising effort indicator,
 $\sum_{i=1}^n$ = Number of regional governments from i to n

Regarding the different formulas used so far, various comments have been forwarded by many researchers as well as the regional governments. Among the shortcomings:

- The 1987 and 1988 formula were complicated because they constituted many elements, some of which, especially those in I-distance indicator were heterogeneous and unrelated;
- The weight given for population was low in the 1987,1988 and 1989 formulas;
- Revenue effort was not given sufficient weight; it should be an incentive;
- In all formula some indicators which are less important are included while others which are more important than these are excluded; examples include poverty level, variations in cost due to distance and other factors, peculiar problems of some localities, etc are some which could have been considered;
- Because of the shortcomings/deficiencies in the process of calculation or available data, modifications were made on the amount given by the formula; some adjustments were often made to consider other factors;
- The grant system only relied on block grant; conditional grants were not used.

While improving formulas when the need arises is common on all federal countries, it should be known that there is no formula which is problem free; no perfect formula. As level of development, magnitude of their problem and emphasis of their policy differ, countries use

different methods to design a formula for solving fiscal imbalance. Because the level of development, problems, emphasis of economies differ, their design of formula for solving fiscal imbalance varies. Many advanced countries who have capacity in providing detailed data of every aspect of the population and the economy are able to produce better formulas. Given Ethiopia's limited experience, poor data background and constraints of resources, the attempts made so far to improve the formula by trying to simplify it while also trying to include relevant elements, can only be taken as part of an ongoing process towards a better formula.

In April 2000 the House of Federation approved a new formula. It is a modification on weight and composition of the elements of the formula used up to now. The formula now contains four variables. Population and level of poverty are given 55% and 10% each respectively. Inverse result of level of development/expenditure needs is given 20%. The items included here are education, health, safe drinking water coverage, per capita rural and gravel road density, recurrent budget implication (where share of number of Weredas and area is introduced). For educational and health indicators more elements are introduced to express them. The fourth variable, revenue raising effort and output performance is given 15%. In this variable, own revenue to income ratio and health and education sectors output performance are considered.

The Formula reads as follows:

$$GI = \left[\frac{\sum_{i=1}^n \text{Pop}_i \times w_1}{\sum_{i=1}^n \text{Pop}_i} + \frac{\sum_{i=1}^n \text{Pov}_i \times w_2}{\sum_{i=1}^n \text{Pov}_i} + \frac{\sum_{i=1}^n \text{Dev}_i \times w_3}{\sum_{i=1}^n \text{Dev}_i} + \frac{\sum_{i=1}^n \text{RevPer}_i \times w_4}{\sum_{i=1}^n \text{Rev per}_i} \right] \times 100$$

Where G_i =	Percentage share for grant entitlement for region i.
Pop_i =	Index of population of region i
Pov_i =	index of poverty level indicator of region i
Dev_i =	Index of level of development indicator of region i
$Rev\ per_i$ =	Index of revenue raising effort and output performance indicator of region i
$W_1\ W_2\ W_3\ W_4$ =	Weights assigned to population, poverty, level of development and revenue raising effort and output performance indicators respectively.

In the new formula, the major addition is poverty. Though it could also be indirectly addressed in the previous formulas by the development index, because the components of the development index tell us about how much a particular region is backward, the actual problems outside these indicators can not be revealed. The acute problems in many areas like recurrent drought, large population below the poverty line, unemployment in many urban centers can only be shown by taking it as a variable by itself. It can help in improving the conditions of those poor areas. The development component has additional variables. Especially education and health contain variables that incorporate cost factor-which is a good measure given that there are significant differences, for example the cost of building schools, clinics etc. due to distance and other factors. It can help those areas that were disadvantaged as a result of high costs. In the last variable output performance is added to revenue raising effort. The aim is to reward good performance whether in revenue collecting or other activities. From among the different activities undertaken by regional governments, social expenditure in education and health are dominant, so those who achieve good performance in these fields will be rewarded.

The problems that may arise in this revision are yet to be seen. But at least some of the demands or requests of some regions over the previous formula have been addressed. As stated above,

formulas are not static; they could change after critically examining situations. The emphasis we give to day may change after some time resulting for the need to change the formula. While this is the reality, the process of changing should not be one that frequently happens because sufficient studies have not been made or major issues elements have not been incorporated.

Grant formula are not the only solution for fiscal imbalance. Unconditional grants calculated by some sort of formula can provide regions fund that they can use in whatever ways they prefer. The danger is that they may not be utilized in the most preferred or efficient manner when we see it from the perspective of national interest. This calls for need of other types of grants. Conditional grants from Federal government can influence the activities of the regional governments. For example a grant to promote education, besides improving the educational situation nationwide, effeciently allocates additional educational budget for the region.

Looking at table 3.9 The data for the past few years (1986 to 1990 EC) show us that, the Federal Government allocated about 27.2% of the total national expenditure as subsidy to the regions. On average it was 2596.62 million birr per year. and it had a growth rate of about 12.5% in the given period. As central subsidies and regions' own revenue amount to 71.88 % and 31.33% of regions' expenditure respectively, there is an unspent fund of about 115.87 million birr which is equivalent to 3.2% of total expenditure. The share of each region's subsidy differs because it is distributed according to the formula and other additional criterias. The subsidy covers a very high share of the regions' expenditure, and for some regions it is more than their expenditure.

Calculating in per capita terms clearly reveals the role of subsidy in the regions. While we have 46.9 birr as national average, it ranges from 23.68 to 357.56 birr. The highest goes to Gambella, Harari and Benshangul-Gumuz, followed by Afar and Tigray. Addis Ababa gets the lowest. The other regions are in between. We can say the highest beneficiaries of the grant system are most of the 'backward' regions or those small regions that cannot use economies of scale.

Even though there were changes in the subsidy formula, the amount each region received every year was adjusted so that it did not get an amount less than its past years expenditure budget. Hence the change over the years were very minimal. But because of the capacity constraints, regions were not utilizing their budget to the full. The utilization ratio, though improving over the year in average was low in some regions, especially on capital budget. This raises various questions about the effectiveness of the grant system.

There is some perception in the grant issue that needs to be dealt seriously by all levels of governments. The transfer that each region gets is a resource of the nation and some contribution from foreign sources. While there is scarcity every where, federal government takes responsibility to shift resources to mitigate acute problems in some areas. It is done mainly for equity purposes. Areas that have been disadvantaged in the past are being helped to come out of the depressed situation. But if it is not used properly, if it is misused or utilized in inefficient way, some resources that could have been more productively used somewhere is wasted. Besides if some regions are given an amount that they can not objectively utilize this may also create conditions that could make them less pressurized to tax their people to raise revenue. This is a

major problem: dependency will take deep roots and the nation will not be able to raise the needed resources for development.

The Federal government has established laws, directives, etc. about the procedures and usage of government grants. Public bodies at federal and regional level are expected to apply it properly. But public resource is not the concern of public officials or government workers alone. It concerns the population of the country at large.

Grants can not be taken as private rights. In situation where capacities do not allow the may not be provided. And when available it can be with drawn if it is misused. According to the reports in the media, there was a large wastage of public money in some of the regions especially during the transition period. It is possible that such situation can raise questions from other regions that perform better but are less subsidized or have relatively more resources that the central government collects from their region. They may resist to finance the inefficient allocation.

Table 3.9 Budget Transfers to Regions (1986 - 92) (in million birr)

Regions	1986	1987	1988	1989	1990	1991	1992	Average of 1986-90	Average % share of total	5 Years average Per capita subsidy
Tigray	206.3	261.1	269.7	286.1	266.0	229.4	182.3	257.84	9.93	79.281
Afar	96.0	75.5	113.8	141.5	172.2	209.8	176.0	119.8	4.61	109.654
Amhara	391.8	563.1	632.2	725.1	722.4	677.6	536.5	606.92	23.37	42.416
Oromiya	628.9	644.8	771.2	914.2	836.6	879.2	612.6	759.14	29.24	39.146
Somali	60.2	63.9	111.1	153.0	203.9	213.1	234.4	118.42	4.56	35.764
Benshangul - Gumz	64.2	33.8	68.8	111.3	162.1	143.0	120.4	88.04	3.39	183.759
SNNP	309.1	470.3	513.8	536.3	562.7	563.7	440.0	478.44	18.41	44.374
Gambella	54.0	56.4	63.8	94.1	65.5	130.6	97.6	66.76	2.57	357.565
Harari	16.2	30.6	34.2	37.5	76.6	41.0	58.6	39.02	1.5	281.679
Addis Ababa	122.3	90.3	17.1	18.5	2.2	1.0	0.0	50.08	1.93	23.685
Dire Dawa	1.1	3.0	9.7	15.2	31.9	33.2	16.6	12.18	0.47	44.591
Total/Average	1950.1	2292.7	2605.3	3032.9	3102.1	3121.6	2475.0	2596.62		46.903

Note:- 1986 - 1989 actual, 1990 - 1991 preliminary actual and 1992 budget.
Calculated from data of World Bank 2000.

Per capita calculated by using population figures of CSA

Table 3-10

Joint Revenues (Collected by FIRA in 1989 & 1990 E.C.)

1989 E.C Regions	Direct Tax (Total)	personal income tax	Rental income tax	Business Profite tax	Tax on dividend & chance winning	Indirect taxes (Total)	excise tax	sales tax	Service tax	stamp sales and Duties	Miscellaneous	Total
Tigray						0.01		0.01				0.01
Afar												
Amhara	0.16			0.16		0.24		0.09	0.11	0.04		0.40
Oromiya	0.71			0.71		3.70		3.62	0.07	0.01		4.41
Somale												
Benshang ul Gumz SNNP	0.04			0.04		0.01					0.01	0.05
Gambela												
Harari						0.04		0.04				0.04
Addis Ababa	109.18		0.12	108.79	0.27	188.95	75.27	60.63	29.33	21.65	2.07	298.13
Dire Dawa	3.36			3.36		6.98	4.28	2.35	0.02	0.17	0.16	10.34
Total	113.45		0.12	113.06	0.27	199.98	79.55	66.74	29.53	21.86	2.25	313.38
1990 E.C Regions	Direct Tax: (Total)	personal income tax	Rental income tax	Business Profile tax	Tax on dividend & chance winning	Indirect taxes (Total)	excise tax	sales tax	Service tax	stamp sales & duties	Miscellaneous	Total
Tigray	1.65			1.65		0.03		0.02			0.01	1.68
Afar												
Amhara	0.27			0.27		0.27		0.02	0.03	0.22		0.54
Oromiya	2.60			2.60		3.76		3.51	0.07	0.15	0.03	6.36
Somale												
Benshang ul Gumz SNNP	0.05			0.05		0.02					0.02	0.07
Gambela												
Harari						0.08		0.08				0.08
Addis Ababa	132.17		0.06	131.91	0.20	197.47	71.37	65.99	41.67	11.72	6.72	329.64
Dire Dawa	0.97			0.97		7.16	5.48	1.50	0.01		0.17	8.13
Total	137.71		0.06	137.45	0.20	208.79	76.85	71.12	41.78	12.10	6.94	346.50

3.6.2. Joint Revenues

It is the least important type of revenue from among the three categories of the revenue sharing proclamation. The Federal Internal Revenue Authority has been collecting this revenue from Addis Ababa and its few branches in Nazreth, Dire Dawa, Behar Dar and Awasa. These centers are places where a lot of business activity is performed and most of the government enterprises are located. Tax payers from other places have to get to one of these towns in order to pay.

Regarding the amount collected, there is difficulty in organizing the data on regional basis since the branches serve the different regions and zones in their vicinity. But Table 3.10, compiled for 1989 and 1990 EC by FIRA, can show us the distribution and magnitude. The majority of what we have as joint revenue currently is collected in Addis Ababa. Out of the total collected i.e. 313.38 million and 346.50 million for 1989 and 1990 respectively, 95.13% of it i.e. 298.13 million and 329.64 million (for both years) was collected in Addis Ababa. Next to Addis, Dire Dawa collected 2.79% and Oromiya 1.63%. Four regions (Afar, somale, Benshangul and Gambella), did not have any joint revenue reported. The other four collected less than 0.5% of the total. The table also tells us that the dominant source of tax for this category was business profit tax and the different types of indirect taxes (excise, sales and others to a lesser degree). Since the revenue collected nation wide in 1989 and 1990 was 7877.36 million and 8413.23 million Birr respectively, the ratio of joint revenue out of the total revenue was 3.98% and 4.12% respectively.

The activity towards what to do with the process of sharing joint revenue started late. Though Proclamation 33/92 states that a committee would be nominated, actually the task seems to have

been performed (the study part) by MOF. The research team in the parliament also has participated in the discussions towards the formulation. Currently the proposed sharing arrangements for the different taxes is as follows: For direct taxes the ratio is 50:50; for indirect taxes the ratio is 70:30, in favour of federal government; and for jointly established enterprises (between federal and regional governments) the share depends on the share of capital contributed. The sharing arrangement for royalties between federal and regional governments is 60:40.

