

ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES
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**DECENTRALIZATION IN POST-DERG ETHIOPIA:
ASPECTS OF FEDERAL-REGIONAL RELATIONS**

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ASPECTS OF FEDERAL-REGIONAL RELATIONS**

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DEDICATION

To Priest Mandefro Abate and W/ro Aseress Sharew, my Parents.

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ACRONYMS

A.A.U	Addis Ababa University
ADB	African Development Bank
BoPED	Bureau of Planning and Economic Development
CPA	Central Personnel Agency
CSA	Central Statistical Authority
DPPC	Disaster Prevention and Preparedness Commission
E.C.	Ethiopian Calender
EEC	European Economic Commission
EFY	Ethiopian Fiscal Year
EMI	Ethiopian Management Institute
EU	European Union
FCSC	Federal Civil Service Commission
FDRE	Federal Democratic Republic of Ethiopia
GDP	Gross Domestic Product
Km ²	Kilo meter square
MEDaC	Ministry of Economic Development and Cooperation
MOF	Ministry of Finance
NDR	National Democratic Revolution
OPHCC	Office of Population and Housing Census Commission
PAs	Peasant Associations
PMO	Prime Minister Office
RLDS	Regional and Local Development Studies
SNNP	South Nations, Nationalities and Peoples
STC	Science and Technology Commission
TGE	Transitional Government of Ethiopia
UDs	Urban Dwellers' Associations
UNECA	United Nations Economic Commission for Africa
UN	United Nations
WB	World Bank

ABSTRACT

The term decentralization means different things for different people and hence, several understandings are being used for the same term but none of the understandings offers comprehensive theoretical or methodological solutions that will help us determine how decentralization should be carried out. However, the different approaches provide important concepts and guidelines for determining and implementing decentralization policies as a strategy for development.

Decentralization is understood to mean a good many things and as a result most governments like the idea of decentralization. However, most governments have not been successful in carrying out decentralization policies. Decentralization is believed to improve development activities by allowing lower levels of government agencies and the people at large in development planning and implementation. But these objectives have not been fully achieved by many governments since the important preconditions such as political commitment, availability and access to resources, capacity of implementing agencies, effective inter-organizational relations, and supplementary supports are not effectively fulfilled.

The on-going decentralization policy in Ethiopia has introduced a major change in the political, economic and social systems of the country. The new decentralization policy is organized under federal form of government whereby the country has been divided into nine regional governments and two regional administrations under the umbrella of the Federal Government. The regions are delimited based on ethnic and language factors. As a result, the emerging regions are different in population, area, and economic and social infrastructure.

Although authority and powers seem to be decentralized from the center to regional levels, the extent of decentralization to sub-regional units of government is not satisfactory. Moreover, the current decentralization is challenged by many problems such as low revenue bases for regional governments, very low administrative and manpower capacity both at the federal and regional levels, and poor inter-organizational relationships .

The policy of current decentralization aims at promoting balanced regional development. However, the trend is not as it was thought to be, rather it aggravates regional development differences. Some regions like Tigray, Amhara, Oromia and SNNP are doing good whereas regions like Afar, Benishangul/Gumuz, Somali and Gambella are lagging behind the former regions.

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CHAPTER 1: BACKGROUND OF THE STUDY

1.1. INTRODUCTION

Decentralization is a word that has been used by different people to mean a good many different things. Most governments like the idea of decentralization. It suggests the hope of cracking open the blockages of an inert central bureaucracy, curing managerial constipation and stimulating the whole nation to participate in national development. Although governments of developing countries have offered these justifications for decentralizing and have been optimistic about its expected achievements, the actual results of decentralization have been unsatisfactory. Governments have faced myriad problems in designing and implementing programs of decentralization because of lack of political commitment, poor inter-organizational relations, lack of resources and poor capacity of implementing agencies. Even where they have been relatively successful, not all of the expected benefits have accrued to either central or local administrative units (Mawhood , 1993:1, Rondinelli and Nellis , 1986).

In many countries, the implementation of decentralization policies has caused disruption and confusion and in many cases the policies have been only partially implemented or implemented only after long delays. These problems may stem from the earlier 'design' problems but they may also be attributable to factors related to the implementation process itself. The most widely known implementation of any major organizational reform, such as decentralization, requires some sort of special implementation machinery including an agency specifically responsible for coordinating implementation. In addition, some sort of 'action plan', and public relations exercise to ensure understanding of and support for the reform is also required. It is particularly important that the responsible agency has sufficient authority (access to such authority), resources and motivation necessary for what is usually a complex and at times controversial undertaking. However, in many countries this need is not fully recognized until problems begin to arise, in the form of confusion, opposition to the reform and general lack of progress in the implementation. The second aspect of factors influencing the process of decentralization relates to the capacity of the levels to which powers are decentralized. Decentralization requires additional

manpower in some fields or in some parts of the country, and it is necessary to increase the capacity of existing staff at these levels through training and in many cases, upgrading of positions (Conyers, 1990).

Based on the preceding observation, this thesis examines the processes, problems and prospects of the decentralization policy in Ethiopia that began to be implemented in 1991. In particular, an attempt has been made to assess how this policy will facilitate the country's social and economic development.

1. 2. STATEMENT OF THE PROBLEM

The establishment of Regional Governments by Proclamation No. 7/1992 and later Regional States as mentioned in the constitution (Art. 46:1), is a major change in the administrative and political system of the country. The hitherto unitary structure of the Ethiopian Government has been replaced by a Federal structure.

The present decentralization policy of Ethiopia is designed to meet the political and economic objectives of the government. The basic structure of the current decentralization scheme was designed by the Transitional Government of Ethiopia (TGE) through proclamation No. 7/ 1992. Ethnicity and language were the most important factors in designing the structure of decentralization and no major change has been introduced in the new constitution of Ethiopia which was legitimized by Proclamation No.1/1995. Proclamation No. 7/ 1992 states that Regional Governments were made to ensure " the rights of nations, nationalities and peoples to self-determination and to determine their own affairs." The law provides for the equality of nations, nationalities and peoples and promises to promote the socio-economic development of all the ethnic communities. As pointed out earlier, ethnicity and language are the two most important criteria in drawing regional boundaries. Other considerations, such as resource endowment of regions, institutional and administrative capacity and manpower strength, were given secondary attention. Hence, because of the unevenness of the different regions, especially with regard to manpower and institutional capacity, economic and social infrastructures, the existing structure may affect the development of some regions, such as Afar, Benishangul / Gumuz , Gambella , and Somali.

When one looks at the role of the Federal Government ministries of Ethiopia, many of them suffer from archaic bureaucratic procedures, corruption, and lack of public responsiveness and accountability that adversely affect the process of development. Decentralization is a process which embodies a broad framework of national development strategies to promote benefits to the country as a whole. And this could be achieved through efficient and effective national and local government agencies. However, in the Ethiopian case, central and regional agencies are not effective and efficient to promote the decentralization process. This is because of the fact that many of the civil servants working in these agencies are not well trained and experienced. In addition to this, the civil servants are not motivated and committed to the accomplishment of the objectives of their agencies because of poor pay structure of the government.

In general the current decentralization scheme has the following specific problems of implementation:

1. The TGE launched what looked like a decentralized political structure in 1992. But, what appeared to have been a bold decentralization program is rather a practice whereby authority is 'decentralized' from the center and 'concentrated' at a regional level. There is very little devolution of authority below regional level and the participation of the people in development planning and implementation is very low.
2. One of the critical implementation problems of the TGE's decentralization policy is associated with the poor inter-organizational relationships and poor decision making process. Institutional organization and process of decision making are critical components of a successful decentralization process. The roles and interrelationships of the various levels of a national state and the degree of autonomy given to these levels can affect their roles in social and economic development. The decentralized system of administration basically maximizes the efficiency of the administrative units from top to bottom so as to ensure national development.
3. The other problem of the current decentralization drive is the problem of trained manpower especially at regional and sub-regional levels. As stated earlier, the problem of trained manpower is more acute in some regions than in others. It is necessary to increase the capacity of existing staff at all levels. It cannot be argued that decentralization should not take place until the necessary manpower is secured.

However, the level and extent of decentralization should be monitored in line with the manpower and expertise needs of each region.

Decentralization is not a “Quick fix” for administrative, political and economic problems unless the necessary conditions are fulfilled. Decentralization should be built on existing administrative capacity and central governments should teach regional and sub-regional staff and citizens how to handle new responsibilities before transferring large number of tasks and responsibilities to these units of government. In the Ethiopian case, certain regions including Afar, Benishangul / Gumuez , Gambella , and Somali require additional manpower and administrative assistance to undertake regional development.

1.3. OBJECTIVES OF THE STUDY

The major objective of this study is to examine the process and implementation of the on-going decentralization policy and to what extent it facilitates the management of development activities in Ethiopia.

The specific objectives of the study are to:

1. Discuss the objectives (motives) of decentralization in Federal Democratic Republic of Ethiopia;
2. Examine the institutional and administrative arrangements of the Federal and Regional Governments of Ethiopia and assess whether this arrangement promotes economic and managerial efficiency;
3. Analyze whether each of the levels has sufficient authority and power to undertake development activities;
4. Discuss and analyze the functions, roles, and powers of different levels of government and
5. Assess the relationships between the central and regional governments particularly in relation to finance, personnel, planning, project and investment management.

1.4. SIGNIFICANCE OF THE STUDY

The fact that the current Ethiopian decentralization policy is designed based primarily on ethnic and linguistic considerations it has given rise to much controversy and speculation. Its critics argue that the present system of federalism based on ethnicity and language is more divisive than unifying. This paper contributes to a dispassionate and less “political” inquiry and subsequent understanding of the current status and process of decentralization in Ethiopia. It is hoped that this study will contribute to the understanding of the problems and prospects of implementing a highly decentralized system of governance and administration in Ethiopia.

1.5. METHODOLOGY

The methodology used in this thesis is descriptive and analytical whereby *inter alia* the specific details of post-Derg decentralization process, the powers and duties of the Federal Government, powers and duties of Regional Governments, and the relationship between Federal Government and Regional Governments will be described and analyzed. Moreover, how development activities in Federal Ethiopia are undertaken through decentralized administrative structure will be described and analyzed.

1.5.1. DATA COLLECTION TECHNIQUES

The type of data used in this study are both quantitative and qualitative. The techniques used to collect the quantitative and qualitative data are field work and library research. The quantitative data are collected from various secondary data sources and the primary data are collected through field work from various central and regional government organizations. The respondents in each organization were assigned for the researcher by the top officials of the respective organizations. Among the central government organizations, the researcher has conducted interviews and discussions with officials from Federal Civil service Commission, Ministry of Finance and Ministry of Economic Development and Cooperation. The researcher has also recorded interviews on current regional development

problems held between Radio Fana and Ato Berhanu Jembere, Minister, Regional Affairs Office of the Prime Minister Office. Interviews and discussions were focused on such issues as how the process of decentralization is going on, what are the emerging problems of decentralization related to institutional design, manpower, resources, equity both at the center and regions; what measures have been taken to cure the problems and the like.

The field work at regional level was conducted in selected areas in the Amhara and Oromia Regional Governments. In these regions informal and formal discussions and interviews were made with officials from such offices as Executive Committee members, Finance Bureau, Investment Bureau, Planning and Economic Development Bureau, and Regional Civil Service Commission. These regions were taken as field sites since they are the largest in population and area in the federal arrangement and hence, they help to observe the major challenges and prospects of the current decentralization process in the country. It was not possible to include one of the “disadvantaged regions like Afar, Gambella or Somali” since they are very far to collect data in this short period of time. The major issues in the formal and informal discussions and interviews were related to the central-regional relations and regional-zonal relations in the process of planning, plan implementation and monitoring. Information on the nature of revenue sources left for them, their capacity to collect and utilize revenues, problems on revenue collection, the manpower capacity of the regions and the like have been collected. The researcher has also interacted and has discussed with the people in the field areas about their level of participation in the decision making process and development activities at various levels. The names of interviewees will remain anonymous as per their requests.

The second technique is library research whereby primary and secondary data have been collected from:

1. Primary sources such as: Laws, the Constitution, Proclamations, Regulations, documents have been examined for the purpose of analyzing the power, duties, and functional relationships of federal and regional governments.
2. Secondary sources such as books and proceedings and other sources have been used to provide a theoretical framework and other supportive data for this study.

1.6. SCOPE AND LIMITATIONS OF THE STUDY

Decentralization is a very wide concept which includes the political and administrative aspects of government. This thesis focuses on the process and implementation of the current decentralization policy in Ethiopia with specific emphasis on the arrangements of the federal and regional governments and also their relationships in line with finance, personnel, planning, project and investment management and tries to create conducive background for further research.

There are two major limitations in conducting the thesis. The first is shortage of time. The thesis was designed to be done within one semester and one semester was very short for such kind of study which includes field work and library research. The second and the main one was the problem to get access to government officials and also the reluctance of many of the officials to provide the necessary information. In addition, I was teaching courses in the Department of Management and Public Administration, Faculty of Business and Economics, Addis Ababa University which required more time to give make-up classes for the time that I was in the field.

1.7. ORGANIZATION OF THE STUDY

This thesis is divided into five major chapters. The first chapter covers the general background of the study which includes introduction, statement of the problem, objective of the study, significance of the study, methodology and scope and limitations of the study. The second chapter is devoted to the general literature review of decentralization which covers the meaning of decentralization, aspects of decentralization, the need and role of decentralization in development, and conditions for effective decentralization. The third chapter deals with the process, organization and arrangements of the current decentralization policy in Ethiopia. The fourth chapter focuses on federal-regional relations in the new decentralization process particularly the relationships in line with finance, administrative and personnel issues, planning, project and investment management. The last chapter concludes the study.

CHAPTER 2: THEORETICAL FRAMEWORK

2.1. THE CONCEPT OF DECENTRALIZATION

There are many normative theories about the concept of decentralization developed by many scholars. Indeed, many scholars and students of development talk about decentralization, but they are not at all talking about the same thing. Meanings of decentralization differ from scholar to scholar and have been defined and understood in many ways. The following are some among the several conceptions and definitions.

According to Smith, (1985:7) decentralization is defined as an effective means to reverse the concentration of administration at a single center and confer powers upon local governments. Decentralization involves the legal transfer of power and authority to lower levels in a territorial hierarchy, whether the hierarchy is one of governments within a state or offices within a large-scale organization. This form of decentralization is generally referred to as devolution. It is distinguished from deconcentration which involves the dispersal of functions from the head quarters and branches outside the capital city, as when part of a national ministry is moved to a provincial city to provide services and employment to the local people. It should also be distinguished from delegation which involves transferring activities and responsibilities from a superior to a subordinate while the latter remains under strict supervision of the former.

In politics, decentralization refers to the territorial distribution of power. It is concerned with the extent to which power and authority are dispersed through the geographical hierarchy of the state's territory into smaller areas and the creation of political and administrative institutions in those areas.

Rondinelli et. al., (1989: 58-59) define decentralization from two major perspectives: from administrative and economic perspectives. From an administrative perspective, decentralization is defined as the transfer of responsibilities for planning, management, and the raising and allocation of resources from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or cooperatives, area-wide regional or functional authorities, or non-governmental private voluntary organizations.

From an economic perspective Rondinelli et.al. defined decentralization as a situation in which public goods and services are provided primarily through market mechanisms as revealed by preferences of individuals. Based on this definition, it can be concluded that decentralization is more of an economic and administrative than a political concept and its ultimate objective is explained as efficient and effective provision of goods and services.

Slater, (1989), does not accept the administrative and economic conception of decentralization and argued that decentralization is a political concept. It has to do with power, democracy, popular participation and development. He further argued that decentralization as defined in the economic sense is used as a mask for privatization, deregulation and diminishing the economic and social functions of the state.

In short, decentralization is a vague term because of the varied meanings it conveys. Hence, several understandings are being used for the same term. However, what should be noted is that none of the conceptions offer a comprehensive theoretical or methodological solution that will help us determine how decentralization should be carried out. But the different approaches provide important concepts and guidelines for designing and implementing decentralization policies as a strategy for development.

2.2. ASPECTS OF DECENTRALIZATION

There are different aspects of decentralization which emanate from the varied kinds of conceptions. Decentralization can take different features. Some of the common features of decentralization are privatization and deregulation of service provision, delegation, deconcentration and devolution. Each of these is briefly discussed below.

A. Privatization and deregulation

Because of the attraction of the market model, there is a growing interest among governments in developing countries in privatizing many services and facilities that they now provide. Through privatization and deregulation, some governments have divested themselves of responsibilities for some socio-economic functions such as electricity, telecommunication and waste disposal either by

transferring them to voluntary organizations or by allowing them to be performed by private businesses. In some cases, in this form of decentralization, governments have transferred responsibility to 'parallel organizations' such as national industrial and trade associations, professional groups, religious organizations, political parties or cooperatives. These parallel organizations have been given responsibility to license, regulate or supervise their members in performing functions that were previously performed or regulated by the government. However, as mentioned earlier this approach is not popular because this form of decentralization marginalizes the local poor, which is not the objective of decentralization.

B. Delegation

Delegation is considered as one form of decentralization. It implies the transfer or creation of broad authority to plan and implement decisions concerning specific activities or a variety of activities within specific territorial boundaries - to semi-autonomous public or private organization that is technically and administratively capable of carrying them out (Rondinelli et. al., 1989).

Even if there is no objection as to the definition of delegation, it is hardly acceptable to consider delegation as one form of decentralization. Because delegation is a process which exists in all forms of decentralization and even it exists in centralization. Delegation is a process, while decentralization is the end result which explains the extent of authority delegated. However, it must be noted that decentralization has its own processes to meet its objectives. Delegation is a must for any government or organization whatever the extent of delegated authority may be, but decentralization is optional.

C. Devolution

Devolution is known as political decentralization. Devolution requires that local governments be given autonomy and independence. It empowers local and regional actors to decide authoritatively about not only the development of assigned resources but also the modification of objectives. In this understanding, empowerment is central. If the institutional reform does not empower under-

represented and disadvantaged groups, then there has been no decentralization (Bjorkman, 1993, Samoff, 1990).

D. Deconcentration

Deconcentration is another form of decentralization. Some authors such as Smith also put deconcentration as administrative decentralization or field administration. The emphasis is on decentralization as an organizational or administrative arrangement. Institutional reform is thus understood as a strategy to implement this form of decentralization. Politics remains a secondary concern and success is to be measured by improved implementation of development schemes not by political mobilization. At the same time, decentralized administration is understood to be desirable in its own terms without popular participation. As a result, administrative decentralization or field administration is simple institutional reform that does not empower the disadvantaged and is regarded as a tool for maintaining central authority (Samoff, 1990).

2.3. THE NEED FOR AND ROLE OF DECENTRALIZATION IN DEVELOPMENT

One of the most distinctive features of modern state administration is the need for close contact between the individual citizen and officialdom. The day-to-day management of many public functions requires members of the public to have direct access to state agencies and for state agencies to be able to reach individuals, families, firms and private associations. Administration has to be geographically dispersed for the purpose of revenue collection, the maintenance of law and order, land registration, the provision of cash benefits to people in need and a host of other activities that simply cannot be conducted from the nation's capital. Decentralization is therefore widely regarded as a necessary condition for social, economic and political development. Whatever its ideological foundation or level of intervention, the contemporary state must localize its governmental apparatus (Smith, 1985).

More importantly, many states have to devise an acceptable response to localized political demands for greater autonomy. In different regions of the world, national governments are using decentralization as a strategy for coping with political instability which is fueled by secessionist movements and demands for regional autonomy.

Development theories of the 1950s and 1960s were very much macro-economically and macro-regionally oriented, reflecting 'intellectual centrism'. Their basic assumption was that decentralization of benefits would occur by trickling down through socio-economic groups and by spreading over space. Because of this assumption economic planning and development efforts were concentrated at the center rather than considering regional and local levels as potentials for development. However, there is growing evidence from the development efforts of the last many decades that growth in national income often implied a worsening of personal income distribution and that growth poles, whether economic or spatial, have few spread effects but more polarizing ones (Bulti, 1994).

The lack of economic progress in developing countries and the deterioration of the condition of rural people have become of increasing concern to development economists as well as to development agencies. The problem was initially thought to be technological, and later one of resource gap. Attempts were made to address the issue through transfer of technology and investment in capital formation to close the resource gap. But by the end of 1960s, thinking about economic development concepts was revised and the problem for rural backwardness in most countries was found to be that relations in most countries between national centers and rural communities were only one dimensional: top-down and extractive rather than co-operative and mutually supportive. Thus a departure from the centrist view was made and new trends began with widespread moves towards decentralizing the management of economic and social development and increased popular participation. In the end, decentralization was advocated as a means of improving the planning and implementation of development activities (Bulti, 1994).

As a result, decentralization has been regarded as a necessary condition of economic, social and political development throughout the Third World States. The emphasis in decentralist programs and reforms has generally been on democratic decentralization, that is, development is seen as requiring a measure of political autonomy to be devolved to institutions which local people can participate in and control (Smith, 1985).

Decentralization and participation were argued for on several grounds. Popular participation improves the way in which plans are prepared and implemented. There are two main reasons for this. Firstly, popular participation is a way of providing more accurate and detailed knowledge about local needs and conditions with the result that plans are more likely to be relevant, implementable and acceptable to the local population. This sort of information is very difficult to obtain at the national level and as a result many local projects and programs which are planned at the national level encounter problems in the implementation stage (Conyers and Hills, 1984).

Secondly, if the people who will be affected by a project or program are involved in its planning, they are more likely to accept it when it is introduced and sometimes even to make a contribution to its establishment or maintenance through some sort of self-help effort because they will identify with it. Moreover, it is generally accepted that self-help contributions, in the form of cash or kind, are more likely to be forthcoming if the people have been involved in the planning stages . Decentralization may also be advocated as a way of improving the management of development by increasing flexibility and responsiveness. If projects and programs are planned and implemented at the local level, it is easier to make adjustments if unanticipated changes are required. Furthermore, decentralization is also advocated as a means of improving coordination between the various agencies involved in planning and implementing development programs at the regional or local level; in other words, it is seen as a way of achieving the type of integrated area planning (Conyers and Hills, 1984).

Moreover, participation through decentralization gives responsibility to the people and people learn more quickly when they have to take responsibility for their decisions. They obtain an invaluable training in resource allocation which is most important for development to take place. In general, decentralization:

- a. Improves the efficiency with which demands for locally produced services are expressed and public goods provided;
- b. Reduces cost, improves output and promotes more effective utilization of human resources, strengthens accountability and political skills as well as promotes local unity, a sense of community and self-reliance by allowing citizens greater access to decision making;

- c. Promotes economic development, which in turn will lay the foundation to reduce social inequalities;
- d. Empowers citizens, especially disadvantaged groups, in their relationship to a large, hierarchical, bureaucratic, and distant government.

Despite the fact that decentralization appears to offer an attractive solution to a variety of social, political and economic problems, it is easier said than done because the matter of its execution is more complex and may in practice produce results which are contrary to those intended or desired. In addition, the developmental burden which has been placed on the idea of decentralization has been too great for it to bear. On the other hand, most central governments of developing countries are reluctant to decentralize revenue raising powers to local governments necessary for achieving their functions and objectives. So, the expectation that decentralization is to fulfil its development mission and the practices are more parallel and do not often match (Apthorpe and Conyers, 1982).

2.4. CONDITIONS FOR EFFECTIVE DECENTRALIZATION

As it has been mentioned earlier, decentralization is the desire to increase popular participation in decision making. It is also advocated for effective planning and implementation of development activities at regional and local levels. Apart from the direct involvement of the people in the decision making process, decentralization demands some kind of commitments and also the existence of well framed institutional structures to facilitate the development effort both at national, regional and local levels. Here below, some of the essential institutional structures and important conditions for effective decentralization are reviewed.

- A. **Political Commitment** - Decentralization cannot occur until it is supported by the highest political authority. Decentralization in whatever forms it occurs is a political agenda i.e., it takes place within and under a political regime and the regime should be properly committed for the achievement of the political objective (Barkan and Chege, 1989).

The degree to which national political leaders throughout the political hierarchy are committed to decentralize planning and objectives determines the effectiveness of decentralization policies. For example, the limited impact of decentralization in East African countries like Tanzania can be attributed largely to the weak political commitment. In Tanzania, decentralization and participation were promulgated by strong-willed presidents who often received weak support from the bureaucracy and from their own political parties. So, to avoid such problems, advocates of decentralization had to exert a good deal of pressure to convince other political leaders of the merits of bottom-up planning and decision making (Rondinelli et.al., 1989).

- B. Effective inter-organizational relations** - Decentralization normally requires some sort of special implementing machinery, including an agency specifically responsible for coordinating implementation and an action plan and a public relations exercise to ensure understanding of and support for the reform (Bulti, 1994). Moreover, decentralization inherently refers to the middle and lower levels of administrative and political hierarchies. Assistance, co-ordination, and frequent interaction between the several national and local institutions are indispensable requirements in implementing a decentralized policy. For instance, in a developed local government system the central-local relationships should include not only control but also mutual interest and assistance. This assistance can include drafting legislation and by-laws, co-ordination of activities, acting as a clearing agency, providing technical and administrative consultation, training, etc. (Alderfer, 1964).

The effectiveness of these inter-organizational relationships depends upon many factors such as the clarity and consistency of policy objectives, unambiguous allocation of functions among agencies, the degree to which planning and implementation procedures are standardized and clear. Moreover, the ability and willingness of the national bureaucracy to facilitate and support decentralized development activities, and the capacity of field officials of national agencies and departments to coordinate their activities at the local level, strongly influence the success of decentralized management (Rondinelli et.al, 1989).

The reluctance of the national bureaucracy to facilitate decentralization policy coupled with unclear policies and guidelines, vaguely defined authority relationships, duplication of authority over a given task, numerous supervising agencies in ministerial lines created critical problems for many developing countries to implement decentralization policy. Often, these problems gave rise to the proliferation of special committees and numerous supervising agencies in ministerial lines. These were typical problems of Kenya, Tanzania, Ethiopia and many other African countries (Rondinelli et.al., 1984).

C. Availability and Accesses to Resources Required - Lack of resources implies incapacity of any agency. Every decision requires a commitment of some resources for implementation. The most common problem which threatens the implementation of decentralization policies at a local level is finance. Most developing countries are mostly constrained by lack of finance to implement decentralization policies. Aside from lack of sufficient financial resources, the management of available financial resource between the center and localities is also another big problem. The greatest ambiguity in decentralization was the insistence of national leaders on transferring planning and administrative functions without providing localities with sufficient financial resources or adequate legal powers to collect and allocate revenues. In this form of “decentralization”, local leaders are seen by central government officials merely as communicators and solicitors of support for national policies rather than as mobilizers of local resources for promoting development from the bottom-up. In many developing countries, local governments are generally not empowered with sufficient powers and autonomy to take effective decisions or to mobilize local resources and such problems affect greatly the implementation of decentralization policies (Rondinelli, 1983).