According to the information from the regions, there was no joint revenue given to them. The finance bureaus didn't know what was being done about it. They assume that what was collected becomes part of the Federal revenue that was divided to all regions as subsidy. The federal government has paid little attention to it, possibly because this category does not have significant contribution to most regions at this period.

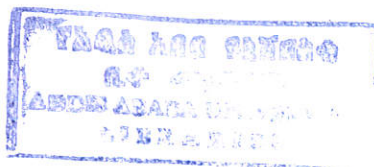
The items listed in joint revenue are few in number and not all of them exist in all regions. There are no jointly established enterprises; Private corporate enterprises exist in only few places so far but have the potential to grow. The large mining operations are in few places. Because of all these factors the criteria for sharing should be studied well. Besides the efficiency aspect that could result in those that gain from the taxes, the equity aspect should be considered. It could result in unbalanced addition to some areas. Equally also the allocation ratio should consider to compensate the regions where the exploitation takes place. According to a World Bank study, "Although received wisdom points to a federal levy on mineral resources, an argument could be made that exploitation of mineral resources may impose a substantial cost on the regional

government under the jurisdiction on which it takes place; it should therefore be compensated for this cost” (World Bank 1999).

3.6.3. The Problem around Foreign Aid and Loan

Both foreign aid and loan have contribution in providing the locally unavailable scarce resources. But they also have some problems. Foreign assistance may increase dependence and loan may create heavy burden. Though the magnitude varied, Ethiopia has depended heavily on foreign finance in the last three decades.

Looking at Table 3.11, when we compare the two periods, (1985/86 to 90/91 and 1991/92 to 92/98) there was an improvement in the country’s situation in financing its capital expenditures. Central Treasury’s share of financing capital expenditure increased from 50.96% in the Derg period to 68.8% in the current government. The role of external finances showed relative decline; foreign assistance from 11.52% to 7.26% and foreign loan from 37.53% to 23.94% share of financing capital expenditures.



Despite the reduction in the percentage share of the role of foreign finance, the actual amount the country got from foreign sources has increased in the current government. In the two periods stated above, foreign finance was 7.93% and 10.18% of GDP respectively. When we see the assistance and the loan separately, the assistance amounted 4.92% and 4.77% of GDP in the two periods and the loan amounted 3.01% and 5.41% of GDP respectively. But the terms are now better than in the previous governments. A study by MEDaC shows that from 1991/92 onwards on average the rate of interest was 1.14% while the grace and payment period were 9 and 38 years respectively. Comparing with the Derg’s last seven years, the rate has reduced by almost

75% and the grace and payment periods were extended by 4 and 16 years respectively (MEDaC 2000b).

Most foreign aid and loan is used for development (capital expenditure) purposes. Such activities are handled by federal and regional governments through out the country. As foreign relation is the domain of the center, the regions get such facility through the federal government organs especially MEDaC. As mentioned, there was increase in the amount of funds from foreign sources except in the last two years where they have reduced as a result of the on going Ethio-Eritrean war. But due to differences in interest that occur between the donors, recipients and facilitators, aid and loan finance have difficult procedures. Laborious paper work, sophisticated technical details that requires expert professionals, the different evaluation processes to get approval, etc. often cause for many of these sources of finance not to materialize. And those that are approved after all these process are usually delayed in the disbursement of the fund. All these discourage the regions.

The budgeting process itself is a factor that discourages the demand for foreign finance. Regional expenditure is covered by own revenue, central government subsidy from the treasury, external financing (aid and loan) and other minor sources such as internal borrowing. In the current Ethiopian budgeting procedures all money that is to be used for public outlays, including the foreign source, is considered as part of the consolidated fund administered by MOF. When the general government budget is prepared all the available information about revenue from internal and foreign sources are compiled. Then the federal government divides the resources between federal expenditures and regional subsidies. When the regional subsidy is disbursed, the declared

amount and what each region receives differ because of the procedures followed by MOF. The regions own revenue is subtracted from the total budget figure because it is the component that will be collected by the regions themselves. Then the aid and loan component of the budget is subtracted because it has yet to come from those sources. The remaining figure is what the central treasury of MOF actually provides.

“The budget offset is the practice in Ethiopia where the Federal Government reduces the budget accruing to the regions by the full amount of expected external loan and grants that have been committed by donors towards projects in the respective regions”(World Bank 1998). The rationale given for this procedure is for macroeconomic expenditure control (i.e. to maintain stability), and intergovernmental equity (to help those regions that are less favored by donors.) Despite the positive intentions, this procedure has created some problems. Regions dislike these foreign sources of finance because it would be reduced from the subsidy at first and it may not come in full later. There is a tendency by the regions to want donor aid after the budget has been declared. Some regions may also approach the donors to either forward the fund later after the budget declaration or reduce the figure they tell to the Federal Government. This perverse situation has its repercussions. If regions do not actively work to find aid and loan, the total national resource will reduce, hence reducing also their subsidy.

One example that could show us the situation is that of Irish Government Aid. They have more projects in Sidama and Gurage zones than other areas of Southern Ethiopia. Last year when the region's budget was on the process of allocation to the zones, the Sidama and Gurage zones allocation from the central treasury was very small because it was offset by the projects of Irish

Government aid. The zones were alarmed and had to come and complain to MEDaC because they fear that some parts of the foreign fund may not materialize.

The amount of aid and loan promised or scheduled may not come as desired due to different factors. To mention some: the strength of relation between the countries, change of political factors or situations in both countries (internal conditions), the capacity of the different government organs to master the procedures and other technicalities, etc. Whatever the causes, the experience on the side of Ethiopian Government organs which handle the foreign finance is, not to include every aid or loan that was promised, but only those that could be very dependable. Projects that have passed through a lot of discussion and paper work are the ones to be included. Generally they may include a certain percent of the total promised fund.

To minimize the disincentive created by the offset procedure MEDaC is trying to modify it. Currently they are taking only 30% of assistance and 70% of loan in the budget. They believe that out of the total estimated assistance and loan the ex post disbursements amount to such percentages. This adjustment also helps to maintain the grant formula share of each regional government in balance. With this modification, it is expected that regions will reduce the perverse behind the scene dealings with donors or withholding of aid information. The government is also trying to convince donors to come through the channel that is most preferred for the country, i.e. through MOF, instead of independently acting with different sectors or local recipients. This can enable the government to fulfil its macro stability function and equity purposes and also reduce unnecessary influence of donors by concentrating in few selected places.

Table 3.11 Financing of Capital Expenditure (1985/86 – 1997/98) in Million Birr

Source	1985/86	86/87	87/88	88/89	89/90	90/91	91/92	92/93	93/94	94/95	95/96	96/97	97/98
Central Treasury	771.6	767.5	745.5	940.9	707.0	594.1	465.1	922.4	1919.3	2249.3	2693.0	268.8	2733.6
Share %	52.4	55.5	52.0	48.5	49.1	48.9	48.9	51.7	71.2	71.3	75.6	6.0	64.0
External Assistance	163.4	121.9	154.7	249.9	180.0	153.3	135.9	277.3	117.8	185.1	142.8	50.0	495.0
Share %	11.1	8.8	10.8	12.9	12.5	12.6	14.3	15.5	4.4	5.9	4.0	1.5	11.6
External Loans	536.8	493.7	536.5	748.5	552.7	466.6	350.8	585.2	657.2	722.1	726.8	81.1	1036.5
Share %	36.5	35.7	37.3	38.6	38.4	38.4	36.9	32.8	24.4	22.9	20.4	0.5	24.3
Total	1471.8	1383.1	1438.7	1939.6	1440.1	1214.0	951.8	1784.9	2694.3	3156.5	3562.6	209.9	4265.1
Change		-6.0	4.0	34.6	-25.8	-15.7	-21.6	87.5	51.0	17.2	12.9	0.7	-0.8

Source: MEDaC 1999a

Table 3.12 The Budget subsidy and the Budget offset, 1977/98 (in million Birr)

Region	Total Budget of region 1	Own revenue 2	Budget Subsidy ¹ 3=1-2	External loans 4	External Assistance 5	Budget Offset 6=4+5	Subsidy from Central Treasury ² 7=3-6
Tigray	379.80	86.6	293.2	4.7	32.8	37.5	255.6
Afar	249.7	12.2	237.5	3.8	7.8	11.7	225.8
Amhara	945.3	177.5	767.8	8.3	34.4	42.8	725.0
Oromiya	1344.1	434.90	909.3	8.6	74.5	83.1	826.2
Somale	375.3	48.6	326.8	34.2	10.3	44.5	282.2
Benshangul gumz	180.1	8.0	172.1	4.5	6.5	11.0	161.1
SNNP	788.4	145.6	642.8	21.7	67.0	88.7	554.1
Gambella	138.6	6.7	132.1	3.2	2.9	6.0	126.1
Harari	88.4	8.0	80.4	1.2	2.2	3.3	77.0
Addis Ababa	719.2	664.4	54.8	40.2	14.6	54.8	0.0
Dire Dawa	53.5	18.0	35.5	1.1	2.4	3.5	32.0
Total	5262.7	1610.5	3652.2	131.6	255.4	387.0	3265.2

Source: World Bank (1998).

¹ The budget subsidy shown here is the amount "voted" in the Federal 1990 Fiscal year proclamation.² The amount shown here is the amount that the regional state will receive from the ministry of Finance's Central Treasury.

Table 3.13 Some Indicators of Regional Diversities

Regions	Population (000)	Area Sq.km. (000)	Revenue (million)	% of Regions' Revenue	Expenditure (million)	% of Regions' Expenditure	Subsidy (million)	% share of total subsidy	Per-capita subsidy	Financial autonomy ratio
Tigray	3,593	50.10	77.86	6.88	320.80	8.88	257.84	9.93	79.281	24.27
Afar	1,188	88.80	11.322	1.0	98.918	2.74	119.80	4.61	109.654	11.45
Amhara	15,850	159.20	138.296	12.22	712.004	19.71	606.92	23.37	42.416	19.42
Oromia	21,694	353.00	311.39	27.05	1050.298	29.07	759.14	29.24	39.146	29.65
Somale	3,602	248.50	40.312	3.56	150.246	4.16	118.42	4.56	35.764	26.85
Benshangul- Gumz	523	49.30	5.912	0.52	94.274	2.61	88.04	3.39	183.759	6.27
SNNP	12,132	112.30	128.528	11.36	576.162	15.95	478.44	18.41	44.374	22.71
Gambella	206	25.80	5.704	0.5	71.048	1.97	66.76	2.57	357.565	8.03
Harari	154	0.30	7.094	0.63	42.238	1.17	39.02	1.5	281.679	16.79
Addis Ababa	2,424	0.4	388.20	34.3	465.06	12.87	50.08	1.93	23.685	83.47
Dire Dawa	306	1.20	17.20	1.52	31.5	0.87	12.18	0.47	44.591	54.60
Regions Total/ Average	61,612		1131.814		3612.56		2596.62		46.903	31.33

Source: Population and area from CSA; others from MOF(a)

3.6.4 Regional Diversities

Ethiopia's federal structure is based mainly on Ethno-linguistic criteria. Because of various historical circumstances, the current regions show considerable differences in many aspects. Besides the composition of the nationalities, religion and cultural diversities of the people with in a region, there are also major issues like size of population, area size, natural resource endowment, economic and social infrastructure, level of urbanization, level of development, natural problems (topography, drought, etc.) etc. All these and other factors have their influence on today's performance of the regions.

Brosio and Gupta (1997) have put their observation on some of the sources for regional differences as follows:

“...The States vary widely in population, land area, and economic circumstances. For example, Oromiya is estimated to have a population of 17.1 million and a land area of 0.32 million square kilometer, while both Gambela and Harari have population of only 0.1 million each and land areas of 27,300 square kilometers, and 3000 square kilometers respectively. Severe economic disparities exist between war and drought affected states. This implies that expenditure needs also vary widely, as do revenue raising and hence fiscal capacities.”

From the currently recognized 9 regions and 2 administrative city councils, 11 'regions' in total, some of the following observations can be made:

- 3 are actually urban centers with some rural population surrounding them; and all these are within the large state of Oromiya. In fact, the Oromiya State touches all regions except Tigray in the extreme north.
- 3 have population of over 10 million, while 4 regions have a population of under 1 million, (currently Oromiya has greater than 20 million while Harari has less than 0.2 million people.
- While most regions are composed of dominantly by only few nationalities, the SNNP region is one with over 45 nationalities.

Besides the above indicators of disparity the regions differ in natural resources (forestry, minerals, livestock, arable land, water resources, etc.) and in topography (some are dominantly high land, others dominantly of desert climate). There are also differences in economic and social infrastructure such as roads, schools, hospitals, etc. caused partly by the geographic situation of the country and the past unbalanced growth among the regions. Government and private economic establishments (like factories etc.) are concentrated around Addis Ababa and very few other places.

In the past, since the major economic and social activities were in few highland areas of the country, the periphery was not beneficiary of these developments. As a result the current federal arrangement may have exposed some areas to high discrepancy in statistics. In those days, there disadvantaged areas were part of their nearby highland provinces, so that whatever data statistics was taken it was total of that province. It doesn't tell the differences within, which was and is still marked.