D. Capacity of Implementing Agencies -Genuine decentralization has to be institutionalized. It must be equipped with trained and skilled personnel capable of coordinating and integrating their own organizations with other organizations to put decentralization policies into practice. The nature and capacity of that agency

determine the outcome of a decentralization policy. The technical, managerial, and political skills of the agency's staff, its capacity to co-ordinate, control, and integrate the decision of its sub-units, and the strength of its political and other supports determine the success or failure of that agency. Studies on Asian, African and Latin American decentralization policies have revealed lack of such institutional capacities of implementing agencies. In rural areas particularly, there is a critical shortage of trained personnel and leadership. Other times the quality of leadership may be so poor that corruption and embezzlement are common practices (Rondinelli et.al.,1984).

Decentralization policies require technical skills and organizational capability. These skills and capabilities are scarce in lower level units. Hence, sometimes decentralized functions may be pulled back to the center. To avoid such problems, governments which are promoting decentralization policies and attempting to implement it should establish and strengthen regional and local institutions; strengthen regional and local bureaus through manpower, provide for information exchange and other technical and managerial capacity building measures and provide regional and local training programs to upgrade managerial capacity (Haddis, 1995). The development of these capacities is also an expensive and time-consuming task which many of the developing countries may not afford. Hence, governments should carefully monitor the level of their decentralization and their managerial capacities in order to promote an effective program of decentralization.

- E. Complementary support-** an effective process of decentralization must be based on a proper understanding of the limitations and the possibilities of top-down directives and bottom up initiatives and impulses. Thus, the decentralization process involves the provision of different forms of support to both central and regional institutions in such a way that the two levels of government complement each others effort. The central government institutions can improve the functioning of regional offices through the initiation and promotion of structural changes in the sub-national units of government and sector offices. On the other hand, regional governments can provide real data to the center about the socio-economic conditions of regions or

sub-regions so that central government can design appropriate projects to assist regions (Haddis, 1995).

Decentralization can be a useful instrument of socio-economic transformation if the prerequisites discussed above, i.e. political, technical, institutional and administrative support systems are adequately provided to both the central and regional institutions.

Based on this brief theoretical framework, the researcher examined the current decentralization policy in Ethiopia. Particularly, the structure of the Federal Democratic Republic of Ethiopia and its impact on development, the capacity of the various levels of government to implement the decentralization policy and also the institutional and administrative aspects of decentralization such as fiscal decentralization, administrative and personnel capacity and decentralized planning ,Investment and project management.

CHAPTER 3: THE PROCESS OF DECENTRALIZATION IN FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

3.1. BACKGROUND

Ethiopia, is a country of diverse ethnic groups, cultures and religion. According to the 1994 census, the country had an estimated population of 54, 939,000 and is said to be growing at about 3.1 % per annum . It is the third populous nation in Africa . 50.5% of the population are estimated to be Orthodox Christians and 33.2 % Muslims, while the rest follow different sects of Christianity and traditional religions. There are about 72 ethnic groups speaking different languages (OPHCC, CSA, 1995,1996 &1998).

Ethiopia is the only African country that has its own indigenous script. Amharic, the lingua franca spoken by a significant segment of the Ethiopian people (also the working language of the Federal Government) is the only official language in Africa (except Arabic) that has its own indigenous alphabet.

Another aspect which distinguishes Ethiopia from the rest of Black Africa is its long period of history as an independent and sovereign state. The country has a long history as a sovereign state except for a brief period of occupation by Fascist Italy (1936-1994). Despite its long history as an independent and sovereign state, however, Ethiopia never evolved into a strong centralized state. It also did not develop a modern administrative system that could unify and build a modern nation (Clapham, 1969).

Ethiopia was not able to evolve into a unified state due to historical and political circumstances. In an attempt to explain these factors, one student in Ethiopian history and politics has put it:

Throughout its long and complex history, the Ethiopian State has been threatened by centrifugal forces of regionalism while the forces were nurtured by geography, ethnicity, religion and many other disintegrative factors. The major causes for the threat to the center was their manipulation by the provincial lords who controlled the periphery in an autonomous manner (Cohen, 1974:22).

Different attempts were made to control these forces to establish one strong central government. The first of these attempts was made at the beginning of the 20th century by Emperor Menelik II who established one empire and modern administrative structure in the country. Emperor Menelik built a modern empire, established the first ever ministerial form of administration, started modern posts and telegraphic services. Indeed, Emperor Menelik established present day Ethiopian's territorial and geographical boundaries and secured international recognition for its sovereignty by establishing diplomatic relations with major European powers, including Britain, France, Italy and Russia.

Emperor Haile Selassie I is another known personality in the history of modern Ethiopian government. He has put enormous efforts to 'modernize' the country and its government. In his effort to 'modernize' Ethiopia, Emperor Haile Selassie has put a great effort to expand modern Education. One of his efforts to build a modern state has been reflected in his achievement of establishing the first constitutional Monarchy state in Ethiopian history in 1931. The tendency and effort to centralize the country was reflected in this constitution. Because nation building in Ethiopia was full of challenges, Ethiopian leaders during different periods in history remained solution seekers for historical and political problems than for development problems. This is to mean that regional tendency and the problem of secession have been major challenges and problems in the creation of a unified Ethiopian state.

Attempts to respond to the question of decentralized government began during the last decade of Emperor Haile-Selassie I rule. In the 1960s there were popular pressures from different corners of the country for local self-administration. As a result, the first attempt at local self-administration was made at the awraja level by order No. 43 of 1966. The order established a system of elected awraja councils to exercise jurisdiction over local affairs. The purpose of this order was to bring the growing local government activities into a manageable dimension in which the best advantages of decentralization could be achieved. However, the awraja self-administration order was not fully implemented because it was rejected by the then parliament due to the opposition argument of a determined group and the weakness of the defense presented by the Ministry of Interior (Cohen, 1974).

Under such circumstances, a total change in the administrative and political philosophy took place in 1974. The Haile Selassie's Imperial Government was replaced by

the Provincial Military Administrative Council that attempted to solve the problem of self-administration as reflected in its National Democratic Revolution (NDR) program. The program embodied the right to self-determination as a means to solve the long standing problem of centralized administration. A provision in the program stated "each nationality will have regional autonomy to decide on matters concerning its internal affairs." This ultimate goal was to be achieved through decentralized administration. The most significant part of this commitment towards decentralization was the establishment of lower level local government units in the rural and urban areas. In the rural areas the new authorities were Peasant Associations (PAs) and in the areas urban, Urban Dwellers' Associations (UDAs). They were also established at the district and provincial levels.

PAs were assigned the power and duties of distribution of land, administration and conservation of public property, rendering judicial services, establishment and management of different agricultural co-operatives, building of schools, clinics and similar institutions. They had been granted legal personality, and defined areas of operation. The UDAs had also duties and powers of execution of land use and building policies, creation and administration of educational, market and other social institutions, judicial service, etc.

Both PAs and UDAs were to have councils directly elected by the dwellers of their areas of jurisdiction and were accountable to the people. But later elected council members were member of the Workers' Party of Ethiopia and were accountable to the party than to the people. As a result, they were not serving the interest of the local people rather they were serving as policy implementers and defenders of the central government and they were acting as if they were appointed than elected.

Another nominal attempt at self-administration made by the Derg regime was the establishment of Autonomous and Administrative Regions by Proclamation No. 14 of 1987. This proclamation was not basically proclaimed to solve the problem of self-administration, rather to solve the problem of peace and order and to secure the unity and stability of the country. This can be evidenced by the fact that regions which were given the autonomous status were unstable regions such as Eritrea, Asseb, Tigray, Ogaden and Dire-Dawa. Had it been designed to solve administrative problems, all regions of the country would have been autonomous. From this one can conclude that the primary goal of the proclamation was not directed towards administrative problems rather towards political problems. In

general, it is possible to say that there was no significant autonomy for decentralized decision making. In particular, development planning was monopolized by the central government body i.e. by the Office of the National Committee for Central Planning. Hence, the role of regions in development planning was not a concern.

With the collapse of the Derg regime and the establishment of the Transitional Government of Ethiopia in 1991, the hitherto centralized state of Ethiopia has begun to see far reaching political and institutional transformation (Bulti, 1994). The establishment of Regional Transitional Governments by Proclamation No. 7, 1992a has brought a great change both in the local government and central government systems of the country. The proclamation has been further strengthened by other proclamations such as Proclamation No. 33/1992b which define the sharing of revenue between the central and regional governments and Proclamation No. 41/1993 which was issued to define duties and responsibilities of the central government and regional governments executive organs (amended by Proclamation No. 4/1995). The political decentralization of the TGE manifested through a change of government from a unitary form of government to federal one composed of regions (states) ensured by the Constitution of Federal Democratic Republic of Ethiopia (FDRE). Proclamation No. 7/1992a provided for the establishment of fourteen self-administrating National Regional Governments namely: Region 1,2,3,4,5,6,7,8,9,10,11,12,13, and Region 14. Later the naming of the regional governments has been changed. According to Article '3' sub-Article 'b' of the proclamation that provided for the establishment of larger regional government, when agreed upon, the government of five South Nations, (Region 7-11), formed the South Nations, Nationalities and Peoples (SNNP) Government. As a result of voluntary merger of regions, the number of National Regional Governments is reduced to nine. The 1995 Constitution of the FDRE indicates that regions are formed on the bases of settlement, language and identity. The Constitution recognizes nine National Regional States/Governments (Tigray, Afar, Amhara, Oromia, Somali, Benishangul/Gumuz, SNNP, Gambella, and Hareri) and two Regional Administrations (Addis Ababa and Dire Dawa). All the States constitute 66 Zones and 550 Woredas (MEDaC, 1998, Tegegne, 1997).

3.2. THE STRUCTURE, POWERS AND DUTIES OF THE FEDERAL GOVERNMENT OF ETHIOPIA

The Federal Democratic Republic of Ethiopia is a parliamentary form of government comprising of the Federal Government, nine Regional States and two Regional Administrations. Its system of government consists of the Federal Government as the highest unit, the Region/ State as intermediary unit and the Woreda as the basic or lower unit. However, Regional Governments can establish other administrative levels that they find necessary (Art. 15 sub-Art.1 (d) of proclamation No. 7/1992a and Proclamation No.1/1995). As a result of this provision, almost all regions have established Kebeles as the lower unit of administration with the prime objective of realizing the full participation of the people at the grassroots level in socio-economic, political and administrative matters which affect their lives. Regional governments have also established another level of administration higher than the Woreda administration and lower than regional level i.e. zonal administration. As a result, even if in principle the FDRE is made up of three tiers, in practice, it is a five-tier government namely: Federal Government, Regional Governments, Zonal Administrations, Woreda Administrations and Kebele Administrations.

The Federal Government of Ethiopia consists of two legislative houses and a cabinet i.e., the House of Peoples' Representatives, The House of Federation, and the Council of Ministers. The House of Peoples' Representatives is the highest legislative organ which consists of up to 550 elected representatives out of which 20 seats are reserved for representatives of minority groups whose population may not exceed 100,000. Each member of the House of Peoples' Representatives represents a constituency having 100,000 people. The House of Peoples' Representatives is accountable to the Ethiopian people and is governed by the constitution and the will of the people (Proclamation No. 1/1995, MEDaC, 1998). The House of Federation is composed of representatives of Nations, Nationalities and Peoples whereby each Nation, Nationality and People is represented by at least one member and by one additional representative for each one million of its population. Members of the House of Federation are elected either directly by the Regional Councils or by the people through elections held by the Regional Councils.

The Executive Organ of the Federal Government is the highest executive organ of the country whose powers are vested in the Prime Minister and the Council of Ministers. The Prime Minister is elected from among members of the House of Peoples' Representatives. The Council of Ministers is organized under a Prime Minister, a Deputy Prime Minister, Ministers, Commissions and other relevant government organizations. The Prime Minister and the Council of Ministers are responsible to the House of Peoples' Representatives. The Council of Ministers seems to have double responsibilities since it is responsible to the House of Peoples' Representatives and to the Prime Minister for all decisions it makes.

As the House of Peoples' Representatives is the supreme law making organ of FDRE, it has the power of legislation in all matters of national concern assigned by the constitution of FDRE. The House of Federation has power to interpret the Constitution and it is in charge of organizing the Council of Constitutional Inquiry. It is also responsible for deciding on issues related to the rights of Nations, Nationalities and Peoples to self-determination in accordance with the Constitution. The Council of Ministers, whose members are appointed ministers, commissioners and other officials with equivalent posts, is the highest executive body. The Council of Ministers prepares the social and economic development plans and budgets of the nation. It submits plans and budgets and also draft laws to the House of Peoples' Representatives, on any matters falling within its competence. It enacts regulations pursuant to powers vested in it by the House of Peoples' Representatives. It also ensures the proper implementation of laws, and decisions adopted by the House of Peoples' Representatives.

The structure of the Federal Government is not different from the structure of the regional governments i.e. elected legislative body, executive organ made up of ministries, commissions, agencies, authorities, and other relevant government organizations with equivalent status, led by the Prime Minister elected from among the legislative members. The structure of the regional governments also consists of elected council i.e. legislative organ and executive committee whose member offices are different bureaux of the respective ministry, agency, authority and commission, led by a chairperson elected from among the regional council. The structure of regional governments is briefly discussed under the next sub-topic.

3.3. THE ESTABLISHMENT AND ORGANIZATION OF THE REGIONAL GOVERNMENTS

As already mentioned, Proclamation No. 7/1992a is the parent legislation for the establishment of Regional Governments with a view to giving effect to the right of nations, nationalities and peoples. This was ensured by the FDRE Constitution under Article 46. The Constitution gives regional governments unreserved powers except those given expressly to the Federal Government alone, such as national defense, foreign affairs, economic policy, conferring of citizenship, declaration of a state of emergency, deployment of the army where situations beyond the capacity of Regional Governments arise, printing of currency, establishing and administering major development establishments, building and administering major communications networks and the like. These are specifically reserved for the central government because of their nature and are related to the sovereignty of the country including printing of currency, defense, economic policy and the like. For example, building and administering major communications networks is left for the central government because of the fact that such undertakings may involve many regions and hence it requires efforts of the center. Further, the issue of establishing and administering major development establishments, such as mining, energy and the like are reserved for the Central Government because of strategic and national significance (Proclamation No.7/1992a).

The new decentralization reform in Ethiopia has introduced a new organization of the Ethiopian state different from the traditional approach. The major aspect of this spatial restructuring is regionalization delimited largely on the basis of ethnicity . As already mentioned, currently the country is divided into nine regions and two administrations. The nine regions and their respective centers are Tigray (Mekele), Amhara (Bahir Dar), Afar (Assaita), SNNP (Awassa), Gambella (Gambella), Oromia (Finifine), Somali (Jijiga), Benishangul/Gumez (Asossa), and Hareri (Harar). The two administrations are Addis Ababa and Dire Dawa (Tegegne, 1997, Proclamation No. 1/1995).

Natural and socio-economic differences in the national space are important factors in any development planning process (Maro, 1990). In Ethiopia, these differences are the result of geographical, political and historical factors. One of the objective of the current decentralization policy is promoting balanced regional development in the country by taking

these factors into account. Historically, the peripheral lowland areas of Ethiopia such as Afar, Gambella, Benishangul/Gumuz, and Somali have lagged behind other regions of the country politically and economically. Politically, these areas were not strong enough to put pressure on the central government so as to benefit from the development process taking place at the center. Economically, the Ethiopian economy has always been weak to establish the necessary infrastructural networks in these regions. The peripheral regions are the most poorly connected ones in the country. As a result, development activities could not reach these regions. Geographically, peripheral regions are classified as lowland where the majority of the population are engaged in pastoral activities. Hence, the lives of the people of these regions have been mobile. As a result, the introduction of social and economic services like education, health and other related ones was not an easy task. Administrative centers were not well developed as the people were far spread and were on constant mobility to herd their cattle. Furthermore, the centralized system of administration where political and socio-economic decisions were made remotely away from these regions in Addis Ababa is another factor for the low level of social and economic development in these regions.

The current decentralization policy tries to narrow regional difference through the provision of equal quantity of equipment, capital expenditure and recurrent expenditure to regions weighted according to population, level of development, and their revenue raising capacity. But the issue of equity can not be ensured by the mere allocation of equipment and resources alone. Whatever the amount of resource is allocated, regions like Afar, Gambella, Benishangul/Gumuz and Somali are not benefiting as much as they should because they lack the manpower capacity to implement the budget allocated from the center. As a result, spatial or regional inequalities continue to exist because of administrative and institutional inefficiency (MEDaC, 1998). The differences among Ethiopian regions in terms of size, population, natural endowment and level of development along with many important indicators are shown in Tables 3.1 and 3.2.

Table 3. 1: Population, Area, Number of Zones and Woredas of Regional Governments of FDRE

Regional Governments/Administrations	Population 1996/97	Area in '000 km ²	Number of Zones	Number of Woredas
Tigray	3,358,358	60.2	4	35
Afar	1,131,437	77.0	5	28
Amhara	14,769,360	188.8	10	103
Oromia	20,012,952	360.0	12	176
Somali	1,978,600	215.9	9	47
Benishangul/Gumuz	492,689	46.8	2	13
SNNP	11,064,818	112.0	9	76
Gambella	194,755	26.1	2	8
Hareri	143,587	0.3	3	19
Region 14	2,341,964	0.4	6	28
Dire Dawa	277,245	1.6	4	23
Total	55,765,765	1089.1	66	556

Source: Department of Regional Planning and Development, MEDaC(1998):7

Table 3.2: Selected Socio-Economic Indicators of Regions of Ethiopia

Indicators	Tigray	Amhara	Oromia	SNNP	Benishangul/Gumuz	Gambella	Afar	Somali	Region 14	Hareri	Dire Dawa
Urbanization (percentage)	14.41	9.46	11.09	7.16	7.34	16.57	2.87	7.40	99.16	58.78	68.66
Education											
Primary pupil per 100 persons	9.90	3.07	4.03	5.57	5.62	8.28	1.44	NA	13.37	8.77	7.63
Secondary pupil per 100 persons	0.97	1.06	1.21	1.04	0.60	1.14	0.50	NA	10.55	5.65	4.13
Health											
1000 people per doctor	46.27	53.73	51.08	44.92	20.81	10.22	107.56	49.4	8.71	3.12	NA

Source: Tegegne, 1997:699.

NA= Not Available

As it is evident from Tables 3. 1 and 3. 2, there are differences among Ethiopian regions in terms of area, population and other variables included in the tables. Such differences among regions emerged due to the fact that they are delimited mainly on ethnicity and language factors. This kind of administrative and political regionalization has its own negative impact on each region and the nation at large. In fact, some figures such as

people per doctor do not show the reality for some regions since the reality is hidden by very low population rather than the real health service.

One of the side effects of the current policy of regionalization is that it further aggravates regional development disparities since backward regions cannot cop with relatively developed regions because of poor capacity. The problem of regional differences is clearly manifested in the Ethiopian situation. Regions like Afar, Somali, Benishangul/Gumuz, and Gambella are remaining far behind as compared to regions like Tigray, Amhara, Oromia and SNNP in terms of social, economic and political development. This fact will be empirically observed in this paper in many respects in the consecutive discussions. Another aspect of the side effect of the current regionalization policy is that it tends to reduce the openness of regions by limiting the free mobility of factors of production, particularly labor. In Oromia, for example, trained personnel who cannot speak the Oromo language can not work in the region except as Junior and high school teachers where the media of communication is English language and very few professionals trained in technical fields such as engineering and medicine. It needs to be emphasized that national development is the aggregate result of the development activities of the various regions. However, if some regions remain far behind others because of lack of capacity to mobilize the available resources or any other reason as lack of resources, it has its own impact on the national development. Probably a region which lacks capacity may be rich in natural resource like Gambella and Somali, but this resource has to do nothing for both the national and regional governments since it is not used either by the regional government or by the central government because of such regional arrangement. In addition, large regions tend to be more wealthy in terms of diversified natural resources and will have a more diversified economic base than smaller regions. In this respect, current regionalization arrangement in Ethiopia seems to have problems (Tegegne, 1997).

As it can be seen from Table 3. 1, some regions are very large like Oromia, Somali, Amhara and SNNP where as regions like Hareri, Gambella and Benishangul/Gumuz and Addis Ababa and Dire Dawa administrations are very small. Probably regions like Hareri and Gambella may be less than or equal to some zones in Oromia, Amhara and Somali. Hence, such an arrangement presupposes the development of different regional development

models applicable to the specific region than having one regional development model for all regions and such activity demands more trained regional development planners in all regions.

The structure of regional governments consists of councils and an executive committee at regional and woreda levels. The Regional Council is the highest legislative organ and an organ with the supreme political power for all internal affairs in the respective region. The members of the Regional Council are elected in accordance with the electorate law and are accountable to the people who elected them. The majority of the candidates for the election are nominated by parties and the people elect from among the candidates. However, there are very few private candidates who compete with party candidates.

The Regional Executive Committee comprises of the head, the deputy head, the secretary of the regional government and other members elected by the Regional Council. The members are accountable to the Regional Council for all decisions made by it and it is responsible for policy making and major administrative decisions. The Head of the Regional Government is also the chairperson of the executive committee who heads, coordinates and represents the Executive Committee, as well as, represents and chairs , the Regional Council. The head should be elected from among the party which won the majority seat in the Regional Council. At the national level too, the Prime Minister is elected from among the House of Peoples Representatives. As a result, the principle of check and balance of power becomes difficult since the power is fused rather than separated . The head is accountable to the Regional Council which he is chairing, the Executive Committee headed by the head of the Regional Government is accountable to the Regional Council chaired by the head of the Regional Government. Hence, checking is not difficult rather impractical since different powers of control remain in the same person (MEDaC, 1998, Proclamation No. 2/1995 of the Council Of the Amhara National Regional State).

Although Zonal Administrations are not created by the Federal law, they are important hierarchies in all regions. These are established by regional governments at later stage as a level between the Regional Governments and the Woreda Administrations. Since the establishment of Zonal Administrations was left to the full discretion of regional governments, they do not have uniform functions and responsibilities in all regions. For example, in the case of Amhara Regional Government, except Nationality Zones which are

established to accommodate the interests of nationalities in the region other than Amhara nationality like Awi and Waghimra for Agew Nationality and Kemise for Oromo nationality, Zonal Administrations have only Zonal Executive Committee whose members are nominated by the Regional Executive Committee from among members of the Council of the Region, and approved by the Regional Council hence, both the legislative and executive powers are held by politicians. Zonal Executive Committee is the highest zonal executive organ of the zone and its members are accountable to the Regional Executive Committee (Proclamation No.2/1995 of the Amhara National Regional Government).

Zones of Nationality are different from other zones since they have their own council which is empowered to issue and implement regulations and directives which does not contradict with the legislative power of the Regional Council. These Zones have their own executive committee which direct, coordinate and control zonal departments. It is accountable to the Regional Executive Committee and ensures the proper implementations of proclamations, regulations, policies, and directives issued as well as other duties entrusted to it by the Regional Council and the Executive Committee. One can see the conflict that arises from such kind of arrangement. The Nationality Zones have their own Zonal Council which legislates law in their jurisdictions. Though it is not clearly stated in the Regional Constitution of the region under discussion, the laws legislated by the Nationality Zonal Council are to be implemented by the respective Zonal Executive Committee. But the Zonal Executive Committee is accountable to the Regional Council and Executive Committee. Hence, by default the issue of double accountability clearly manifests (Proclamation No.2/1995 of the Amhara National Regional Government).

Woreda Administrations have both legislative and executive organs. They have Councils which issue directives and policies to their respective Woredas. Members of the Woreda Council are elected directly by the people from among Kebele residents, within the locality of the woreda. The Council members are accountable to the people by whom they are elected, and to the executive committee of zonal administration, and through it to the executive committee of the region. The executive organ of a woreda administration is the Woreda Executive Committee whose members are elected from among members of the Woreda Council. The Executive Committee of the Woreda is accountable to the woreda

Council and zonal higher organs (Proclamation No.2/1995 of the Amhara National Regional Government).

Decentralization, particularly political decentralization i.e. devolution, requires the active participation of lower and intermediate levels of administration. But in the Ethiopian context, as it is clearly put in the case of Amhara Regional Government, zonal level of administration is not involved in policy making except Nationality Zones. Woreda level administration has been given some policy making authority. But such kind of attempts seem a show case, because in a situation where a level i.e. zonal administration which is better staffed with trained manpower as compared to woreda administrations remain policy implementers, giving authority to Woreda administration which is poorly staffed with trained manpower is not rational¹.

The Federal and Regional Governments whose structures discussed under 3.2. and 3.3. are entities of the national government working together to achieve a common goal i.e. national economic, political and social development. While working together to achieve these goals, they engage in different types of relationships. The next chapter focuses on some important federal-regional relations such as financial, personnel, investment and project management.

¹ Note, the researcher does not argue that woreda administration should not make policies rather he argues that zonal administrations should also be authorized to legislate policies within their own jurisdictions to make the decentralization policy complete.

CHAPTER 4: FEDERAL-REGIONAL RELATIONS IN ETHIOPIA

Federalism is a system of government which refers to the division of political authority between a central government and states or regional governments. The regional governments have sub-national measures of legal or constitutional sovereignty. However, regional governments are also subordinates in many major legal or constitutional respects to a central government. For Example, Proclamation No. 7/1992a of the TGE states “Regional Governments are in every respect entities subordinate to the central Transitional Government”. This is to underscore the sovereignty of the country and the quasi-sovereign nature of regional governments.

Federalism is also a form of political decentralization which seeks a political solution for a vexing political problem. It divides political authority between the central and regional governments. Hence, political authority is not centralized in the national government. The reason for this arrangement is overwhelmingly political, but it can also be administrative concern (Rosenbloom, 1986). For example, the FDRE is arranged to respond more to political problems than administrative ones.

Federalism requires coordination and cooperation between the national and regional governments. The central question in federal-regional relations is the autonomy of regional governments, including the influence of the relationship on constitutional powers of regional governments and the purpose of the relationship. Another fundamental question in federal-regional relationships is equity i.e. to what extent should each region be treated equally by the federal government? (Rosenbloom, 1986).

Federal and regional governments have many relationships in various administrative issues to implement the laws of the nation. Virtually no government agency in a given country, be it at federal or regional level, solely implements federal or regional laws. All public administrators play an important role of implementing a mixture of federal and regional laws and regulations. For example, the Federal Civil Service Commission (FCSC) of Ethiopia implements laws and regulations of the Federal Government; it also develops civil service laws to be applied in the country and assists regional governments in all areas related to personnel activities. Regional Civil Service Commission Bureaux implement the personnel laws of the respective region with a due observance of laws of the Federal Civil

Service Commission. For instance, regional Civil Service Commission Bureaux classify positions within the Civil Service of the region in accordance with the directives on the classification of positions issued by the Federal Civil Service Commission (Proclamation No. 41/1993 and Proclamation No.4/1995).

Other examples which elaborate the issue more are the Ministry of Finance (MOF) and regional Finance Bureaux, and the Ministry of Economic Development and Cooperation (MEDaC) and regional Planning and Economic Development Bureaux. MOF is in charge of administering the financial resource of the Federal Government and developing laws and regulations to be applied by federal institutions and also by regional Finance Bureaux. The MOF develops laws and regulations for Regional Finance Bureaux on how they should spend the budget allocated for them. It also assists regions to establish a harmonized tax rate with the Federal Government. Regional Finance Bureaux implement regional financial laws and regulations and also Federal laws related to the budget and revenue administration.