There are other factors at present which may also work in widening the gap if maximum efforts are not made to improve them. Given the poor economy, a large part of the national budget is funded by foreign finance in aid and loan from bilateral and multilateral donors. In addition there are a number of NGOs, local or foreign that work in the country. When we see the activities of these donors and NGOs, most of them concentrate in few places they favour, probably to strengthen their influence. While there is concentration and duplication of these activities in some places, in others, especially in the periphery we see only very few of them.

Local Development Associations established in some regions are actively trying to bring changes in their localities by building schools, clinics, credit schemes that help the poor and other community based activities. But in other regions the intellectual and business community has not created organized capacity to be arms of development. Private sector investment has not expanded in these backward regions because of the lack of infrastructure and other inconveniences in these places. The difference in private sector participation among regions is very wide. To change the situation, the regions should endeavor to attract private investors by providing incentives based on their local endowments. The federal government also has a greater role of helping the disadvantaged.

When we see the performance of the regions now, whatever supporting policies the government may follow, it would not be easy to narrow the discrepancy. Currently there are the so-called relatively 'back ward regions' consisting mainly the regions of the old periphery, Gambella, Benshangul-Gumuz, Afar and Somali. In many criteria, these regions are lower than most of the

other regions. As a result they are very dependent on the center – higher budget subsidy is allocated; supporting skilled staff is sent from the central ministries to these regions; different training programs give priority to these regions etc. The constraint in skilled manpower is the dominant problem in these regions. Many positions that demand capable professionals are handled by low quality manpower resulting in inefficiency. But from among these, the Somale Region has better financial autonomy ratio, though still lower than the all regions average. It nearly covers 27.% of its expenditure by own revenue. In per capita terms it has been one of the least subsidized though due to the general backwardness of the region a lot of support and attention is given to it.

Another category of the regions can be that of Oromiya, Amhara SNNP, and Tigray. The first three have the largest population of the country and are also large in size. Four of them have achieved relatively better performance in many activities than the previously mentioned regions. But here also there is some difference in experience, capacity, and success of mobilizing the manpower of the region and other factors. Addis Ababa, Dire Dawa and Harari are the urban regions. Addis is in many performance criteria-revenue collection, budget utilization, manpower capacity, availability of different facilities, investment, etc highest among the regions. It is financing its recurrent expenditure from its own revenue. Harari is one of the regions which receives highest per capita subsidy; and its financial autonomy ratio is far below the all regions' average though better than Benshangul, Gambella and Afar. Dire Dawa is one of the better performing regions. It can cover almost 55% of its expenditure by its own revenue- a financial autonomy position only superseded by Addis Ababa.

The main emphasis of the various proclamations and the practice so far has been to narrow the existing gap in development among the regions. But differences exist not only among the regions but also with in localities of a particular region. The magnitude of the differences may vary depending on the particular situation of the region. Considering a particular case of Oromiya, some of its zones and weredas are located in the extreme southern and western parts of the country. There is very limited infrastructure in these areas. In contrast, the central parts of the region are areas, where most of the economic and social infrastructure of the country is established. So there is significant difference with in the region itself. This indicates that in order to solve the development gaps in the country, fiscal allocation issues should go beyond narrowing the gap between regions only. Efforts to improve the gap between localities should also be strengthened.

3.6.5 An Exercise in Tax Shift to Reduce Vertical Imbalance

Earlier we have seen that in principle the revenue and expenditure assignments in Ethiopia are generally not far from what economic theory suggests. But in practice, while central government's revenue is very high, the regions have fewer resources to fund their expenditure. There is a need to increase the revenue assignment for the regions. This can be done by shifting from the federal taxes to the regions some of the commonly taken regional taxes in other countries. As part of solving this problem, the study attempted to shift all federal indirect taxes to the regions to see its impact in reducing vertical imbalance. This is done for simplification only. It is also possible to shift only some of the indirect taxes or other federal taxes as well.

The exercise used revenue and expenditure data of the 5 years period from 1986 to 1990 E.C. The ratio of regions' revenue out of total revenue was in average about 17.2% only. When the domestic indirect tax of the center is given to the regions, the regions revenue share out of total revenue becomes 30.9%. The figure nearly doubles. Like wise when we take own revenue to expenditure ratio of the regions it was about 31.33% only. With the addition of the federal domestic indirect tax it improved to 56.34% in average. The regions were able to cover slightly more than half of their expenditure form their revenue and the rest from the center. By the measurement of vertical imbalance of $V.I = 1 - R/E$, where R is the ratio of regions' revenue out of total revenue, and E is the ratio of regions' expenditure out of total expenditure, we had V.I of 0.545 before adding the federal indirect tax to regions and 0.182 after the increase. The V.I. has reduced, telling us there is an improved situation.

Though the shift has improved the regions' position to some extent, there is still dependence. We can not go on shifting or giving other taxes to the regions. The center will be without resources to accomplish its tasks. The problem is not significantly one of assignment. Due to the poor economic situation, poverty, and lack of taxable capacity, the regions can not collect revenue to cover their expenditure. But at the same time we can not deny the importance of adjusting some of the assignment, because it has its own contribution of strengthening the regions' capacity and lowering their dependence.

But care should be taken in attempting such exercise or such reform. The center's role should not be undermined. It needs resources not only to the every day activities of the central ministries in Addis Ababa and the projects implemented by it across the nation, but also for the

role it has in improving the situation of the less able regions. Hence we should check carefully which type of tax or what amount of it should be taken to the regions, if after the rearrangement the center has sufficient funds to fulfil its tasks, if those taken from it don't create problems of inefficiency (some administrative problem). Also we should check the problem that could result in creating regional disparity; regions where there is not much economic activity may not benefit from this shift. So their problem can only be solved through other means. For these exercises to succeed, detailed research about the different taxes that the Federal Government collects in the regions should be known, and what amount each region may gain from this should be studied.

**Table 3.14 Exercise in Improving Vertical Imbalance
By Adding Federal Indirect Tax to Regions' Revenue**

No	Description	1986	1987	1988	1989	1990	Yearly Average
1	Regions' total own revenue	696.50	886.50	1129.29	1352.39	1595.39	1131.814
2	Federal indirect tax revenue	735.65	822.85	948.54	1059.16	951.50	903.54
3	Regions own + Federal indirect tax	1431.15	1709.35	2077.83	2411.55	2546.89	2035.35
4	Total National revenue	3938.80	5711.27	6966.09	7877.36	8413.23	6581.35
5	Regions' total expenditure	2439.75	3211.21	3797.04	4111.96	4502.84	3612.56
6	Total National Expenditure	7202.66	8868.11	9456.99	10369.96	11856.93	9550.89
7	$\frac{\text{Own Revenue} \times 100}{\text{Total Revenue}}$	17.683	15.521	16.21	17.168	18.962	17.197
8	$\frac{\text{Own Rev.} + \text{Fed. I.T} \times 100}{\text{Total Revenue}}$	36.337	29.929	29.827	30.163	30.272	30.926
9	$\frac{\text{Own Revenue} \times 100}{\text{Expenditure}}$	28.548	27.606	29.741	32.889	35.431	31.33
10	$\frac{\text{Own Rev.} + \text{Fed. I.T} \times 100}{\text{Expenditure}}$	58.659	53.231	54.722	58.647	56.562	56.34
11	V.I.(before adding)	0.478	0.571	0.596	0.567	0.501	0.545
12	V.I.(after adding)	0.073	0.174	0.257	0.228	0.203	0.182

Source: Calculated from data of MOF_(a)

CHAPTER 4 Experience of Some Regions

4.1. AFAR

4.1.1 Background and Administrative Structure

The Afar National Regional State is located in the northeastern part of the country. It has an area of 88.80 thousands square kilometers and a population of 1.16 million. Afar is a low land area with desert and semi-desert climate. Though endowed with various mineral resources and great potential for agriculture, the region is one of the least developed parts of the country. The majority of the people are pastorals. The economic and social infrastructure of the region is very poor. There are few urban centers, most of whose inhabitants are highlanders who came from Wello, Tigray and other places. In the previous regimes the Afar area was administered in the different surrounding provinces.

The Afar region is now divided into 5 zones, 29 weredas and 336 kebeles. The regional government that was established during the Transition period had a lot of difficulties due to the rivalries among the different political groups. The period was marked with widespread corruption, misuse of government funds and general instability. After the 1987 E.C. elections a relatively better situation was achieved. The leadership was changed. The central government also gave more attention to help the leadership to solve the difficulties that it has. The regional council, which is the highest legislative organ of the region, elects executive committee members from amongst it self to lead the daily activities of the regional government. The executive committee members are organized in 4 different committees: Security affairs, economic affairs,

social affairs, and administration and finance affairs. Under these committees are the different bureaus and offices established at region level.

As it is with in its power, the region has organized the bureaus considering its shortage of skilled manpower. There are various combinations some of which contain entities that are under three ministries at the federal level. The list of combined bureaus is as follows: trade, industry, tourism and transport bureau; education and culture bureau; labor & social affairs and disaster prevention and preparedness bureau; water, energy, mines and urban development bureau. Some of the bureaus are separately organized just like their ministries; finance, plan, justice, agriculture, health, civil service. There are also other offices separately organized; e.g. investment , women's affairs, audit, etc.

Some bureaus don't have branches at zones and weredas. Some others have different organizational structure at wereda level. There are no separate offices for the social and economic sector activities like agriculture, education, health etc. at wereda; instead they are established as one, and named 'social and economic services' office. This arrangement was devised for the so-called relatively 'back ward regions' for the purpose of integrated development. It seems it was suggested by the federal authorities considering the weak man power situation of these regions. But these wereda offices are not well coordinated.

Regarding the bureaus the study is mainly concerned with , finance, has offices at region, zone and wereda; though the capacity is very low at the lower levels. Audit is established at region level. The plan bureau is still at region level. Because it does not have zonal office, there are

problems in project implementation. Experts from the regions plan bureau have to go and follow the projects in the zones and weredas. In all the bureaus of the region there is inconvenient organizational structure. Even the existing narrow structure is not staffed by the needed professionals. There are a lot of vacancies.

The manpower capacity problem has also influenced the government budgeting process. The general procedures of budgeting and the delay of subsidy are similar with that of other regions. But in Afar, until recently the budget for the wereda was prepared at the regional offices. It was in the 1991 EC. budget preparation that the weredas themselves, with the assistance of professionals from the region, were able to prepare their budget. The main sources of need identification, capacity estimation, priority setting are the conferences where peoples representatives, elders from different clans and others concerned participate. This participatory approach helps in understanding what exactly the people want and in making them understand what their role can be. Ideas gathered at wereda are summarized at zone and the zone pass them to the region in similar manner.

As we have so far seen, and also will see by other examples in the other subsections, the manpower constraint is affecting every activity. Bureaus could not operate at lower administrative levels. Those which have been established are with inconvenient organizational structure and are under staffed. Though regional governments were given full power to administer their own affairs, in Afar the decentralization process to lower levels could not go to all aspects as it was envisaged to be . But the exercise is going on and there are some improvements.

4.1.2 Fiscal Performance

4.1.2.1 Revenue

For the period 1986 to 1990 E.C Afar region collected on average 11.322 million birr per year. The dominant revenue source was direct tax which in average accounted for 50.75% of total revenue of the region. Indirect taxes and non-tax revenues contributed 28.32% and 20.93% each. Of the direct taxes personal income tax had the highest share, 39.43% of total revenue (or 77.69% of direct taxes). Business profit tax accounted for 10.93% of total revenue. Agricultural income tax and rural land use fee contributed on average about 230,000 birr per year, which is a very low contribution of 0.41% of the region's revenue. But in general, revenue of the region has shown increase at on average growth rate of 19.59 percent. On average, Afar's revenue was 0.172% of total national revenue and 1.1% of total regions' revenue in the five year period.

Table 4.1 Afar Region Revenue (in million Birr)

Description	1986	1987	1988	1989	1990	5 years average	% share
Direct taxes	3.36	4.97	8.44	5.98	5.98	5.746	50.75
Personal income tax	2.69	4.34	7.61	3.84	3.84	4.464	39.427
Business income tax	0.66	0.57	0.80	2.08	2.08	1.238	10.934
Agricultural income tax	-	0.01	-	0.01	0.01	-	-
Rural land use fee	0.02	0.05	0.03	0.05	0.05	0.04	0.353
Indirect taxes	1.86	1.73	1.38	5.89	5.17	3.206	28.317
Non tax revenue	1.89	3.04	1.28	2.82	2.82	2.37	20.933
Total revenue	7.11	9.74	11.10	14.69	13.97	11.322	

Calculated from data of MOF(a)

Table 4.2 Afar Region Recurrent Expenditure (1986 -90)
(in millions of birr)

Description	1986	87	88	89	90	5 years average	% Share of recurrent
Administration and General Services	18.65	19.01	20.17	15.61	25.83	19.854	42.39
Economic Services	7.84	9.93	9.05	5.59	9.91	8.464	18.07
-Agriculture and natural resources	3.84	6.04	5.52	3.97	7.16	5.306	11.329
Social Service	18.61	23.10	19.17	8.87	20.85	18.12	38.688
- Education	9.73	12.83	9.57	3.90	11.82	9.57	20.433
- Health	5.01	7.26	6.54	2.83	7.02	5.732	12,238
Various Expenditures	0.24	0.46	0.45	0.40	0.40	0.39	0.833
External Assistance	-	-	0.06	-	-	-	
Total Recurrent	45.34	52.49	48.89	30.47	56.99	46.836	

Afar Region Capital Expenditure

Description	1986	87	88	89	90	5 years average	% Share of Capital
Economic Development	25.76	12.63	42.09	12.58	40.99	26.81	51.476
- Agriculture and natural resources	24.85	10.20	12.26	9.37	21.37	15.65	29.97
- Road	0.90	2.43	29.83	-	17.77	10.18	19.558
Social Development	5.14	7.73	16.93	13.35	33.39	15.308	29.397
- Education	3.25	2.00	8.95	4.66	8.92	5.556	10.667
- Health	1.89	2.20	4.32	6.01	9.92	4.868	9.347
- Urban development and housing	-	3.52	3.66	2.68	13.10	4.592	8.817
General Development	4.67	0.65	6.48	10.23	27.82	9.97	19.144
Total Capital	35.56	21.00	65.49	36.16	102.20	52.082	
Total Expenditure (Recurrent + Capital)	80.9	73.49	114.38	66.63	159.19	98.918	

Calculated from data of MOF (a)

4.1.2.2 Expenditure

For the five years period indicated, the region had yearly average total expenditure of 98.92 million birr. This contained 47.3% recurrent budget and 52.65% capital budget. The annual expenditure ranged from 73.49 million birr to 159.19 million birr, with high fluctuation especially on the capital budget. The average yearly growth rate of the total expenditure in the period was 10.9 per cent. From the recurrent expenditure, administration and general services took 42.39% while economic and social services took 18.07% and 38.69% each. From the capital expenditure, economic development had largest share (51.48%). Social and general development had 29.4% and 19.14% each. Within the capital expenditure category, agriculture and natural resources, and roads were given 29.97% and 19.56% each, while education and health received 10.67% and 9.35% respectively. From the capital budget, the region allocated 8.82% for urban development and housing, and 19.14% for general development which was totally allocated to public and administrative buildings. In other words about 28% of capital budget was devoted to build the new towns and government buildings that would be centers for the regional, zonal and wereda administration. From the country's total national expenditure, Afar's expenditure amounted 1.04 per cent of the total, and from the total regions' expenditure it was 2.74%

4.1.2.3 Deficit, Transfers and Unutilized Funds

Afar region could cover on average only 11.45% of its expenditure from its own revenue. The region had yearly average deficit of 87.596 million, ranging from 63.75 million to 145.22 million birr. From 1986 to 1990 E.C. the region got transfers which far exceeded its expenditures, i.e beyond its absorptive capacity. The average yearly subsidy was 119.8 million, ranging from 75.5 million to 172.2 million birr. The transfer for the region was 4.614% of the

total transfer to all regions from the central government. And it had a growth rate of 18.85% per year in the period.

As a result the region had unutilized fund of about 32.2 million birr per year, an amount higher than its yearly revenue. The unutilized was nearly a quarter of the total fund of the region (own revenue plus transfer from center), and it could also cover about 1/3 of its total expenditures. This unutilized fund was high mainly due to the 89.56 million birr in 1989. Avoiding this, the other four years would have an average of 17.865 million birr only. The obvious reason for the mismatch of funds and expenditure is the failure to achieve the budgeted expenditure. Because of the low utilization capacity of the region there is big discrepancy between budgeted and actual expenditure. The Ministry of Finance usually allows the regions to use the unspent funds on capacity building.

Table 4.3 Afar region's revenue, expenditure, deficit, transfer and unutilized fund

		1986	87	88	89	90	Average
1	Region's own revenue	7.11	9.74	11.10	14.69	13.97	11.322
2	Region's total Expenditure	80.9	73.49	114.38	66.63	159.19	98.918
3	Deficit	-73.79	-63.75	-103.28	-57.94	-145.22	-87.596
4	Transfer	96	75.5	113.8	141.5	172.2	119.8
5	Revenue + Transfer	103.11	85.24	124.9	156.19	186.17	131.122
6	Unutilized fund = (5-2)	22.21	11.75	10.52	89.56	26.98	32.204

Calculated from data of MOF(a).

4.1.2.4 Recent Trends

The two war years did not affect the region's budget or subsidy significantly. In fact whereas for most of the populated and large regions the subsidy was reduced, Afar's region share increased on average though due to the significant cut of national subsidy in the 1992 E.C. budget, Afar's share was also reduced from that of 1991 EC. On average, the region had 119.8 million birr of yearly transfer from central government in the 5 years period, which is 4.614% of the total national transfer. In the 2 years war period the average transfer was 192.9 million birr, which is 6.89% of the total national transfer to all regions. In terms of the absolute amount of the average figures, the region's transfer increased by 61 percent. This clearly shows the emphasis given by the federal government to accelerate the development process of Afar.

4.1.3 Problems in Revenue Collection

Currently the Afar region collects a very small amount of revenue. This does not mean the region does not have any resource potential or taxable activity. Various factors have contributed for the poor performance. A study by the regions finance bureau mentions some of the problems as follows:(Afar 1999)

- Many offices of the regional government do not prepare revenue plans; they don't know what activities could be source of income for the government;
- The relation between the finance bureau and other service giving government offices is weak; there is lack of coordination in gathering information; control mechanism has not been established;
- Poor accounting and reporting system;
- Critical shortage of skilled man power, lack of training and experience; improper recruitment practice;

- Shortage of office facilities, transport vehicles and budget for the finance bureau and the revenue collecting posts;
- Finance offices are not well established in some weredas;
- There is no clear and detailed manual and direction for the revenue collectors; for example different tax collecting posts use different and old manuals and rates; up to date manuals are not available;
- The geographical situation: international borders (with Eritrea and Djibouti), difficult to control contraband trade; harsh and desert climate;
- Some of the weredas are very far from the region's center; and there are no transport and telephone services;
- There was also security problem in some area of the region a few years back; some opposition groups and bandits were taking some of the tax of the region;
- Low consciousness of the population regarding taxation; and the difficulties due to the nomadic way of life and poverty in general; it is not easy to collect taxes from a population that has little property and always moves.

As result of the various problems a large part of the revenue can not be known and collected by the government. Natural resource of the region is misused with out payment, by different individuals and firms. Due to lack of control many individuals have enriched them selves by corruption.

The revenue potential of the region and the problems around revenue collection can be shown by one example of a study done in the region. From the salt mining done by traditional method around Berahle (zone 2 of the Afar region), it is estimated that around 115,200 camels load of salt comes to the different markets in the area in a given years time. The usual practice is to charge 12 Birr sales tax per camel, and a total of Birr 2, 764,800 was expected in the two years

period of 1989 and 1990 E.C. But the actual collection was Birr 391,830 according to the information from zone finance bureaus. Around 85%, which is over 2 million birr has not been collected. Among the reasons cited for this are 1) The weakness of the finance office (not strengthened in man power and facilities); 2) problems of some political groups³, especially in 1989 and before, who took the tax collected for their own purposes; 3) the salt traders changing routes to escape taxation, i.e. (not compliance and it is easy to do it, given the vast terrain which is difficult to control)(Afar 1999).

4.1.4 Manpower Capacity

Though a nation wide problem, shortage of skilled manpower is more critical in some regions than others. And Afar is one of the most disadvantaged in this respect. Almost all offices are working with low quality and limited capacity manpower. Government offices that existed in the previous regimes were staffed by people from the neighboring highland regions. There were very few educated Afar; and out of them most went abroad or were in private business.

In the transition period because of the instability in the region, the recruitment practice in most offices that were established was very improper: clan basis; people with no education, skill or experience posted to positions that does not fit them; unprocedural recruitment by bureaus for type of jobs that should be done by the regional CPA (Civil service commission); etc. This

³ {The particular group mentioned is one which was at fist organized by the Military Derg from among the local Afar people, in his attempt to curtail TPLF activities in the area. After the down fall of the Derg some of the members of the group continued their banditry activities.}

resulted in irresponsible practices, corruption and plunder of government sources, the consequence of which was poor performance of the region in many development activities.

After the 1987 E.C. election, a relatively better environment was created. The federal government also strengthened its role to help solve the problems of the region. Many skilled people from the different central ministries were sent to work in the region. The federal government and the region are also giving high priority to education and training. Many are learning in Ethiopian Civil Service College, Edget Adults Boarding School established in Addis Ababa for the 'backward regions', and other training centers. Despite such efforts the capacity is still very low. There are other factors that contribute in hindering professionals to come to the region. Harsh, and hot weather; poor urban facilities, for example it is difficult to get houses to let, restaurants and other services in many places; there are no other advantages one can get, for example higher education through extension classes etc.

There is also some negative aspect of the culture and elements of the society that is hindrance to the development of the region. Though it could be a minority attitude, there is tendency in some Afar individuals of not accepting persons from other regions to be in a higher position than the local Afar people. This has its own impact on the decentralization process. Because of lack of capable man power things could not progress as expected or desired. People could not get benefit of services from government offices because offices at lower levels, zones and weredas, could not be staffed. Considering the fact the Afar did not have access to important decision making position in the past, it is justifiable to give them priorities in employment. But this

should be accompanied with some care. Offices headed by appointees who have background which is very far from what is required in that particular job can not be productive.

We can have some idea of the manpower situation by looking at one bureau alone. For the revenue department of the region's finance bureau it was studied that it needs 121 for its offices at region, zone and wereda level. But now it only has 61 people which is 50.41 % of what it needs. Similarly for the inspection department, out of the needed 54 people they have only 31, which is 57.40%. The problems is vividly seen when we investigate the educational level of those currently recruited in the government offices. In the revenue department out of the 61 people only 3 have degrees and diplomas. The rest are 12th complete and some below 12th grade. It is the same with the inspection department; out of the 31 people, only 3 have degrees and diplomas. The others are 12th and below.

4.1.5. Cooperation With Other Regions.

The Afar regional state is using cooperation with other regions as one direction to solve its capacity problems. The capital project implementation capacity of the region was at a very poor situation in the transition period. The amount of subsidy it received from the Federal Government was not fully utilized. The main problem being lack of capable manpower in project design and management, in financial management and other technical aspects.

The Federal Government has tried to solve problems of the relatively backward regions like Afar by deploying professionals of management, finance and other technical fields to the different bureaus of the regions. Besides, there is also an advisory team sent by the Prime Minister's

Office that assists the executive members of the regional council. The region has also recruited people of different capabilities to fill the gaps in the different offices. Despite such efforts there is still a critical shortage in many aspects of the activities of the region, hence the need for other types of solutions.

The main participants in the regional cooperation with Afar are Amhara and Tigray regions. In recent years these two regions have carried on projects worth tens of millions of Birr in different sectors—roads, schools, clinics and other activities, in the different weredas which are neighboring them. The Afar region plan bureau coordinates the activities of the technical committee organized from the regions to implement the different projects. The Amhara and Tigray regions involve manpower and machinery in these projects. They pay the regular salaries for their employees involved in these tasks. For some of the costs in these projects, eg. per diem, necessary items for the machinery etc, budget is transferred from Afar regional account to the respective regions account through MOF. The cooperation helps the Afar region not only in completing the necessary projects on time, (projects that would have taken longer time if attempted alone) but also in gaining experience in the joint activities. These activities have also their contribution in strengthening the solidarity between the people of the regions.

Other than the above stated cooperation, the PMO also implements some projects in a similar manner. The Afar region also benefits from training institutions in Amhara and Tigray. The region sends some trainees in the field of agriculture, health and others, to these institutions. The Afar region is also a member of the Eastern Ethiopia Neighboring Regions Forum, which is a forum of five regions (Afar, Somale, Oromia, Harari and Dire Dawa). It is established for the

purpose of dealing some issues like contraband trade, security problems, local disputes among their people, combating cattle diseases, etc, and for the purpose of strengthening their friendship by activities like cultural festivals etc.

Cooperating between regions are also practiced in other areas; for example, the Amhara region is helping projects in Benshangul Gumz. All these activities so far are due to initiatives of the regional governments themselves. Other than project implementation, there are also different forums for sharing of experience. MEDaC's Regional Development and Planning Department is proposing a consultancy forum to strengthen such cooperation. They believe it will be a good forum for sharing of experience between regions and the center.

4.2. TIGRAY

4.2.1. Back ground and Administrative Structure

Tigray National Regional State, located in the northern part of the country, has an area of 50,078 kilometers Square and population of 3,593,900. The dominant occupation for the majority of the population is agriculture. About 16.5% of the people live in urban areas. The region was among the ancient settlements of the country. It is an area frequently attacked by drought and famine, and in the time of the Derge it was the battleground for the different opposition groups fighting against the government.