The same is true for MEDaC and regional Planning and Economic Development Bureaux. MEDaC prepares national development programs to be implemented by Federal ministries, agencies, commissions and other relevant organizations. It also prepares plan preparation and presentation guidelines and ensures the distribution of same to central government organs and regional governments. Regional Planning and Economic Development Bureaux also prepare development plans and strategies for their respective regions. In doing so, they relate regional development plans with national economic policies and strategies. Hence, Federal and Regional Governments in Ethiopia have a very close relationship in various areas. In the pages that follow, an attempt is made to examine the relationship as between the Federal and regional Governments it affects the decentralization process in four major areas; viz, finance, personnel, project and investment management.

4.1. FISCAL DECENTRALIZATION

The aim of any decentralization policy is to give autonomy to regional and local governments. The true measure of regional and local autonomy is the degree of fiscal independence the regional and local governments enjoy. The more resources they control, the more autonomous they are and vice versa (Befekadu, 1994).

Every decision requires the commitment of some resources by the decision maker. The most common problem which threatens the implementation of decentralization policies at local and regional levels is finance. This is because in addition to the lack of resources at regional and local levels, national leaders transfer planning and administrative functions to local governments without providing sufficient financial resources or adequate legal powers to collect and allocate revenues (Rondinelli, 1983).

Fiscal decentralization covers the whole spectrum of intergovernmental fiscal relations. It encompasses the management of resources by the various levels of government and the direction and size of inter-governmental fiscal flows. This includes the division of tax powers and the means through which resources are adjusted to match expenditure responsibilities for national and sub -national levels of government. What types of spending should be conducted by what level of government? How should grants be allocated? Which level of government should levy what type of taxes? How should financial regulations be harmonized? These are the major elements of fiscal decentralization that will be reviewed in examining the Ethiopian experience (Kibre, 1994).

4.1.1. THE LEGAL FRAMEWORK FOR CENTRAL-REGIONAL FINANCIAL RELATIONS

Davey (1983), identified three objectives for a framework of central-regional financial relationships. The first objective is that the system should provide a rational distribution of power between different levels of government over the raising and expenditure of public resources. The financial system should ensure that the devolution of discretion over financial resources is consistent with the general delegation of responsibilities. Moreover, the system should ensure accountability to the public for the use of resources. Secondly, the system should provide adequate share of public resources as a whole for the functions, service and developmental activities operated by regional governments. Thirdly, the system should, as much as possible, distribute public expenditure equitably between regions. The cumulative effects of historic concentrations of development in particular regions and different resource endowments cannot be corrected overnight or,

indeed, completely. Any central government should address the problem by giving priority to balancing of certain basic services such as education and health.

The pre- 1991 fiscal system of Ethiopia is characterized by a highly centralized system of revenue and expenditure administration. All budgetary decisions were made by the central government. Thus, lower levels of administration had no say at all with respect to the amount of revenues and expenditures, sources of revenue, and types of expenditure (Eshetu, 1993).

Although the Ministry of Finance has branch offices in all regions performing an important role in revenue collection, they have no power to decide on the amount of revenue and expenditures within their respective regions. When the branches present information on revenue and expenditure, they break them down in terms of revenue collected from the region, expenditure of the region, and surplus sent to or subsidy received from the central treasury. This does not, however, mean that they have the power to dispose of revenue collected in their regions. This power resides with the central government. However, in order to minimize administrative inconveniences, the revenue collected from a region is spent there when approved by the central treasury. In the most likely case that the region needs a subsidy from the center, this is a decision made in Addis Ababa. For all practical purposes, the pre-1991 fiscal system was therefore totally centralized and it provides no room for lower levels of administration with respect to decision making, on both the revenue and expenditure side. This was a reflection of the highly centralized political and administrative system (Eshetu, 1993).

With the collapse of the Derg regime and the establishment of the Transitional Government of Ethiopia in 1991, the old practice has changed. The establishment of Regional Governments by Proclamation No. 7/1992a brought radical departures in the social, economic, and political systems of the country. Based on Proclamation No.7/1992a, Proclamation No.33/1992b was proclaimed entitled “ Proclamation to Define the Sharing of Revenue Between the Central Government and the Regional Governments”. This proclamation defines the objectives of revenue sharing, sets out the principles used in framing arrangements, and proceeds to categorize revenue sources into three: those reserved for the center, those reserved for the regions, and those to be used jointly by the center and the regions. The categorization is based on the following principles :

1. Ownership of source of revenue;
2. The national or regional character of the source of revenue;
3. Convenience of levying and collecting 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.

This proclamation is a parent legislation for later proclamations on financial issues and relations between the central government and regions. Further, the constitution legitimized by Proclamation No.1/1995, did not change the three categories identified by Proclamation No.33/1992b. Proclamation No.57/1996: “Federal Government of Ethiopia Financial Administration Proclamation” and Council Of Ministers Regulation No.17/1997: “Council of Ministers Regulations on Financial Administration of Federal Government” have been subsequently proclaimed but none of them provide a comprehensive framework of Federal-Regional financial relationships. So, Proclamation No. 33/1992b is really the base for Federal- Regional financial relationships.

4.1.2. THE RELATIONSHIP BETWEEN MINISTRY OF FINANCE AND REGIONAL GOVERNMENTS

The supremacy of the central treasury over the management of financial resources of the country has been reduced to some extent. Right after the establishment of regional governments, the power and duties of Ministry of Finance have been limited to some extent but not significantly. For example, according to Proclamations No.41/1993 and 4/1995, the Ministry of Finance still has important powers and relations with regions in many areas related to finance. The following are some of the most important powers and relations retained by the Ministry of Finance. According to the above Proclamations, the MOF:

1. Prepares and, upon approval, follows up and supervises the implementation of financial policies and laws and strategy thereof to be followed by organs of central government and regional governments;
2. Prepares and submits to the council of Ministers, together with its recommendations, a consolidated annual budget of the federal government and the requests of regional

- governments for budgetary subsidies; and administers the approved budget;
3. Ensures the proper assessment, collection and recording of common revenues of the central government and regional governments from any source provided by the appropriate law;
 4. Inspect the accounts of regional governments with respect to budgetary subsidies granted to them by the central government.

One can see, therefore, that the Ministry of Finance has much influence on regional governments. The regional governments are required to follow and implement some financial policies, laws and strategies prepared by the Ministry of Finance. It is through the Ministry that regional governments will get their budgetary subsidies approved and also administers their approved budget. The Ministry of Finance also has relationship with regional financial activities in the proper assessment, allocation and recording of common revenues of the central government and regional governments. Moreover, the Ministry of Finance is empowered to inspect and account regional governments with respect to budgetary subsidies granted to them by the central government.

A more recent proclamation i.e. Proclamation No. 57/1996 gives more power to the Ministry of Finance to be involved in matters related to internal borrowing. Article. 59:1 of this proclamation clearly states that amounts of borrowing by regional governments shall be determined by the Ministry of Finance. Article 2 also indicates that if regional governments borrow from entities other than the National Bank of Ethiopia, the respective Regional Government and the Ministry shall jointly agree on the administrative arrangements related to such borrowing.

Tax systems at Federal and Regional levels should be harmonized and also should have standardized tax base. This is ensured by the Ministry of Finance (Proclamation No. 33/1992b and Proclamation No.57/1996: Art.58:2). This gives more power to the Ministry of Finance over Regions. From all these discussions, it is possible to say that the Ministry of Finance has strong power over regional governments on matters related to financial resources.

In addition to the supervisory and control powers, the Ministry of Finance also provides assistance to regional governments. It assists regional governments in establishing

proper accounting systems and preparation of directives concerning purchases and utilizations of regional governments supplies. The close relationship between regions and the Ministry of Finance can be seen from the fact that Regional Finance Bureaux perform more or less similar functions. The difference is that the regional financial regulations and procedures cover the specific region where MOF guidelines cover the entire country. Many of the powers and duties of Ministry of Finance are also powers and duties of Regional Finance Bureaux at regional levels. This can be seen from Proclamation No.4/1995 Article 19 and Article 52 of proclamation No.41/1993 for Ministry of Finance and Regional Finance Bureaux respectively (see Annex 1).

4.1.3. ADMINISTERING JOINT REVENUES

Among the three revenue categories categorized under Article 5 of Proclamation No. 33/1992b and Article 98 of Proclamation No. 1/1995, joint revenue is one. The proclamations stipulate that joint revenue sources would be shared between the central government and regional governments and administered jointly. According to Article 98 of Proclamation No. 1/1995 revenue sources which are categorized as joint revenue sources are the following:

1. Taxes on the incomes and profits of enterprises jointly established by the federal and regional governments. They also collect sales tax;
2. Taxes on the profits of corporations and on dividends paid to shareholders;
3. Taxes on incomes derived from large-scale mining, petroleum and gas operations, and they shall determine and collect royalties.

Revenues from these sources are collected and administered primarily by the central government and as a matter of fact it is the central government which collects and administers the revenues from joint sources so far.

The law stipulates that a joint committee from the central and regional governments will be set up to identify and study the conditions of enterprises and corporations and submit recommendations guiding the sharing of revenue. Joint revenue is relevant only to cases in which regions undertake the kind of activities that are owned jointly by the central and

regional governments. These include enterprises owned by the center and the regions, large scale mining, petroleum and gas operations and forests (Eshetu, 1993).

Even if the law has stated as such, regions are not benefiting from joint revenue sources what they could benefit. As a study conducted by Region 14 Finance Bureau in 1995 indicates, those revenue sources which are categorized as joint sources are collected by the central government and the Region has collected none so far. This is because of the fact that the joint committee has not been established let alone to perform its duties (Region 14 Finance Bureau, 1995). Brosio and Gupta (1997) also stated that the sharing of revenue jointly levied and collected by federal and regional governments is still to be defined. Another example, an official from Amhara Regional Government Finance Bureau stated that the Regional Finance Bureau which is in charge of administering the regional financial resource has no information so far about joint revenue let alone to collect and administer the joint revenue. While the reality is as such, the Department of Regional Planning and Development, MEDaC, indicated that seven regional governments viz, Addis Ababa, Oromia, Tigray, Amhara, SNNP, Hareri and Dire Dawa have received some amount of revenue form joint sources collected by the federal government starting from 1995/96 Budget year as indicated by Table 4.1.

Table 4.1: Regional Share of Revenue from Joint Revenue Sources (In Million Birr).

Region	1995/96	1996/97	1997/98
Tigray	0.02	0.01	0.44
Amhara	0.02	0.09	0.58
Oromia	1.46	3.04	7.2
SNNP	0.04	0.03	0.02
Harari	NA	0.02	0.04
Dire Dawa	0.62	3.37	10.33
Addis Ababa	161.89	265.87	285.81

Source: Department of Regional Planning and Development, MEDaC, 1998.

NA: Not Available

In the constitution of FDRE Article 62(7), a responsible body for the determination of the division of revenue derived from joint sources is the House of Federation. However, the Federation was not able to carry out this responsibility so far since it was a new organ

in the government structure and hence it has taken long time to organize itself very well. Owing to this fact, the MOF recently (1997) has proposed to the House of Federation the criteria for dividing joint revenue between the federal and regional governments.

The criteria developed are based on the following important principles viz, ownership right of the sources of revenue, reducing the financial dependence of regional governments, encouraging fast and efficient revenue collection, the national and regional distribution of the resources and of their application in all regions without discretion. Based on the above principles the division of the revenues is as follows.

Table 4.2: Measurement for Joint Revenue Division and Share of the Federal and Regional Governments

No.	Source and type of joint revenue	% share of the federal and regional governments based on the weight given to each measurement	
		Share of the federal government	Share of the regional government
1	Revenues collected from jointly established enterprises		
	1.1. Business profit	Share of capital contribution	Share of capital contribution
	1.2. Personal income tax	50	50
	1.3. Sales, services and excise tax*	70	30
2	Private Share Companies		
	2.1. Business profit	50	50
	2.2. Sales, services and excise tax*	70	30
	2.3. Shareholders dividend tax	50	50
3	Revenue from large-scale mining, petroleum and gas operations		
	3.1. Business profit tax	50	50
	3.2. Royalty tax**	60	40

Source: MOF, 1997b.

* 70% is given to the federal government, this is because of the fact that products are sold both inside the specific region where the enterprise and the company are found and in other regions. Hence, such regions should get the benefit which is thought to be achieved through federal subsidy.

** Royalty tax is collected from minerals, petroleum and gas operations and these resources are considered as national natural resources and hence other regions where these resources

are not found should benefit from such resources which is given to them by the federal government in the form of grant or subsidy. 40% is given to a region where these resources are found in consideration of the special ownership right of the region and the opportunity cost of using the land for mining and other similar activities. The proposal is not yet put in to practice and hence, the collection and management of the joint revenues are still in the mandate of the central government.

4.1.4. CENTRAL GOVERNMENT FINANCIAL CONTROLS OVER REGIONAL GOVERNMENTS

The power of regional government and its 'weight' within the total system of public administration depends upon the scale of its responsibilities and its resources. It depends also upon the degree of discretion it enjoys over the way it spends its resources for its responsibilities. This is variously constrained by the controls exercised by the central government over its financial management (Davey, 1983:154).

Davey (1983) has further clearly discussed the importance and reasons for central government control over regions. Central governments exercise control in many ways and for several reasons. In terms of political objectives, governments exercise control to secure the integrity of the state; they may intervene to ensure that the policies and operations of regional authorities conform with the political philosophies of the national government and are directed towards their fulfilment. These aims are linked to paternalism, a sense of ultimate responsibility for the efficiency and integrity of regional administration and for the protection of individuals from official malpractice. In the interests of economic management, governments may seek to control the levels or directions of regional taxation and expenditure because of their influence on inflation, the balance of payments, the distribution of wealth, the scale of savings and productive investment.

In Ethiopia, many of the objectives of central control are carried out through the pattern of central allocations to regional governments. As Proclamations No.33/1992b, No.41/1993, and No. 1/1995 clearly state one of the most important instruments for central government control over regional governments is the budget subsidies or grants. Deciding the amount of these allocations then becomes an important instrument of macro economic

policy. It also helps to vary the levels of public expenditure to suit the experiences of monetary policy and to maintain balanced regional development.

Furthermore, Article 58 (1&2) of Proclamation. No. 57/1996 stipulates that tax systems at the federal and regional levels shall have a harmonized and standardized tax base. This responsibility is given to the Ministry of Finance as ensured under sub-Article 2 of the same Article which states that the Ministry of Finance through research and administrative support shall facilitate such harmonization and standardization. Another aspect of center-region relationship is created through the possibility of regional borrowing. Whatever instruments used, the scope of central financial controls and the intensity of their application vary widely both in space and time. It is affected by three major factors. 1) the constitutional or political weight of regional government, (2) the size of and administrative capacity of regional authorities and (3) the intensity of control varies over time with the sense of urgency like where regional mismanagement becomes an issue of public scandal or when it is politically desirable to describe regional and local leadership (Davey, 1983).

The legal framework for federal-regional financial relations and some of the basic relations have been discussed above and the following subtopics focus on regional revenue sources and some of the problems related to the sources.

4.1.5. REGIONAL SOURCES OF REVENUE

Once functions are allocated between the national and sub-national governments, the primary task is one of assigning to each level of government revenue sources that will enable it to discharge the tasks with which it has been entrusted. It has been asserted ideally each sub-national government provides both the level and mix of public services and the means of financing these services that most closely meet the preferences of individuals in its own jurisdiction. However, in practice, it would be difficult to evolve rules that would meet universal acceptance, beyond the situation that the revenue sources assigned to a particular level of government should be adequate to permit it to discharge its functions (Eshetu, 1994).

The legal base for regional governments' sources of revenue is embodied in Proclamation No. 7/1992a Article 35 which identifies four major sources. These are revenue

from taxes allocated for them, grants to be given by the central government, internal borrowing and other sources of income such as aid.

4.1.5.1. CENTRAL GOVERNMENT ALLOCATIONS/GRANTS

Allocations from the central government budget appropriations are a significant and often predominant sources of funding for regional authorities. Grants or allocations devolved to authorities such as state governments in a federation (like the case of Ethiopia) or local authorities are the most important sources of revenue. The central government allocates to regional governments to achieve different purposes. Davey (1983:131-132) listed the possible purposes as follow:

1. Financing wholly or partly the cost of services or development programs which are of national significance, i.e. which are regarded as consistent with national level interests, policies and targets;
2. Encouraging effort by regional authorities to develop programs and services in line with national policy;
3. Stimulating growth in regional economies, both to contribute to national growth and to reduce inter-regional disparities;
4. Securing an equal , or more equal standard of services or development;
5. Compensating regions with a low fiscal capacity i.e. those with relatively inferior potential for raising their own direct revenues;
6. Assisting regions to cope with emergencies.

Financing regional governments is a political question. It is the competition for resources between those regions which feel that they make the greatest contribution to national revenues, and those which might be regarded disproportionately as having the greatest 'need'. Distribution from a central pool is likely to be based heavily on certain factors such as population and area which have the biggest impact on regional expenditure demands.

The central government has pledged to grant revenue to regional governments. The specific rationales as specified by Art. 7(2) of Proclamation 33/1992b are: "a) to accelerate

the development of the hitherto neglected or forgotten areas, b) to promote social services and economic development, c) to narrow per capita income gaps between regions, d) controlling negative and expanding positive externalities within and between regions, e) increasing foreign exchange rate and f) undertaking other projects of national interest". Grants may either be general or specific . The central government sets aside a certain proportion of total revenue as general grant funds and distributes these among the various regions. In this kind of grant regions are not subject to any restrictions in the use of funds; they can use them as they see fit. In the case of specific grants, however, funds are granted for defined purposes, usually activities that the central government wishes to encourage e.g., rural road construction, primary education, basic health services, etc.(Eshetu, 1994).

The grant system has been started following the devolution of staff, offices and responsibilities to regional governments. As central grants to regional governments was a new issue and as regional governments were not able to prepare their own recurrent and capital budgets in 1993/94, allocations were decided mainly by the federal government. Transfers for recurrent expenditure to the regional governments were based on the number of bureaux and staff and on the expenditure needed to maintain the infrastructure. The allocation of capital budget was made on the basis of ongoing projects transferred from the central government to the regional governments and an assessment of the regional governments capacities to implement projects (Brosio and Gupta, 1997).

It was in 1995 that the federal government adopted weighted method to allocate grants for regional governments. The general formula applied for allocations with no distinction between the recurrent and capital budgets, included three major variables viz, population, the budgeted regional government revenue and the I-distance indicators weighted by population. An equal weight of 33.3 percent was assigned to each. The I-distance indicator is a synthetic variable that seeks to capture the differences in the levels of social and economic development among the regional governments. It is based on eight distinct, quite heterogeneous variables: length of rural roads, share of rural population in total population, per capita industrial production, per capita crop food production, and density of pupils in elementary schools in relation to total population. The formula for allocating gross grants in 1995/96 was (Brosio and Gupta, 1997:514)

$$G_{ti} = 1/3GT_x [POP_i/POP + ID_i/ID \times POP_i/POP + SRB_i/SRB]$$

Where: GT- stands for the gross transfers from federal to regional governments.

i- stands for region i.

POP- is population

ID-is the ID-distance indicator

SRB-is budgeted revenue of regional government i

Net transfers, i.e., actual disbursements from the federal treasury, are the difference between the gross grants determined by the formula and budgeted own revenues of regional governments. The application of the formula means that if actual revenues fall short of budgeted regional revenues, the regional governments' budgets can face severe expenditure problems. The formula does not necessarily stimulate the revenue raising efforts of regional governments. This is because of the fact that the higher the revenue raised the higher the gross grants, and, at the same time, this revenue will be deducted from the gross grants to determine the net transfer to each region (Brosio and Gupta, 1997).

As indicated in Table 4.3 substantial differences between the allocation generated by the formula and the amounts allocated in the previous year emerged for a number of regional governments in 1995/96. In order to avoid such an immediate impact on regional budget, the government adjusted the budgets of regions which have less than the previous year with supplementary discretionary allocations.

Table 4.3: Allocations of Grants to Regional Governments, 1995/96
(In million Birr)

Regions/ Administrations	According to the Formula	Difference over 1994/95	Discretionary Adjustment	Initial Budget Allocation	Additional Allocation	Final Allocation	Final Allocation Per capita (In Birr)
Tigray	295.9	-31.9	32.6	325.8	14.4	342.9	105.5
Afar	128.3	-13.5	13.8	142.1	6.3	148.4	189.0
Amhara	811.8	70.4	1.9	813.7	39.9	853.3	62.5
Oromia	1,076.4	36.9	2.6	1,079.0	52.4	1,131.4	66.5
Somali	164.1	-1.2	1.6	165.7	7.9	173.6	98.7
Benishangul/ Gumuz	32.4	-74.3	74.4	106.8	1.6	108.4	219.1
SNNP	649.0	41.0	1.5	650.5	31.5	682.0	64.8
Gambella	9.6	-80.6	80.6	90.2	0.5	90.7	810.5
Hareri	15.0	-25.7	25.7	40.7	0.7	41.4	476.4
Addis Ababa	480.1	109.7	1.1	481.2	23.4	504.6	241.1
Dire Dawa	33.2	-3.3	3.4	36.6	1.6	38.2	277.4
Total	3,695.8	NA	239.2	3,935.0	179.9	3,580.9	82.4

Source: Adapted from Brosio and Gupta, 1997.

NA: Not Available

As Table 4.3 shows, regions like Amhara, Oromia, SNNP and Addis Ababa are beneficiaries of the new grants allocation system compared to what they got prior to application of the formula. Allocations for 1995/96 show a redistributive pattern, where the poorest states receive a net per capita amount well above the national average; in part, this redistribution arises from hidden factors, these are, the poorest states are the smallest in size and they raise very less revenue and hence less deduction from gross grants. Even if the poorest states benefit from higher per capita transfer than the rest of the regions, the overall redistributive impact of the present system is difficult to ascertain. This is because of the lack of information on extra budgetary donor assistance and discriminatory adjustment. As Table 4.3 shows those regions which receive less than the previous year, have benefited from discretionary adjustment more than the difference except Gambella and Hareri.

The formula, which is used to allocate the grant was full of shortcomings such as less transparent I-distance indicator, lack of adequate and up-to-date information (for example for population), lack of incentive for revenue generation by regions, and less weight for population. As a result, based on some practical observations and studies, the formula was

improved in 1997 to accommodate some of its shortcomings. In fact, the change did not come with new variables rather it has changed the weight given to the three major variables : population 60 percent, I-distance indicator 25 percent, and budgeted regional revenue 15 percent (MEDaC, 1997c).

In examining federal government grants to regional governments, the most important issue in addition to the issue of equity is to what extent regional governments depend on the central government. As a matter of fact, regional governments of Ethiopia are very much dependent on central government grants. The following Tables (4.4 and 4.5) show to what extent regional governments are dependent on the central government grants.

Table 4.4: Revenue, Expenditure and Level of Regional Dependence on Central Government Grants/Subsidies in 1986 E.C. Budget year (In Million Birr).

Regions	Own Revenue	Expenditure			[1] as % of [4]	Level of Dependence
		Recurrent	Capital	Total		
	[1]	[2]	[3]	[4]	[5]	[6]
Tigray (1)	57.4	122.4	157.5	279.9	20.5	79.5
Afar (2)	7.8	39.5	74.2	113.7	6.9	93.1
Amhara (3)	113.4	360.4	336.7	697.1	16.3	83.7
Oromia (4)	185.7	562.6	319.5	882.1	21.1	78.9
Somali (5)	31.1	63.9	73.5	437.4	22.6	77.4
Ben./Gum.(6)	4.6	38.2	47.4	85.6	5.4	94.5
SEPR*	82.9	279.0	192.7	471.7	17.6	82.4
Gambella (12)	2.6	27.9	37.2	65.1	4.0	96
Hareri (13)	18.9	22.4	3.0	25.4	74.4	25.6
Region 14(A.A)	278.3	169.4	187.8	357.2	77.9	22.1
Dire Dawa(15)	23.8	24.8	4.8	29.6	80.4	19.6
Total	806.5	1710.5	1434.3	3144.8	25.7	74.3

Source: Befekadu, 1994

* Southern Ethiopian Peoples' Region (from region 7-11).

Table 4.5: Revenue, Expenditure and Level of Regional Dependence on Central Government

Grants/Subsidies in 1987 E.C. Budget year (In million Birr).

Regions	Own Revenue	Expenditure			[1] as % of [4]	Level of Dependence
		Recurrent	Capital	Total		
	[1]	[2]	[3]	[4]	[5]	[6]
Tigray (1)	51,910	147,386	180,394	327,780	15.8	84.2
Afar (2)	8,550	53,257	88,556	141,813	6.0	94
Amhara (3)	121,240	448,361	293,006	741,368	16.4	83.6
Oromia (4)	236,190	672,439	367,130	1,039,569	22.7	77.3
Somali (5)	47,830	78,563	86,702	165,265	28.9	71.1
Ben./Gum.(6)	4,860	46,686	59,973	106,659	4.6	93.4
SEPR	96,120	347,338	260,686	608,024	15.8	84.2
Gambella (12)	13,050	34,651	55,537	90,188	3.4	96.6
Hareri (13)	7,850	26,414	14,296	40,710	19.3	80.7
Region 14(A.A)	287,140	184,471	185,975	370,446	77.5	22.5
Dire Dawa* (15)	19,700	26,121	10,447	36,568	53.9	46.1
Total	884,440	2,065,687	1,602,702	3,668,389	24.1	75.9

Source: Budget Proclamation No. 109/1995

- * High degree of fluctuations in level of dependence occurred because of some factors such as unstable leadership in the region that affected consistent management.

Tables 4.4 and 4.5 show that regions are very much dependent on central government subsidies. The Tables show the following features:

- The regions own revenues are projected to finance no more than 47.1% and 42.8% of their recurrent expenditures and none of their capital expenditures in 1986 and 1987 E.C. respectively.
- The dependence on individual basis ranges from 96% of Region 12 (Gambella Peoples') to 19.6% of Dire Dawa in 1986 and from 96.6% of the same region to 22.5% of Region 14 (Addis Ababa). One may wonder about the case of Region 13 (Hareri) since the level of dependence is very low in 1986 E.C. while in many cases it is one of those regions with many problems, but the low figure of dependence is because of very low central subsidy to the Region i.e. 6.5 million in 1986 which is the lowest next to Dire Dawa.

- c) Region 14 ,and Dire Dawa seem relatively viable in their own revenue generation. This might be because these regions are city regions where a good deal of business transactions are taking place and hence create good chances for tax revenues.

Regions which are considered to be relatively endowed with resources like Oromia and Southern Ethiopian Peoples' are still dependent more or less as other regions are. This problem might have been caused probably because of low managerial capacity to develop and collect revenues from potential sources. But, Bulti has gone beyond this conclusion. He said that a high decentralization ratio is accompanied by very low financial authority. This is because of the fact that the revenue sources allocated to the regions are weak and narrow. And it is this low level of financial autonomy which created heavy dependence on the central government for both recurrent and capital budgets (Bulti, 1994).

Befekadu (1994) also explained the cause of fiscal dependence of regions in line with Bulti. The overwhelming fiscal dependence of the regional governments on the central government is deeply rooted in the assignment of revenue bases between the center and the regions. Table 4.6 shows to what extent the federal government dominates the national revenue. The Average regional governments share of the domestic revenue is 16.3 percent.