The region is divided into 5 zones (Western, Central, Eastern, Southern and Mekele Zones) and 35 weredas. There are elected council members at wereda and region level. Executive members are elected from among them to lead the different sectors and the zones. The region had a stable

administration starting from the Transition period. The leading party is TPLF (Tigray People's Liberation Front) which is one of the founders of EPRDF, the party that is in power in the country.

Most of the bureaus in the region are organized in similar manner as the federal ministries. But there are few that are regrouped. Tourism is with Culture and Information; Transport is with Trade & Industry. Water resource is with Mine & Energy. Most bureaus have offices at zone and wereda level, though the functional sections and capacity is limited. The bureaus are grouped in to three committees- administration & security, social affairs, economic affairs, each of whom are led by executive members of the region. In addition, the chairman, vice chairman and secretary of the region are assigned to follow each of the committees. For the propose of the study, besides the regional bureaus, finance exists at zone and wereda level, plan goes only up to zones. The audit office exists at region level and is accountable to the regional council.

4.2.2. Activities in the Budgeting Process

The Budgeting process is similar to the general situation expressed previously on the budgeting section. It starts by the budget call made by the regional finance and plan bureaus (for the recurrent and capital budgets respectively). Since the subsidy ceiling notification is usually late, the planning exercise starts without it to assess the region's demand. The offices at lower level (at wereda) prepare their plan. The wereda council discusses the expenditure needs of the different offices, the capacity of revenue collection of the wereda and lists them according to priority and approves. It is then sent to the zone executives and sector offices where they gather

information of the different wereda offices and pass the request they supported to region's executives and sector bureaus.

At the region level experts of the region do a technical appraisal of the requests, forward justification on those that should be supported or dropped. Parallel with this process there is the task of a committee composed of finance and plan bureau heads and the regional executive member who coordinates these bureaus. The committee defines what the ratio between capital and recurrent budget should be, considering the different sources of income expected (region's own revenue, central treasury, loan and assistance). Once the ceiling is known the committee allocates the recurrent budget and assigns the balance for capital projects. At this stage a detailed discussion is held between executive members, bureau heads and the committee. Problems are raised, justifications are forwarded, alternative suggestions are presented by the participants, all this with the aim to finalize the budget request that would be presented to the regional council for approval. After the approval, detailed implementation plans are worked. The budget is disbursed and regular monitoring is done. Especially for the capital projects the regional officials normally do field tours to evaluate performance in the project sites.

We can see a participatory approach is exercised for many of the tasks. Peoples' conferences at wereda level have the role of giving ideas in what should be included in the annual budget plan. In the discussions, problems and priorities are identified. The projects suggested by these representatives of the people are issues directly related to their locality e.g. clinics, primary schools, roads connecting them to market and other nearby towns etc. Other higher demands

e.g. major roads are identified at region level. The professionals in the different bureaus have also a major role in organizing the demands, justifying the plans they have for the year etc.

The participatory approach is manifested not only in suggesting and discussing locally needed projects by the council members but also in active participation of the masses in implementing them. Many of the tasks are performed by mobilizing the local communities- from voluntary money contributions to involving physically through their labor and evaluating the activity itself.

Besides these, the council members especially at wereda level have the important task of mobilizing the revenue in cooperation with the finance offices. In fact it is one of the main areas where these representatives' performance is evaluated. As agricultural income tax and rural land use fee is collected from the vast rural population, it is responsibility of these council representatives to agitate and convince the peasants to pay their obligation on time.

In the planning process, the region tries as much as possible to incorporate not only those that are officially recognized plans of the government offices, but also those activities of local NGOs, like Tigray Development Association (TDA), Relief Society of Tigray (REST) and other development organizations. Normally, local NGOs' finance is registered in the consolidated fund of MOF if the source is foreign governments or government agencies. But if the source is contribution from voluntary individuals in the country or outside, it is not accounted in the consolidated fund. It is normally taken as an incentive for the region and no deductions (or offset) are made to such contributions. With the aim of achieving a fair distribution of activities within the region as a whole, the regional administration approaches the NGOs so that their activities

are coordinated with that of the government. This minimizes unnecessary duplication in some areas and scarcity in others. The region tries to see where they have interest and also suggests them some activities and areas to focus. As a result of such efforts the activities on the ground (the result) are more than the budget proclamation declares.

4.2.3 Fiscal Performance

4.2.3.1 Revenue

For the five-year period 1986 to 1990 E.C. the Tigray region collected on average 77.86 million birr in a year. The revenue ranged from 44.22 million to 104.98 million. Direct taxes, that contributed 40.05% of revenue had the highest share. Indirect taxes and non tax revenues had 34.98% and 24.6% each. From the direct taxes, personal income tax and business profit tax had 16% and 10.92% each (which is 39.94% and 27.26% from the share of direct taxes). Rural land use fee and agricultural income tax contributed 6.58% and 5.39% respectively of total revenue. The regions revenue has shown increases over the years. On average the growth rate was 23.29 percent. Tigray region's revenue is about 1.18% of the total national revenue in Ethiopia and 6.88% of all regions total revenue.

Table 4.4 Tigray Region Revenue (in millions of birr) Calculated from data of MOF(a)

Description	1986	87	88	89	90	5 Years average	% Share
Direct taxes	16.06	26.78	32.33	40.98	39.78	31.186	40.054
- Personal income tax	7.63	10.33	11.36	15.32	17.643	12.457	15.999
- Business income tax	2.56	4.94	10.65	13.28	11.068	8.4996	10.917
- Agriculture income tax	2.78	5.29	4.39	4.63	3.905	4.199	5.393
- Rural land use fee	3.10	6.15	5.64	5.81	4.904	5.121	6.577
Indirect taxes	14.78	16.02	29.41	41.74	34.21	27.232	34.976
Non -tax revenue	11.94	15.73	24.48	22.26	21.36	19.154	24.601
Total revenue	44.22	58.53	86.22	104.98	95.35	77.86	

**Table 4.5 Tigray Region Recurrent Expenditure (1986-90)E.C
(in millions of birr)**

Description	1986	87	88	89	90	5 Years average	% Share
Administration and General Service	27.65	38.98	44.10	47.08	52.32	42.026	25.186
Economic Services - Agriculture and natural resources	17.29	34.97	24.85	28.30	29.98	27.078	16.228
Social services	15.24	19.58	20.34	20.68	20.70	19.308	11.571
- Education	62.75	75.13	79.60	86.31	100.03	80.764	48.402
- Health	36.99	45.78	50.51	54.99	60.84	49.822	29.858
Various Expenditures	21.63	26.63	26.29	26.32	34.23	27.02	16.193
External Assistance	10.87	11.61	18.43	20.77	23.17	16.97	10.170
	-	-	0.12	-	-		
Total Recurrent	118.56	160.69	167.10	182.46	205.50	166.862	

Tigray Region Capital Expenditure

Description	1986	87	88	89	90	5 Year average	% Share
Economic Development	57.30	69.21	58.42	124.23	104.98	82.828	53.806
- Agriculture and natural resource	31.07	35.70	25.03	91.07	77.89	52.152	33.879
- Road	25.76	32.68	32.50	32.26	26.85	30.01	19.495
Social Development	60.73	64.69	68.81	76.25	60.35	66.166	42.982
- Education	26.97	34.12	34.95	32.47	16.95	29.092	18.899
- Health	14.68	22.20	16.79	19.72	28.67	20.412	13.259
- Urban development and housing	13.00	8.32	10.24	14.00	8.88	10.888	7.073
General Development	0.49	3.30	4.15	11.26	5.53	4.946	3.213
Total Capital	118.51	137.20	131.38	211.74	170.86	153.938	
Total Expenditure (recurrent + Capital)	237.07	297.89	298.48	394.20	376.36	320.8	

(Calculated from data of MOFa)

4.2.3.2 Expenditure

On average, the region allocated 320.8 million birr in a year in the given period. Out of this 52.01% was for recurrent and 47.99 % for capital expenditures. The expenditure ranged from 237.07 million birr to 394.2 million birr. The average yearly growth rate was 13.349%. Tigray's expenditure amounted to 3.36 % of the total national expenditure and 8.88% of all regions expenditure.

From the recurrent expenditure, 48.4 per cent, which is highest share, went to social services. Administration and General service had 25.19% and economic services got 16.23%. From the capital expenditure the highest, i.e. 53.81% was allocated to economic development. Within economic development agriculture and natural resources took 1/3 of the whole capital budget (33.88%) and 19.5% of capital budget was allocated to roads. Social development had a share of 42.98%. In this sector education and health had 18.9% and 13.26 % each. General development had a share of 3.2% of capital budget in the given period. When we combine recurrent and capital expenditures 22.28, 24.6 and 14.79 per cent were respectively allocated for agriculture, education and health.

4.2.3.3 Deficit, Transfers and Borrowing

From 1986 to 1990 E.C. the region covered on average 24.27% of its expenditure by its own revenue. The rest was funded by transfers from the center and other sources. The deficit on average was about 242.94 million birr in a year. The region had transfer of about 257.84 million birr per year for the given five years period. This accounted for 9.92% of the total transfer given to all regions. There was a slight declining trend in the percentage share of

transfer given to the region though in absolute amount there was an increase for most of the years. From the calculations, we can see that there is about 14.9 million birr of unutilized fund in a year. While this is average figure, the reality is that the region had unutilized fund for only 3 years while for the other 2 years, transfers from center couldn't cover the yearly expenditure. Possibly it could have used some fund retained from earlier years.

The region did not borrow from bank or other sources to supplement its budget. But as part of its right to borrow one thing can be mentioned. It allowed its budget to become a guarantee (collateral) for a loan given to the Office of Farmer's Cooperatives. This was done to help the farmers purchase production inputs. If incase the farmers are not able to pay, the loan agreement states that MOF deducts that amount from the region's yearly budget. This practice is also used in other regions. According to a World Bank report, the Amhara Regional State was a guarantee for similar support for the region's farmers in 1996/97. But because there was crop failure in that year, some farmers could not repay their debts. The region had to cut some of the budget of the areas that defaulted. The Report advises that regional governments should facilitate the development of credit and insurance schemes and not directly involve themselves (World Bank 1999).

4.2.4 War Effects

Ethiopia's defense budget has been reduced after reduced after the fall of the military regime, and expenditures on social sectors and economic infrastructure have been increasing as a result of the gains from the peace dividend. It could be expected that as a result of the current Ethio - Eritrean war, not only would defense expenditure increase but also due to the scarcity of resources of this poor economy, the government would follow various restrictive measures to

control situations in favor of the priority task of defending sovereignty. Hence assessing the repercussion of the war on the decentralization process is necessary.

At the federal level, defense expenditure increased to a huge amount; budget of many sectors especially capital budget was reduced, and subsidy given to regions declined. On the other hand the total revenue was affected in many aspects. Foreign loan and assistance, which covered a large part of capital expenditure, was reduced because the donors saw the situation politically. Projects started earlier with their fund were delayed or some off them totally cancelled. Besides the huge mobilization of manpower and other resources to the battlefield, the war has affected tourism, trade, investment and other aspects of the economy. While the problem has its impact on the nation as a whole, the areas around the war front, Tigray and Afar regions, were the most affected; and out of the two there is a bigger impact on Tigray.

Regarding the revenue of the region, we can see there was decline by comparing 1990 and 1991 EC. In 1990 Tigray region collected 95.345 million birr. Out of this, 11.668 million was from business profit and 34.207 million was from indirect taxes. In 1991 E.C. the total revenue collected was only 81.151 million birr. It was less than the previous year by more than 14 million birr or in percentage terms a 14.89% decline. But the situation affected some of taxes more severely than others. In 1991 E.C, 9.319 million birr and 20.496 million birr were collected from business profit taxes and indirect taxes. This is a 15.8% decline for business profit tax and 40% decline in indirect axes; indirect taxes were the most affected.

When we see the expenditure in 1990 the region had a total of 376.36 million birr; 205.5 for recurrent and 170.86 for capital budget. In 1991 the total was 316.76 million of which 203.44 was for recurrent and 113.32 for capital. There was a reduction of almost 60 million birr, i.e a decline of 15.84% from the previous year. But the reduction is significant in the capital budget; it was 33.68% signifying that many projects were affected.

The transfer from central government to the region actually started to decline in 1990 E.C. before the war. In 1989 E.C out of the total subsidy for all regions which was 3032.9 million birr, Tigray got 286.1 million. In 1990 E.C out of 3102.1 million birr, 266 million was given to Tigray. In 1991 E.C out of 3121.6 million birr, it received 229.4 million birr. We can see the subsidy in total slightly increased, while Tigray's share declined. And in 1992 E.C when the total national subsidy for all regions was heavily reduced Tigray received an amount of only 182.3 million, an amount that was the smallest it received in the seven years period from 1986 E.C. on wards. When we compare the prewar 5 years average with the two war years average, the transfer declined by over 20 percent.