Table 4.6: Percentage Share of Total Domestic Revenue- The Regional-Federal Nexus

Year in E.C.	Regional	Federal	Total revenue
1986	16.8	83.2	100
1987	15.1	84.9	100
1988	16.5	83.5	100
1989	17.4	82.6	100
1990*	15.7	84.3	100
Period Average	16.3	83.7	100

Source: Adapted From Department of Finance and Budget, MEDaC, 1997b.

* Budgeted Revenue.

The fiscal base assigned to the regional governments is very weak and generates revenue far below the level required to fulfil the objectives of fiscal independence. For all

the regions, profit and sales tax on petty traders , charges and fees on licences issued and services rendered by them and personal income tax collected from their own employees are the most important sources of revenue. The agricultural income taxes are other important revenue sources for many regions but they are not good sources of revenue as they are not expected to grow significantly without increase in productivity and raising the rate at which agricultural income is taxed. Brosio and Gupta agree on the weak revenue sources of regional governments and stated the fact as the revenue assignment of regional governments is very weak which is concentrated in direct tax revenue including most personal income taxes; however, there is no historical evidence in Ethiopia of sustained growth of these taxes. As a result, there is a large and growing vertical fiscal imbalance between the regional share of revenue and expenditures, which has widened from 14.7 percent in 1993/94 to 28.5 percent in 1995/96 (see Table 4.7).

Table 4.7: Expenditures and Revenue of the Federal and Regional Governments
(In percent of Total)

	1993/94	1994/95	1995/96	Period Average
Federal government				
Expenditure share (a)	68.5	60.1	55.4	61.3
Revenue share (b)	83.2	85.3	83.9	84.1
Difference (b-a)	14.7	25.2	28.5	22.8
Regional Governments				
Expenditure share (a)	31.5	39.9	44.6	38.7
Revenue Share (b)	16.8	14.7	16.1	15.9
Difference (b-a)	-14.7	-25.2	-28.5	-22.8

Source: Brosio and Gupta, 1997.

In two years time the gap has doubled and the average revenue shortfall for regional governments for their limited expenditure is 22.8 percent. The federal government dominates not only the revenue collection but also the spending of the national revenue. The central government has declared that it has decentralized social, economic, and political activities for regional governments. Such activities require high spending by regional governments. But as it can be seen from Table 4.7 the total spending of regional governments is on the average 38.7 percent which is far behind the federal spending while the majority of social, economic and political activities are carried out by regional governments. This proves Rondinelli's observation which he stated as , in addition to the lack of resources at regional level, national governments transfer planning and

administrative functions without providing sufficient financial resources to spend for their assigned activities. One of the most important preconditions for effective decentralization is the existence of decentralized revenue raising and expenditure system. But in the Ethiopian case, both revenue raising and spending are not sufficiently decentralized. Brosio and Gupta (1997) put this fact as “ the expenditure responsibilities assigned to the federal and regional governments in the constitution are close to what is found in a highly centralized system”. One more fact of centralized character of regional spending is that regional governments spend their recurrent budget grant under the supervision of MOF being released every month from the central treasury.

4.1.5.2. TAXATION

Tax revenue is the revenue which regional authorities collect and retain themselves. This is the most common and widely used source of revenue. A tax collected by regional governments may be levied under central government legislation. The central legislation may stipulate the tariff or leave this to the discretion of regional authorities within or without limits . Alternatively, taxes may be imposed by regional authorities under their own legislative power (Davey, 1983). In the Ethiopian case, , regions are allowed to levy and collect taxes from those taxes which are allotted for them. However, there is a need for harmonized and standardized tax base between the central and regional governments.

Theoretically, regional governments in Ethiopia have two basic categories of revenue sources from taxes. These are identified under Articles 97 and 98 of Proclamation No 1/1995 revenues specifically categorized for regions and joint revenues of the central government and regional governments respectively. But the later has benefited nothing so far. Annex 2 shows the federal independent sources, regional/state’s independent revenue sources and also the joint revenue sources. The collection and administration of revenues from tax bases which are allotted for regions are left for them, and at least theoretically, the collection and administration of joint revenues was meant to be collected jointly.

As mentioned earlier, the tax bases left for regions are very weak. The most productive and lucrative sources of revenue remained under the central government control. The lion’s share of each tax group is taken by the central government and none goes to regions from foreign trade tax. For instance, the federal government collects on the average

85 percent of all indirect taxes, more than 60 percent of direct taxes, and 100 percent of foreign trade taxes. It is such a monopoly of revenue sources which made regional governments highly dependent on the central government grants. The following Table shows how poor the share of regions from tax revenues is.

Table 4.8: Percentage Share of Regional and Federal Governments on major Items (Taxes and Non-Taxes) in Total Domestic Revenue

Year In E.C.	Major Item	Regional	Federal	Grand Total
1986	Direct Tax	43.8	56.2	100
	Indirect Tax	11.6	88.4	100
	Foreign Tax		100	
	Total Tax	16.6	83.4	"
	Total Non-Tax	17.6	82.4	"
	Total Revenue	16.8	83.2	"
1987	Direct Tax	40.7	59.3	"
	Indirect Tax	13.2	86.8	"
	Foreign Tax		100	"
	Total Tax	16.6	83.4	"
	Total Non-Tax	12.0	88.0	"
	Total Revenue	15.1	84.9	"
1988	Direct Tax	35.6	64.4	"
	Indirect Tax	18.0	82.0	"
	Foreign Tax		100	"
	Total Tax	17.5	82.5	"
	Total Non-Tax	14.4	85.6	"
	Total Revenue	16.5	83.5	"
1989	Direct Tax	38.7	61.3	"
	Indirect Tax	17.9	82.1	"
	Foreign Tax		100	"
	Total Tax	18.2	81.8	"
	Total Non-Tax	15.7	84.3	"
	Total Revenue	17.4	82.6	"
1990*	Direct Tax	36.0	64.0	"
	Indirect Tax	14.9	85.1	"
	Foreign Tax		100	"
	Total Tax	16.3	83.7	"
	Total Non-Tax	15.7	84.3	"
	Total Revenue	15.7	84.3	"
Period Average	Direct Tax	38.9	61.1	"
	Indirect Tax	15.1	84.9	"
	Foreign Tax		100	"
	Total Tax	17.0	83.0	"
	Total Non-Tax	11.6	88.4	"
	Total Revenue	16.3	83.7	"

Source: Department of Finance and Budget, MEDaC, 1997b.

* Budgeted amount.

1. Direct taxes are taxes which are levied on personal income, business income, agricultural income, land use and taxes on dividend and chance winning.
2. Indirect taxes are taxes which are levied on:
 - a) sales tax on locally manufactured goods such as food, iron and steel, non-metallic mineral products;
 - b) service sales tax like garage, laundries, advocates, auditing, and consultancy; and
 - c) stamp sales tax
3. Foreign trade taxes include :
 - a) custom duty and tax on imported goods such as motor vehicles and accessories, machineries, capital goods and accessories, building materials and metals;
 - b) excise tax on imported goods such as petroleum, automobiles, textiles, tobaccos and tobacco products, and alcohol and alcoholic beverages; and
 - c) duty and tax on coffee export such as customs duty, sur tax and transaction tax (Proclamation. No. 109/1995).

4.1.5.3. DOMESTIC /INTERNAL BORROWING

Regional authorities in different countries borrow from a variety of sources, including international and foreign agencies, centrally operated credit funds, commercial banks and other financial institutions, private investment or internal resource funds (Davey, 1983). However, in the Ethiopian case, borrowing is limited to internal sources. Regions are allowed to finance some of their activities through borrowing from the central government.

Art. 35 of Proclamation. No. 7/1992a gives the right to regional governments borrow from domestic sources. Art. 10 of Proclamation. No. 33/1992b details the conditions and procedures under which the regional governments exercise this right. The law requires regional governments to submit to the Ministry of Finance or the Ministry of Planning and Economic Development (now Ministry of Economic Development and Cooperation, MEDaC), as the case may be the amount they would like to borrow along with statements

showing a) the relation of the requested amount to their revenue forecast, b) economic indicators of their region (to assess their capacity to repay the debt), c) their consolidated budget and d) the feasibility study of the project for which the loan is required. In fact the new proclamation i.e. Proclamation. No. 57/1996 has given this mandate to the Ministry of Finance (Befekadu, 1994).

The Ministry of Finance evaluates the application based on the information provided by the regions and the impact of the borrowing on the overall national deficit, and communicates the decision to the concerned region and the National Bank of Ethiopia. But if the source of borrowing is from entities other than the National Bank of Ethiopia, the respective regional government and the Ministry of Finance shall jointly agree on the administrative arrangements related to such borrowing (Art. 59(3) of Proclamation. No.57/1996).

Regional governments borrow only for the specific purpose of financing projects whose feasibility studies convince the Ministry of Finance and also when regions are able to prove their capacity to repay the credit through revenue forecasts based on realistic economic indicators. Such processes make regional borrowing a cumbersome task. In addition, there are some potential conflicts with the major political objectives of the country i.e. balanced regional development. One of the most important preconditions for regions to borrow is their capacity to repay as shown by their revenue forecasts. But there are some regions as shown in Tables 4.4 and 4.5 (Afar, Benishangul/Gumuz and Gambella) whose revenue raising capacities are below 10%. This indicates that these regions can borrow the smallest amount and this further aggravates regional inequalities in economic development. What is more worrisome is that, those regions which were marginalized in the past are still marginalized.

Direct borrowing from regional branches of banks for the purpose of deficit financing is not allowed. In the case of enterprises operating in regions , however, it is expected that the same rules and regulations applicable to other commercial enterprises are applied (Girma, 1994). The other problem related to borrowing is the failure to mention the instrument of debt. For example, the central government could borrow from domestic sources by issuing treasury bills and bonds. No such instrument is acknowledged or identified for regional governments (Befekadu, 1994).

4.1.6: REVENUE RAISING AND UTILIZATION CAPACITIES OF REGIONAL GOVERNMENTS

The availability of lucrative revenue sources does not guarantee regional governments fiscal independence. Regional revenue sources, mainly taxes of different types, require a great deal of administrative merit to benefit from. There are many problems in the process of tax collection, most significantly in the evaluation process. This requires staff with technical skill sufficient in numbers to survey every property and honest enough to resist the temptation to which such direct contact with the tax payer inevitably gives rise to. For a good deal of revenue collection, there must be a continuous surveying of every tax base and valuing and revaluing the tax amount. However, the valuation process is so complex particularly when qualified manpower lacks (Davey, 1983).

Regional governments in Ethiopia do not have lucrative tax base, moreover, they are not effectively and efficiently collecting revenues left for them. This is because of the fact that they lack the capacity, both logistics and trained manpower, needed to collect and administer revenues. Even if the revenue raising and utilization capacities of regional governments are improving from time to time, they are not still strong enough to collect and utilize sufficiently. Revenue raising efforts measured in terms of growth rates in the last four years was on the average 25.75 percent. For instance Tigray, SNNP Regional Governments and Region 14 Administration registered above the national average rate (MEDaC, 1998).

When it comes to regional revenue contributions, revenue collections are highly concentrated in few regions; five regions namely Tigray, Amhara, Oromia, SNNP, and Addis Ababa accounted for 90.1 percent and 91.1 percent of the total regional revenue in 1993/94 and 1994/95 respectively while the smallest six contributed 9.9 percent and 8.9 percent in the respective years (see Table 4.9). This illustrates the regions' widely divergent revenue raising capacities. In fact the five regional governments also accounted for 85.53 percent and 84.16 percent of regional share from total budget allocations (see Table 4.10).

Table 4.9: Revenue Share of Regional Governments

Region/Administration	Regional Government Revenue Share (In percent of total)			
	1993/94		1994/95	
	Budget	Actual	Budget	Actual
Tigray (region 1)	7.1	6.1	5.9	6.8
Afar (region 2)	1.0	0.9	1.0	0.5
Amhara (region 3)	14.1	14.8	13.7	14.3
Oromia (region 4)	23.0	31.5	26.7	29.2
Somali (region 5)	3.9	5.9	5.4	4.5
Benishangul/Gumuz (region 6)	0.6	0.5	0.5	0.6
SNNP (region 7-11)	10.3	0.1	10.9	11.5
Gambella (region 12)	0.3	0.4	0.3	0.5
Hareri (region 13)	2.3	0.9	0.6
Addis Ababa (region 14)	34.5	27.6	32.5	29.3
Dire Dawa (region 15)	2.9	2.2	2.2	2.1
Total	100	100	100	100

Source: Brosio and Gupta, 1997.

Table 4.10: Regional Governments Share from the total Budget Allocation (In percent)

Region	1993/94	1994/95	1995/96	1996/97	1997/98
Tigray	8.83	8.96	8.33	8.90	7.66
Afar	3.70	3.86	3.61	3.52	5.04
Amhara	22.12	20.20	20.73	20.26	19.2
Oromia	28.14	28.33	27.50	28.01	25.29
Somali	4.36	4.50	4.22	4.12	7.57
Benishangul/Gumuz	2.70	2.91	2.63	2.65	3.63
SNNP	15.41	16.57	16.57	16.19	15.90
Gambella	2.05	2.46	2.20	2.15	2.80
Hareri	0.77	1.11	1.01	0.99	1.78
Addis Ababa	10.99	10.10	12.26	12.34	10.04
Dire Dawa	0.93	1.00	0.93	0.87	1.08
Total	100	100	100	100	100

Source: Department of Regional Planning and Development, MEDaC, 1998.

It has been stated that the revenue base given to regions is very weak as it can not cover half of their expenditures. Further, regional governments do not collect all the

revenues from the sources given to them. This can be seen from 1986 Ethiopian Fiscal Year (EFY) when a total sum of 111.034 million Birr was uncollected from all regions (see Table 4.11)

Table 4. 11: Revenue Schedule and Actual Collections by Regions For 1986 and 1987 EFY
(In Million Birr).