A number of factors related to the war had caused the decline in revenue, and other performances in the region. Cross border trader with Eritrea was immediately stopped. Other economic activities-tourism, hotels, investment, trade, other production activities, etc. also slowed down. The main reasons were the security situation (because it is war zone any danger can occur any time), and the increase of cost of imported goods, (since the port of Djibouti is far from the northern areas. Cost of transport increased and it resulted in cost of goods in the market to increase, hence affecting welfare of the people. Factories could not operate at full

scale due to shortage of imported supplies. Besides, projects of the private sector that were near completion were delayed and others that were to start were cancelled especially those that were close to the border with Eritrea. Because of security reasons and some also for political reasons, some projects handled by foreign finance and NGO's were also affected.

Some of the consequences on the social aspect include: death that occurs to the thousands of mobilized soldiers and other people in the battlefield, destruction of property in many villages and towns as a result of bombardment; family separation, diseases, lack of basic necessities etc, of the people displaced from their villages as a result of the war; decline in crop production in the areas not ploughed due to the situation and hence increase of relief aid dependents, etc.

All the respondents in the interviews in Afar, Tigray and Addis Ababa had similar views regarding the impact of the war on the decentralization process. They believe that though there was a reduction in the overall budget, the war situation has not affected the decentralization process of the fiscal system. No directives or restrictions were sent by any ministry of the federal government or received by any bureau or executive of the regions. There was no responsibility or power that was overtaken by the center because it was a situation of war or strict budget situation that needed central control. All the tasks and procedures of decentralized fiscal system continued as before. Regions had the right to use their budget on their own preferences as they did before.

While the principles or the process of decentralization might not have been affected we see there is an increase of dominance of the federal government in the resource management. Increasing defense budget and reducing regions' subsidy means more finance is administered under federal government. The federal government may not have added responsibility, but in terms of financial power its capacity has increased. Hence to a certain extent we can say there is concentration of financial power due to the war situation. If we see the data of expenditure, there was a declining trend of federal allocation and increasing trend of regional allocation in the five years period before the war. The trend is reversed and the federal budget continued to show increases while regional budget continuously declined. During the 5 years period of 1986 to 1990 E.C the average share was 62.18 to 37.82, while in the 2 years war period the average was 68.74 to 31.26, showing increase of federal share and decline of regional share. The cause for this discrepancy is the difference in the rate of increases of the expenditure of the two levels. Federal expenditures increased by 57.45% while regional expenditures increased by only 17.68% when we compare the two periods.

Despite such declines in the share of resources to the regions, dominance of the defense budget, and the decline of foreign sources of finance, the domestic sources of revenue of the regions and the center were utilized to the utmost to substitute the loss that occurred in many aspects. In fact for some regions the subsidy budget was increased than the previous years so that their development effort would be enhanced. Besides, because it was a common national cause, all regional governments supported the cause of defending the country by mobilizing their people, and also contributing from the regions' budgets.

Chapter 5 Conclusions and Suggestions

In this final chapter, some of the important conclusions in the Ethiopian fiscal decentralization process and some suggestions towards solving the problems that it has faced will be pointed out.

5.1 Conclusions

- The Government established after 1991 believes that the federal arrangement is a necessary solution for Ethiopia's diverse situation and history. But there are some controversies over the ethnolinguistic basis of the federalism.
- The regions are very diverse in size, population, resource, economic and social infrastructure, manpower capacity, etc. These have their impact on the fiscal performance of the regions. Their expenditure needs and revenue capacities differ.
- The expenditure and revenue assignments, as stated in the different proclamations, are not far from what economic theory suggests. But in practice, while expenditure function is highly decentralized the revenue assignment is in favour of the center hence creating a high vertical imbalance.
- As a result of the weak tax capacity and assignment problem all regions have deficits. The biggest share of their budget is covered from central government transfers.
- Foreign aid and loan finance a large amount of capital expenditure. Because of the difficulties in its procedures and other political reasons, foreign finance does not materialize as promised. It is not a preferred source by the regional governments.

- The budgeting process currently practiced creates problems to the regions. The notification of federal subsidy is always late, and the aid and loan component is reduced from the total subsidy by an offset system.
- Unlike the Derg period where there was huge defense budget, the national budget of the present government has been in favor of social sectors and economic infrastructure. The regions are the major spending agents for most of agricultural, educational and health budgets.
- The federal and regional governments collected 83% and 17% of domestic revenue on average in the period 1986 to 1990 EC. The revenue collected has increased over the years at both levels. While non-tax revenues and foreign trade taxes account for the highest share of federal revenue, the regions mainly depend on direct taxes.
- So far there has been no clear formula or method for the division of resources between the federal and the regional governments. Also the issue of joint revenue has not been given due attention so far because of its insignificant contribution for most of the regions.
- The grant formula has showed several improvements so far. The grant given is only unconditional type, which allows regions to use it as they saw fit. It is more concerned with equity between regions.
- Local borrowing as a source of finance is very little used because of its restrictive procedure and ambiguities in the proclamation.
- Various efforts were attempted to solve problems of the backward regions by the federal government: extensive training programs, designing grant formula that very much favors the disadvantaged regions, assigning professionals from the center to work in the regions, etc. Cooperation with in the regions themselves is also practiced especially in the

implementation of capital budget projects e.g. The Amhara and Tigray regions assist Afar regions' projects.

- Manpower capacity problem is the main bottleneck in the regions; it has been the cause of inefficient and low utilization of the budget.
- Though there are no legal restrictions, the decentralization process has not gone to lower levels as desired especially in some regions; the manpower constraint and lack of experience have been the major hindrances. Regarding municipalities the Constitution has not mentioned any directive for them.
- While the federal arrangement has brought political solution for the stability of the country, the diversity in the regions may not enable some of the regions to benefit economies of scale.
- The current Ethio-Eritrean war has increased defense budget significantly affecting some capital expenditures and regions' subsidies. But there is no change or restriction in the decentralization process due to the war.

5.2 Suggestions

- Need of clarity of the law: Proclamations and regulations should be analyzed carefully and exhaustively before being ratified. Translation and editorial errors should be seriously checked. Ambiguities in the constitution and revenue sharing proclamation regarding borrowing procedures and some problems of the revenue and expenditure assignments etc. should be solved in the near future.

- Need of reforms in tax powers to make it in favor of the regions; some of the federal taxes should be shifted or jointly shared; there is a need to find other solutions for the regions that may not benefit from such reforms.
- Grant system: Grant formula should be changed or revised after being thoroughly studied by professionals and concerned federal and regional authorities. There is a need to establish a system that evaluates the performance and effect of the grant. In addition to the unconditional grants, various options of conditional grants should be introduced to encourage efficiency.
- Timely decisions or measures are needed. Comments on audit reports should materialize if the legislative body has confirmed them; the court system should be active in solving tax cases, corruption and other legal issues; committees that were designated for some tasks relating to intergovernmental fiscal issues should be functional.
- There should be greater role of central government organs: The parliament to see over all issues that need decision; the PMO in its over all role of coordination; the MOF and MEDaC, in their role relating to budgets, subsidy, aid and loan finance, training and other supports to build regional capacity, to prepare manuals and directives that could help in financial and project management, coordinate national data regarding government finance.
- Improve the situation of the civil service: increase salary; improve working facilities; give regular training to upgrade skill; giving additional advantages to those that are committed to work in the regions (outside Addis Ababa) and especially the less favored remote areas.
- Need of reform of some points in the constitution that have fiscal implication: for example the creation of zones and weredas should not be the responsibility of the regions alone. Central and regional governments should work together to minimize unnecessary fragmentation, while at the same time they properly handle the demands to establish own administrative structure.
- Joint forums should be strengthened to discuss problems and solutions in the activities and relations between regions and the center. Cooperation among regions and usage of joint facilities to benefit economies of scale should be encouraged.

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Ethiopia 1986 - 90 Revenue (in million Birr)

Annex 6.1

Description	1986			1987			1988			1989			1990		
	Federal	Regional	Total	F	R	T	F	R	T	F	R	T	F	R	T
Direct tax	524.53	420.69	945.22	782.03	529.56	1311.59	1130.73	623.13	1753.86	1166.89	737.92	1904.81	1016.64	852.72	1869.36
- Personal income tax	172.29	111.43	283.73	162.85	144.84	307.69	163.42	173.97	337.39	176.20	191.14	366.34	199.40	234.23	433.63
- Business Income Tax	349.71	208.00	557.71	616.50	234.92	851.41	963.49	258.84	1222.33	988.37	276.34	1264.71	813.08	276.27	1089.35
- Agricultural Income Tax	-	53.61	53.61	-	68.44	68.44	-	82.54	82.54	-	102.03	102.03	-	101.99	101.9
- Rural Land Use Fee	-	45.56	45.56	-	58.05	58.05	-	77.16	77.16	-	96.60	96.60	-	97.79	97.79
- Urban Land Lease Fee	-	-	-	-	22.75	22.75	-	27.84	27.84	-	62.83	62.83	-	115.62	115.62
Indirect Tax	735.65	98.49	834.14	822.85	122.66	945.51	948.54	207.06	1155.59	1059.16	230.72	1289.88	951.50	229.48	1180.98
Foreign trade tax	1284.91	12.25	1297.16	1621.62	0.01	1621.62	1813.93	0.01	1813.94	2163.49	0.00	2163.49	2218.41	0.00	2218.41
Non Tax Revenue	698.21	164.07	862.28	1799.75	234.27	2034.02	1943.61	299.10	2242.71	2135.44	383.75	2519.19	2631.29	513.19	3144.48
Total Revenue	3243.30	695.50	3938.80	4824.97	886.50	5711.27	5836.80	1129.29	6966.09	6524.97	1352.39	7877.36	6817.84	1595.39	8413.23
Federal:	82.34	17.66	100	84.478	15.522	100	83.79	16.21	100	82.83	17.17	100	81.037	18.963	100
Regional share															

Calculated from data of MOF(a)

Ethiopia 1986 - 90 E.C. Expenditure (in million birr)

Annex 6.2

Description	1986			1987			1988			1989			1990		
	Federal	Regional	Total	F	R	T	F	R	T	F	R	T	F	R	T
Administrative and General Services	1051.42	400.34	1451.64	1220.42	639.35	1859.77	1322.63	858.8	2181.43	1377.2	808.83	2186.03	2602.01	1013.89	3615.9
- Defence	662.98	-	662.98	736.56		736.56	771.62	-	771.62	834.76	-	834.76	2089.54	-	2089.54
Economic services	1800.74	619.9	2420.64	1982.62	1031.08	3013.7	2004.11	1235.14	3239.25	2422.32	1318.42	3740.74	1681.8	1419.31	3101.11
- Agriculture and Natural Resources	488.09	483.24	971.34	400.01	693.72	1093.73	335.85	823.56	1159.4	327.52	929.69	1257.21	313.46	558.84	872.3
- Roads	369.14	76.67	445.81	510.71	238.84	749.58	371.18	305.42	676.60	461.19	293.20	754.39	482.72	392.74	875.46
Social Services	567.96	1264.99	1832.94	529.43	1380.74	1910.17	599.75	1534.2	2133.96	562.83	1772.81	2335.65	738.89	1839.39	2578.28
- Education	245.19	751.78	996.97	256.36	876.37	1132.73	408.72	974.15	1382.87	343.03	1114.96	1457.99	369.98	1145.55	1515.53
- Health	65.11	284.19	349.29	59.92	370.25	430.17	73.89	408.07	481.95	125.77	470.62	596.39	136.33	517.22	654.45
Others	1342.92	154.52	1497.44	1924.42	160.05	2084.47	1733.25	168.91	1902.15	1895.64	211.91	2107.55	1836.39	230.26	2066.65
- Public Debt.	1065.73	-	1065.73	1334.73	-	1334.73	1234.44	-	1234.44	1333.28	1333.28	-	1410.39	-	1410.39
Total	4762.91	2439.75	7202.66	5656.9	3211.21	8868.11	5659.75	3797.04	9456.79	6257.99	4111.96	10369.96	7354.09	4502.84	11856.93
Federal, Regional share	66.13	33.87	100	63.79	36.21	100	59.85	40.15	100	60.35	39.65	100	62.02	37.98	100

Calculated from data of Mof (a)

አዋጅ ቁጥር ፱/፲፱፻፹፯ ዓ.ም.
የኢትዮጵያ ፌዴራላዊ ዲሞክራሲያዊ ሪፐብሊክ
አስፈጻሚ አካላትን ስልጣንና ተግባር ለመወሰን የወጣ

Proclamation No. 4/1995
Definition of Powers and Duties of the Executive
Organs of the Federal Democratic Republic of
Ethiopia Proclamation Page 43

I. የሚኒስቴሮች የወል ስልጣንና ተግባር

እያንዳንዱ ሚኒስቴር

ጳ. በሥራው መስክ

- ሀ. ፖሊሲዎችንና ሕጎችን ያመነጻል፣ ዕቅድና በጀት ያዘጋጃል፣ ሲፈቀድም በሥራ ላይ ያውላል፤
- ለ. የፌዴራል መንግሥቱን ሕጎች ደንቦችና መመሪያዎች በሥራ ላይ መዋላቸውን ያረጋግጣል፤
- ሐ. የጥናትና ምርምር ተግባር ያከናውናል፣ የስታቲስቲክስ መረጃዎች ይሰበስባል፣ ያቀናባብራል፤
- መ. ለክልል አስፈጻሚ አካላት እንዲሰጡ ድጋፍና ምክር ይሰጣል፤
- ሠ. በሕግ መሠረት ውሎች ማለም አቀና ስምምነቶችን ያደርጋል ።
- ጸ. በዚህ አዋጅ የተመለከቱትንና በሌሎች ሕጎች የተሰጡትን ተግባሮች ያከናውናል ።
- ቀ. ስለ ሥራው ከንጥጫ በየወቅቱ ለሚኒስቴሮች ምክር ቤት ሪፖርት ያቀርባል ።

10. Common Powers and Duties of Ministries

Each Ministry shall:

1. in its field of activity:

- a. initiate policies and laws, prepare plans and budgets and, upon approval, implement same;
- b. ensure the enforcement of laws, regulations and directives of the Federal Government;
- c. undertake studies and research; collect and compile statistical data;
- d. give assistance and advice, as necessary, Regional executive organs;
- e. enter into contracts and international agreements in accordance with the law.

2. perform the duties specified in this Proclamation and such others as are assigned to it by other laws.

3. Submit periodic activity reports to the Council of Ministers.

II. የገንዘብ ሚኒስቴር

የገንዘብ ሚኒስቴር የሚከተሉት ሥልጣንና ተግባሮች ይኖሩታል፤

- ጳ. በፌዴራል መንግሥቱ አካላት እየተዘጋጁ የሚቀርቡ ለትን የመደበኛ በጀት ጥያቄዎች፣ በኢኮኖሚ ልማት ትብብር ሚኒስቴር ተዘጋጅቶ የሚተላለፉትን የካፒታል በጀት እና በክልሎች የሚቀርብሉትን የበጀት ደንብ ጥያቄዎች መርምሮ የፌዴራል መንግሥቱን የተጠቃለለ ዓመታዊ በጀት በማዘጋጀት ከአስተያየቱ ጋር ለሚኒስቴሮች ምክር ቤት ያቀርባል፤ የተፈቀደውን በጀት ያስተዳድራል፤
- ጸ. የፌዴራል መንግሥቱን የፋይናንስ ክንውንና የገንዘብ ይዘታ የሚያጣይ ጠቅላላ መግለጫ በየወቅቱ ለሚኒስቴሮች ምክር ቤት ያቀርባል፤ አስፈላጊ ሲሆንም ተጨማሪ በጀት አዘጋጅቶ ያቀርባል፤
- ቀ. የፌዴራል መንግሥቱን የሂሳብ አያያዝ ሥርዓት ይመሠርታል፤ በሥራ ላይ መዋሉን ይቆጣጠራል፤ የፌዴራል መንግሥት መሥሪያ ቤቶች ሂሳብ እንዲሁም የፌዴራል መንግሥቱ ለክልሎች የሚሰጠውን የበጀት ደንብ ሂሳብ ይመረምራል፤
- ሀ. አግባብ ባለው ሕግ መሠረት ከሀገር ውስጥ የብድር ምንጮች በፌዴራል መንግሥቱ ስም ይበደራል፤ ከሀገር ውስጥም ሆነ ከውጭ የሚገኙ የፌዴራል መንግሥቱን ብድሮች ያስተዳድራል፤
- ሐ. የፌዴራል መንግሥቱን እክስያኖች፣ የሚተላለፉና የማይተላለፉ የገንዘብ ሰነዶችና ሌሎች ተመጣጣይ ተቀማጭ የገንዘብ ሀብቶችን ይይዛል፤ ይጠብቃል፤
- ለ. ለልዩ ልዩ የፌዴራል መንግሥቱ ዕቃዎች ግዥና አጠቃቀም መመሪያ ያወጣል፤ ተግባራዊነቱን ይቆጣጠራል፤ ለክልል መስተዳድሮች የዕቃ ግዥና አጠቃቀም መመሪያ አዘጋጅቶ ድጋፍ ይሰጣል፤
- ሐ. በሌላ የፌዴራል መንግሥት አካል ሥር የማይተዳደር ወይም ጥቅም ላይ ያልዋለ የፌዴራል መንግሥቱ ንብረት ኃላፊ ሆኖ ያስተዳድራል፤
- መ. ከብሔራዊ ባንክና ከሚመለከታቸው ሌሎች አካላት ጋር በመተባበር የሀገሪቱን የኢኮኖሚ ዕድገት፣ መረጋጋትና ፍትሃዊነት እንዲሁም ጤናማ የገንዘብ ልውውጥና ተመን ለማምጣት ትክክለኛ የሞኒተሪንግ ፖሊሲ ያመነጻል፤
- ሀ. የፌዴራል መንግሥቱን ዓመታዊ የፋይናንስ ክንውንና ስለመንግስት ጠቅላላ ገቢና ወጪ ለሚኒስቴሮች ምክር ቤት ሪፖርት ያቀርባል ።

19. The Ministry of Finance

The Ministry of finance shall have the powers and duties to:

- 1. prepare and submit to the Council of Ministers, together with its recommendations, a consolidated annual budget of the Federal Government upon analyzing recurrent budget proposals received from Federal Government organs, capital budget proposals prepared and forwarded to it by the Ministry of Economic Development and Cooperation and requests from Regional Governments for budgetary subsidies; and administer the approved budget;
- 2. submit periodically to the Council of Ministers general report on the Federal Government's financial operation and situation; prepare and submit supplementary budget when necessary;
- 3. establish accounting systems for the Federal Government and supervise the implementation of same; inspect the accounts of Federal Government organs and the accounts of Regional Governments with respect to budgetary subsidies granted to them by the Federal Government;
- 4. borrow money in the name of the Federal Government from internal sources in accordance with the appropriate law; administer the Federal Government's internal and external debts;
- 5. be the repository of and safeguard the Federal Government's shares, negotiable and non-negotiable instruments and other similar financial assets;
- 6. issue and supervise the implementation of directive concerning the purchase and utilization of Federal Government supplies; assist in the preparation of directives concerning the purchase and utilization of Regional Governments' supplies;
- 7. account for and administer property of the Federal Government which is not administered or used by any other organ of the Federal Government;
- 8. in cooperation with the National Bank and other concerned organs, initiate proper monetary policy with a view to enhancing the country's economic growth, stability and justice as well as the normalization of money circulation and exchange rates;
- 9. submit to the Council of Ministers reports on the annual financial operation of the Federal Government and on total Government revenue and expenditure.

ነጋሪት ጋዜጣ ትግራይ

አዋጅ ቁጥር 9/1988ዓ.ም

አዋጅ ቁጥር 9/1988

ስልጣንን ተግባርን በርታት መንግስቱ ብሄራዊ ክልል ትግራይ ንምውሳኔ ገወደ አዋጅ

የትግራይ ብሔራዊ ክልል መንግሥት በርዎች ሥልጣንና ተግባርን ለመወሰን የወጣ አዋጅ

ስልጣንን ተግባርን በርታት መንግስቱ ብሄራዊ ክልል ትግራይ ምውሳኔ እድላዊ ስለሆነና ብሔራዊ መንግስቱ ብሄራዊ ክልል ትግራይ ዓንቀጽ 49/3/1/ መሰረት እዚ ገወደ ተኣዋጅ አለሁ

የትግራይ ብሔራዊ ክልል መንግሥት በርዎች ሥልጣንና ተግባር መወሰን አስፈላጊ በመሆኑ በትግራይ ብሔራዊ ክልል ሕገ መንግሥት ዓንቀጽ 49/3/1 መሰረት የሚከተለው ታወጧል።

4. ናይ በርታት ካሊጃዊ ካላፍነት

4. የበርዎች ጠቅላላ ኃላፊነት

ነፍሱ ወክፍ በር፡-

እያንዳንድ በር ፡-

1. ትልሚን በጀትን የዳሉ እንትፍቀድ'ውን አብ ሰራሕ የውዕል
2. ሕግታትን ደንብታትን መምርሕታትን አብ ሰራሕ ምውዓሎም የረጋግፀ
3. ናይ ዕንጻትን ምርምርን ተግባራት የካይድና ናይ ስታትስቲክስ መረጃታት ይእከብ፣ የዋድድና
4. ብሕጊ መሰረት ውዕላት ይፈራረም
5. ንፈጻሚት ኮሚቴ ክልል ትግራይ በብእግ፡ ፀብገብ የቸርብ
6. ህተቦህቦ ተግባራት ንምፍገም ዘሽእሎ ናይ ኣፈጻፀማ መምርሕታት የውዕል
7. ከም ኣድላይነቱ ምስ ገምልኮቶም ኣካላት ብምም ዝኸር አብ ህተፈላዎ ብርኪታት ምምሕዳር መሓውሩ ይዘርግሕ፣ የጣይሽህ

1. እቅድና በጀት ይዘጋጃል፣ ሲፈቀድ ሥራ ላይ ይውላል ።
2. ሕጎችን ደንቦችን መመሪያዎች በሥራ መዋላቸውን ያረጋግጣል።
3. የጥናትና ምርምር ተግባሮችን ያካሂዳል፣ ስታትስ ትካዊ መረጃዎችን ይሰበሰባል፣ ያረጋግጣል።
4. በሕግ መሠረት ውሎችን ይፈራረማል።
5. ለትግራይ ክልል አስፈጻሚ ኮሚቴ ሪፖርት በየጊዜው ያቀርባል።
6. የተሰጡትን ተግባሮች ለመፈጸም የሚያስችል የማስፈፀሚያ መመሪያዎች ያወጣል ።
7. እንደ አስፈላጊነቱ ከሚመለከታቸው ኣካላት ጋር በመመካከር በተለያዩ የሕትዳደር እርኪፎች መዋቅር ይዘረጋል፣ ያቋቋማል ።

11. በር ፋይናንስ

11. ፋይናንስ በር

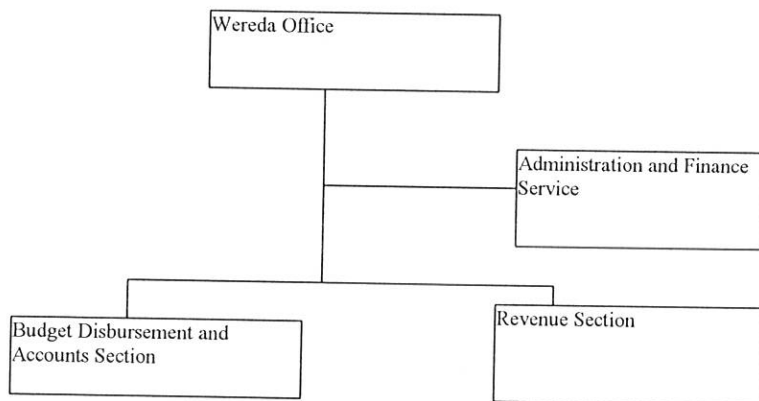
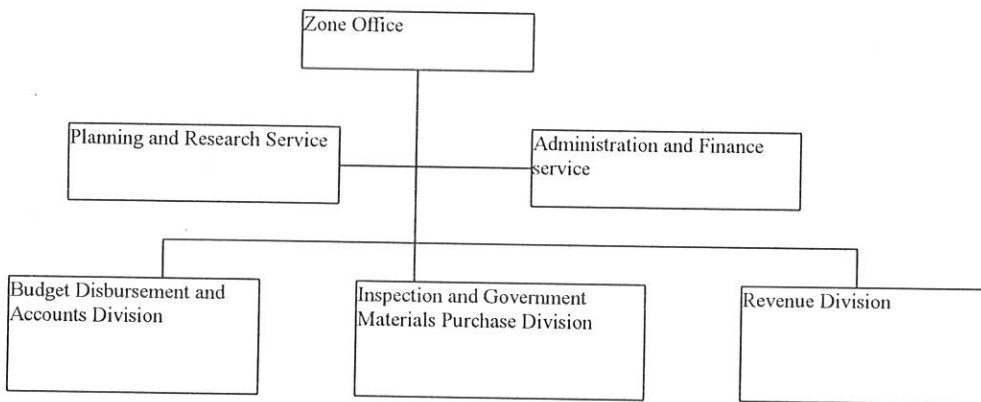
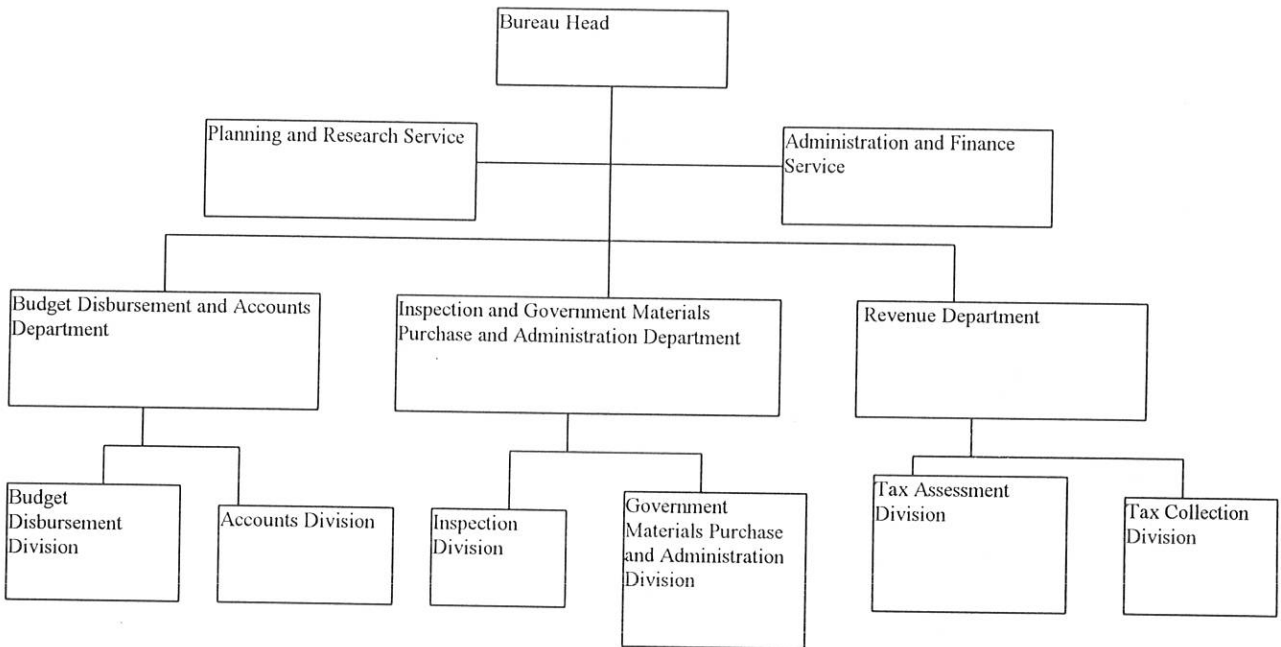
በር ፋይናንስ ገወደ ስልጣንን ተግባራትን ይህልውም፤

ፋይናንስ በር የሚከተሉት ሥልጣንና የተግባራት ይኖሩታል

1. ናይ ክልል መንግስቱ ኣካላት ናይ መንግስቱ ፋይናንስ ፖሊሲታት፣ ሕግታት፣ ደንብታት መምርሕታትን ተኸተሎም ምስርሎም ይቆገር።
2. ብክልል መንግስቱ ኣካላት እናተዳለው ዝቸርቡሉ ናይ ስፍራ በጀት ሕግን ብበር ፕላንን ኣኮኖሚ ልምዳት ተዳልዩ ምሓላላፊሉ ናይ ካፒታል በጀት መርሚሩ ናይ'ቲ ክልል ህተጠቓላላ ዓመታዊ በጀት ብምድላው ምስርእይቶ ንክልል ስራሕ ፈገሚ ኮሚቴ የቸርብ፣ ህተፈቓዶ በጀት የመሓድር።
3. ናይ'ቲ ክልል መንግስቱ ናይ ፋይናንስ ካይድን ናይ ገንዘብ ትሕዞቶን ዘርእ ጠቅላላ መግለጺ ጠቅላላ ንክልል ስራሕ ፈገሚ ኮሚቴ የቸርብ፣ እድላዊ እንተኸይነውን ተወላኺ በጀት ኣዳልዩ የቸርብ።
4. ኣግባብ ብዘለዎ ሕጊ መሰረት ካብ ገዞን ይኸን ናይ ኣታዊ ፍልፍል ዝርከብ ናይ ክልልን ከም ኡ'ውን ናይ ማእከልን ናይ ክልል መንግስቱ ናይ ኣባር ኣታዊ ብዝገባእ ምውሳኔ፣ ምእካቡን ሒሳብ ብዝገባእ ምትሓዞን የረጋግፀ።
5. ናይ'ቲ ክልል መንግስቱ ናይ ሒሳብ ኣታካልባ ስርዓት ይምስርት በቶም ናይ ክልል መንግስቱ ኣካላት ኣብ ስራሕ ምውዓሉ ይቆገር፣ ሒሳቦም ይምርምር።
6. እቲ ክልል መንግስቱ ካብ ውሽጢ ሃዘር ዝርከቦም ናይ ልቓሕ ፍልፍላት ብክልል መንግስቱ ሽም ተወጻ ዓሉ ይፍርም፣ ልቓሕቲ'ውን እናተቐገፀሩ የመሓድር።
7. ናይ'ቲ ክልል መንግስቱ ኣካላት፣ ምሓላላፍን ዘይመሓላላፍን ናይ ገንዘብ ሰነዳትን ካልኣት ተመሳሳ ሰልቲ ተቐግጦ ናይ ገንዘብ ሃብቲ ይሕዞ፣ ይሕሎ።
8. ናይ'ቲ ክልል መንግስቱ ናይ ኣቕሑት ግዚእትን ኣጠቓቕማን መምርሒ የውዕል፣ ተግባራዊነቱ ይቆገር።
9. ብኣለ ናይ ክልል መንግስቱ ኣካል ዘይመሓደር ወይከን ጥቅሚ ዘይወጻላ ናይ'ቲ ክልል መንግስቱ ንብረት ኣላፊ ኮይኑ የመሓድር።

1. የክልሉ መንግሥት ኣካላት የመንግሥት ፋይናንስ ፖሊሲዎችን ሕጎችን ደንቦችን መመሪያዎችን ተኸተሎ መሰራታቸውን ይቆጣጠራል ።
2. በክልሉ መንግሥት ኣካላት እየተዘጋጀ የሚታዩብ የመደበኛ በጀት ጥያቄ እና በፕላንና ኢኮኖሚ ልማት በር ተዘጋጅቶ የሚቀርብ የካፒታል በጀት መርምሮ የክልሉ የተጠቓላላ ኣመታዊ በጀት በማዘጋጀት ለክልሉ ሥራ አስፈጻሚ ኮሚቴ ከሕት ያየት ጋር ያቅርባል፣ የተፈተደ በጀት ያስተዳድራል።
3. የክልሉ መንግሥት የፋይናንስ ሂደትና የገንዘብ ደዘታ የሚያሳይ ጠቅላላ መግለጫ በጊዜው ለክልሉ ሥራ አስፈጻሚ ኮሚቴ ያቀርባል።
4. ኣግባብ ባለው ሕግ መሰረት ከማንኛውም የዘወ ምንጭ የሚገኝ የክልል እንዲሁም የማእከልና የክልል መንግሥት የጋራ ዝጊ በሚገባ መወሰኑን፣ መሰብሰብ ብንና ሒሳብ በሚገባ መደብን ያረጋግጣል።
5. የክልሉ መንግሥት የሒሳብ ኣያያዝ ስርዓት ያወጣል፣ በክልሉ መንግሥት ኣካላት በሥራ መዋሉን ይቆጣጠራል፣ ሒሳባቸውን ይመረምራል።
6. የክልሉ መንግሥት ከኣገር ውስጥ የማይኖሩትን የብድር ምንጮች በክልሉ መንግሥት ስም ተዋውሎ ይፈርማል፣ ብድሮችንም እየተቆጣጠረ ያስተዳድራል።
7. የክልሉ መንግሥት ኣካላቶችን የሚተላለፍና የማይተላለፍ የገንዘብ ሰነዳትና ሌሎች ተመሳሳይ ተቀማጭ የገንዘብ ሃብት ይይዛል፣ ይጠብቃል።
8. የክልሉ መንግሥት የዕቃዎች ጊዜና ኣጠቃቀም መመሪያ ያወጣል፣ ተግባራዊነቱን ይቆጣጠራል።
9. በሌላ የክልሉ መንግሥት ኣካል የማይተዳደር ወይም ጥቅም ላይ ያልዋለ የክልሉ መንግሥት ንብረት ኃላፊ ሆኖ ያስተዳድራል።

Annex 6.6 Organogram of Tigray Region Finance Bureau



ኔጋሪት ጋዜጣ

NEGARIT GAZETA

OF THE TRANSITIONAL GOVERNMENT OF ETHIOPIA

አዋጅ ቁጥር ፬፫/፲፱፻፸፮

PROCLAMATION No. 33/1992

የማዕከላዊ የሽግግር መንግሥትና የብሔራዊ ክልላዊ መስተዳድሮች ገቢ ከፍፍል ለመወሰን የወጣ አዋጅ

A PROCLAMATION TO DEFINE THE SHARING OF REVENUE BETWEEN THE CENTRAL GOVERNMENT AND THE NATIONAL/REGIONAL SELF-GOVERNMENTS

፯. ድጎማ

7. Subsidy

፫. ብሔራዊ ክልላዊ መስተዳድሮች በዚህ አንቀጽ ንዑስ አንቀጽ (፪) ለተገለጹት ዓላማዎች የሚሠሩ ለውጥ ወጪ ከገቢ ዕቅድ ጋር በማነፃፀር የሚያስረዱ ረዕዮተኛ የድጎማ መጠን የሚያሳይ መጠይቅ የዘመንን በጀት በክልል ምክር ቤት ከግዕድ ቸው በፊት ለገንዘብ ሚኒስቴር እና ለጥገና ኢኮኖሚ ልማት ሚኒስቴር ይልካሉ ።

3. National /Regional Governments shall before the approval of their budget, submit to the Ministry of Finance and to the Ministry of Planning and Economic Development their subsidy request, together with the total expenditure required for the fulfillment of objectives indicated under sub-article 2 of this Article and their revenue collection forecast.

፬. የገንዘብ ሚኒስቴር እና የጥገና ኢኮኖሚ ልማት ሚኒስቴር በዚህ አንቀጽ ንዑስ አንቀጽ (፫) መሠረት ከየክልሉ መስተዳድር የሚቀርብላቸውን የድጎማ ጥያቄዎች በዚህ አዋጅ አንቀጽ ፪ ከተመለከቱት ዓላማዎች እና ከማዕከላዊ መንግሥት ገቢ አንፃር እየተመገሙ ለሚኒስትሮች ምክር ቤት የውሳኔ ሀሳብ ያቀርባሉ ።

4. The Ministry of Finance and Ministry of Planning and Economic Development shall review on the basis of the objectives indicated under Article 2 and in relation to the Central Government revenue collection, the subsidy request submitted to them from the various regions in accordance with sub-article 3 of this Article.

፭. ድጎማ የሚፈቀደው ተቀባይ ክልል ከራሱ ገቢ ከግ መድበው ወጪ ጋር በተዛመደ ሁኔታ ይሆናል ።

5. The amount of subsidy to be granted shall be proportional to the contribution made from the revenue collected by the Regions.

አንቀጽ ፶፩ የፌዴራል መንግሥት ሥልጣንና ተግባር

Article 51 Powers and Functions of the Federal Government

- ሀ. የአየር ፣ የባቡር ፣ የባሕር መጓጓዣ ፣ የፖስታና የቴሌኮሙኒኬሽን አገልግሎቶች እንደዚሁም ሁለት ወይም ከሁለት በላይ ክልሎችን የሚያገናኙ አውራ መንገዶችን ያስፋፋል ፣ ያስተዳድራል ፣ ይቆጣጠራል ።
- ለ. ለፌዴራሉ መንግሥት በተሰጡት የገቢ ምንጮች ክልል ግብርና ቀረጥ ይጥላል ፣ ያስተዳድራል ፣ የፌዴራል መንግሥት በጀት ያረቃል ፣ ያጸድቃል ፣ ያስተዳድራል ።
- ለ. ሁለት ወይም ከሁለት በላይ የሆኑ ክልሎችን የሚያስተሳስሩ ወይም ድንበር ተሻጋሪ የሆኑ ወንዞችና ሀይቆችን አጠቃቀም ይወስናል ፣ ያስተዳድራል ።
- ሐ. በክልሎች መካከል የሚደረግን የንግድ ግንኙነትና የውጭ ንግድን ይመራል ፣ ይቆጣጠራል ።
- ከ. በፌዴራል መንግሥት ገንዘብ የተቋቋሙ አንድ ወይም ከአንድ ክልል በላይ የሚሸፍኑ የአገልግሎት ተቋሞችን ያስተዳድራል ፣ ያስፋፋል ።

- negotiate and ratify international agreements.
- 9. It shall be responsible for the development, administration and regulation of air, rail, waterways and sea transport and major roads linking two or more States, as well as for postal and telecommunication services.
- 10. It shall levy taxes and collect duties on revenue sources reserved to the Federal Government; it shall draw up, approve and administer the Federal Government's budget.
- 11. It shall determine and administer the utilization of the waters or rivers and lakes linking two or more States or crossing the boundaries of the national territorial jurisdiction.
- 12. It shall regulate inter-State and foreign commerce.
- 13. It shall administer and expand all federally funded institutions that provide services to two or more States.
- 14. It shall deploy, at the request of a state administration,

DECLARATION

The thesis is my original work, has not been presented for a degree in any other university and that all sources of material used for the thesis have been duly acknowledged.

Declared by:

Surafiel Mhreteab



Candidate

June, 2000

Confirmed by:

Professor Teshome Mulat



Advisor

June, 2000