Region	1986			1987		
	Budget (a)	Actual (b)	Difference(b-a)	Budget (a)	Actual (b)	Difference (b-a)
Tigray	57.390	44.222	-13.168	51.910	58.428	6.518
Afar	7.680	7.111	-0.569	8.550	9.740	1.19
Amhara	113.370	95.031	-18.339	121.240	120.419	-0.821
Oromia	185.690	215.207	29.517	236.190	248.914	12.724
Somali	31.080	43.336	12.256	47.830	47.114	-0.716
Benishangul/Gumuz	4.570	3.598	-0.972	4.860	5.046	0.186
SNNP	82.930	72.323	-10.607	96.120	104.857	8.737
Gambella	2.610	3.950	1.340	3.050	5.432	2.382
Hareri	18.870	5.719	-13.151	7.850	5.926	-1.924
Addis Ababa	278.300	184.680	-93.620	287.140	262.258	-24.882
Dire Dawa	23.810	20.189	-3.621	19.700	18.296	-1.404
Total	806.300	695.266	111.034	884.440	886.480	1.990

Source, MOF, 1997a.

There is a big gap between 1986 and 1987 meaning many regions have shown a dramatic change in their revenue collection and a total sum of 1.990 million Birr has been collected above the budget. But there is no sufficient information why such changes were observed. In fact it is very difficult to generalize the revenue collection capacities of regional governments from the two years data. The researcher tried to get data for previous years and could not find as there is no separate data for regions before 1986 E.C. and the data for 1988 and 1989 are not yet available.

Regardless of such unclear observations, according to several reports of regional governments, regions have various problems in collecting and administering revenues. The

following problems are the most serious ones².

1. Lack of trained manpower both in number and mix of qualification (like Economists, Accountants, Managers and the like);
2. Lack of sufficient and reliable information and data to determine the tax amount for each tax payer;
3. The collection of tax by other organs inappropriately. For example, revenue from personal income tax collected from employees of enterprises operating in a region is given for that regional government, however, the Federal Internal Revenue Authority has collected 2.8 million Birr from such revenue in Amhara region;
4. Low level of understanding by tax payers of their tax obligations and failure to pay tax on time.

Further, revenue from agricultural income tax and agricultural land use fee are not collected effectively, which are considered to be important revenue sources, because peasant associations are not motivated to collect as they retain none except chairpersons or secretaries of the peasant associations who are allocated to retain two percent of the total revenue they collect to be used for their personal use.

With regard to revenue utilization, regional governments are not in good standing because of capacity problems. From 1992 to 1995 with the exception of Tigray and Addis Ababa, the allocated budget was not very well utilized as planned. However, the rate of financial implementation has been increasing from year to year due to experience and slight improvement of their capacity. The implementation rate for all regions for funds from the central treasury increased from 73.2 percent in 1993/94 to 100 percent in 1996/97. Even if there is an improvement for funds from the central treasury, the overall utilization rate from all other sources (including loan and assistance) has been relatively low. This is due to the fact that the financial flow from external sources for utilization was very slow specially at the early stages. For instance, in 1993/94 the implementation rate from all sources was 53.0 percent while the rate from central treasury was 73.2 percent(MEDaC, 1998).

2

Information gathered from interview with officials from Oromia and Amhara regions and from different mass media such as Ethiopian Radio, Television and News Papers.

Although the revenue utilization for all regions from the central treasury is improving in a promising direction, there is difference among regions as they differ in skilled manpower for planning and implementation, machinery, material, accessibility for services (poor infrastructure) and the like. Tigray, Amhara, Oromia, SNNP, Addis Ababa and Dire Dawa have shown better revenue utilization capacity from central treasury sources within the last five years. Somali and Gambella are on the right track to improve, while Afar, Benishangul/Gumuz and Hareri are not in good standing (see Table 4.12) (MEDaC, 1998).

**Table 4.12: Financial Utilization Percentage of Regional Governments in Ethiopia
(1993/94 - 1996/97 From Central Treasury Source)**

Region	1993/94	1994/95	1995/96	1996/97
Tigray	104.0	93.4	97.6	135.9
Afar	62.7	34.2	58.5	70.5
Amhara	59.5	72.2	100.7	95.8
Oromia	86.4	91.0	99.9	102.9
Somali	48.8	54.7	95.6	98.3
Benishangul/Gumuz	74.1	87.8	59.1	50.1
SNNP	52.4	89.4	81.4	101.4
Gambella	72.8	63.6	97.8	90.2
Hareri	NA	98.6	62.2	63.2
Addis Ababa	87.0	209.5	84.4	110.6
Dire Dawa	56.4	77.7	82.6	94.7
National	73.2	89.5	90.2	100.4

Source: Department of Regional Planning and Development, MEDaC, 1998.

NA: Not Available

Some regions like Afar, Benishangul/Gumuz, Gambella and Hareri show fluctuations in their utilization rate and this is most probably because of unstable political condition i.e. internal competition and lack of dedicated leaders who compete for self motives than for the development of the people at large. Such regions in general suffer from lack of political commitment to implement the decentralized activities for them which is one of the most important preconditions at any level for effective decentralization policy.

4.2. ADMINISTRATIVE AND PERSONNEL CAPACITY FOR DECENTRALIZATION

One of the central dilemmas of decentralization policy is the administrative and personnel capacity of the different levels of government engaged in the implementation of the policy. Studies of decentralization in some African countries such as Kenya, the Sudan and Tanzania and also in some Asian countries like India and Sri Lanka show the crucial effects of shortages of trained manpower on the success of decentralization policy. The most skilled technicians and the best educated managers are attracted by national ministries and the private sector leaving chronic shortage of skill and talent at regional and local levels. The most skilled and trained personnel always concentrate in the national capital (Rondinelli et.al., 1984).

Most developing countries do not have adequate number of trained personnel to meet the need for the implementation of decentralization policy. The available skilled personnel may meet only the principal needs for the top levels of the public and private sectors. Although the shortage is more chronic at sub national levels, lack of trained and skilled manpower also affects central ministries. Because of such chronic shortage of skilled personnel, the political and managerial influence of regional and local leaders and agencies on the central government is very much limited which puts pressure on citizens to continue to look at the center rather than to the nearest organizations for resources and project preparation and implementation. Under these conditions, the moral of regional and local administrators remain low and their skills remain weak (Rondinelli, et. al., 1984).

Developing countries suffer not only from shortage of trained manpower but also from inefficient, archaic, and corrupted bureaucratic system. Because of these evils, the already available trained manpower is not efficiently and effectively used in the development process of the public sector. The existence of unfavorable conditions in the public bureaucracy pushes out the already employed professionals and repels back the potential applicants. In addition to this, developing countries have been greatly affected by a continuous brain drain due to unfavorable internal political, social, and economic factors. Ethiopia is a good example for this kind of problem.

4.2.1. ETHIOPIA'S ADMINISTRATIVE AND PERSONNEL CAPACITY FOR DECENTRALIZATION: THE LEGAL FRAMEWORK

For a long period, the Ethiopian civil service administration is characterized by a highly centralized system as a reflection of the political system. In its effort to improve the administrative system of the country, the Imperial Government of Haile Selassie established the Central Personnel Agency (CPA) in 1961 by Legal Notice No.23/1961. Since its establishment, this agency had been responsible for the central management of the civil service of the country. The agency was responsible for the development of laws, rules, regulations, procedures and the like to be uniformly applied by all civil servant agencies of the government throughout the country. But there have been some limits on this monopoly since the establishment of regional governments in 1992.

As already mentioned, regional governments have legislative, executive and judiciary organs which are in charge of carrying out the political, administrative and judiciary activities in their respective jurisdictions. In discharging the various activities, regional governments need to have an autonomous body to manage the available manpower and to design ways of overcoming manpower shortage. Proclamation No.41/1993 was proclaimed to respond to such kind of needs. Article 35 of the same proclamation ensured the establishment of the Public Servants Administration Bureau at regional level with all powers and duties for all civil service affairs of regional governments. According to this proclamation, regional public servants administration bureau (now regional civil service commission) shall have the following major powers and duties:

1. To ensure the implementation, in respect of the public servants of the region, of policies, laws, regulations and directives relating to the administration of public servants;
2. To classify positions within the public service of the region in accordance with the directives on the classification of positions issued by the Public Service Commission;
3. To cause the implementation, in respect of the public servants of the region, of the salary scales, various allowances and other benefits applicable to public servants;
4. To give final decision on applications, to extend beyond retirement age, applications

to dismiss on grounds of inefficiency, appeals of public servants of the regional government;

5. To transfer problems arising in the interpretation of Public Service laws, regulations and directives, to the Public Service Commission.

In the processes of carrying out all these responsibilities, the legal framework for regional-federal civil service commissions relations seem very weak as compared to MOF and regional finance bureaux. In fact, in the new proclamation i.e. Proclamation No.8/1995, the federal civil service commission has been empowered “ to prepare and, upon approval, to follow the implementation of policies and laws concerning the civil service and also to issue general criteria on education and work experience necessary for civil service positions”. This means, that there are some national civil service laws that regional governments have to observe as indicated under number 2 and 5 above.

Even if the relation on legislation seems very weak, as a matter of fact, all regions still carry out their personnel functions based on the rules, regulations, policies and standards of the FCSC. So far, regions have not developed their own personnel rules and policies since they do not have the capacity to develop such rules and policies which require well trained and experienced manpower. Let alone to develop new regulations, rules and policies, they are not able to interpret and implement the already existing regulations, rules and policies. In interviews held with FCSC officials and different informal discussions with regional civil servants of Amhara, and Oromia, the researcher has found regional civil service commissions have not yet developed new rules, regulations and policies different from FCSC. The FCSC officers have mentioned that regions like Afar, Gambella, Benishangul/Gumuz and Somali still need not only centrally developed rules and regulations but also practical technical and material assistance. Sometimes they come to the FCSC with potential applicants and ask for assistance in recruitment and selection. The FCSC is also assisting these regions by sending a group of experts for weeks and even for months to provide on the job training to regional civil servants on such technical issues as recruitment, selection, orientation and placement of new employees. It has also provided training for various levels of regional civil servants at the center. Moreover, the FCSC is also serving as intermediary between regional governments to exchange experience and learn

from each other. Having looked at the federal-regional personnel relations, the following sub topics are devoted to the analysis of the administrative and personnel capacity of the current decentralization policy in Ethiopia both at the federal and regional levels and also the efforts being undertaken to improve the capacity of central and regional governments.

4.2.2. THE ADMINISTRATIVE CAPACITY OF THE CURRENT DECENTRALIZATION POLICY IN ETHIOPIA

Decentralization , particularly the devolution type, involves the transfer of legislative, executive, and judicial responsibilities to sub-national units of government. The regional and local units are assigned several activities which are important to improve the lives of the people residing in their geographical jurisdictions. The activities include raising revenue, maintaining law and order, preparing and implementing development projects, establishing and administering self-financing development activities, improving and expanding health and education services, and also other important infrastructural services which improve the social, political and economic conditions of the sub-national units (Rondinelli, et. al. , 1984). The devolution of such activities require very well trained and adequate in number with appropriate mix of qualification and motivated personnel who are dedicated and committed for the purpose of decentralization policy. As already mentioned, the TGE, now the Federal Democratic Republic Government of Ethiopia, has declared a decentralized form of government organized under federal structure. Among the various types of challenges that this policy has faced is the lack of skilled , trained and adequate personnel. This is one of the most important problems which emanated from several factors, such as very low training capacity of the country, the prevailing market oriented economic policy which attracts professionals to the private sector from the public sector, brain drain and the like.

Although the shortage of trained personnel is a national problem, the magnitude of the problem varies from central to regional and from region to region. Relatively, the central government is better than regional governments in terms of qualified personnel both in mix of qualification and in number. However, the central government bureaucracy did not prove its efficiency far better than regional government bureaucracy. There are several reasons why the central government bureaucracy is not performing effectively and efficiently. Among

those the following are some mentioned by Berhanu (1997). In fact, these problems are equally shared by regional governments as a reflection and inheritance of the central government bureaucracy.

1. Irrationality- there are some irrational bureaucratic rules, regulations, and directives that implementers themselves could not justify let alone service users. Some of the rules and regulations are the rules of the defunct regime which are incompatible with the new economic, social and political order. As a result, these problems have increased the cost of lack of trained manpower, since they are causes for delays, errors which at last end in gross inefficiency.
2. Archaic nature of the bureaucracy- one of the characteristic of modern bureaucracy is impersonality of the officer and the client. That is, what cares of the file of the client is the system, once it becomes part of the system not the frequent and unnecessary appearance of the client in the office of the public officer who is processing the file. But the Ethiopian bureaucracy usually requires the appearance of the client in person on a continuous basis simply to inquire about the status of a file with much time lost at the expense of the user public. This again opens an opportunity for petty corruption and inefficiency at a lower level of the bureaucracy.
3. Incompetence- it seems that the ability of bureaucrats at various levels to understand issues and to make decisions are deteriorating rather than improving. The problem is getting more chronic as positions requiring technical competence are filled with political loyal functionaries than with technical capabilities.
4. Lack of confidence to make decisions- In any organization individuals are put in various organizational positions to make decisions within their sphere of influence. However, many public managers are not confident enough to make decisions. They rather prefer to push decisions for committees which may meet after days if the case is lucky or weeks after for that kind of problem. This occurs in many instances because of either individuals who are expected to make the decision are not given the necessary authority while structurally they are there, or individuals do not feel secure unless some politically affiliated individuals say something on the decision making process.

In addition to these, poor training and poor pay have contributed to the inefficient and ineffective nature of the bureaucracy. In examining the training background and qualification of the central bureaucracy, the researcher found that the average educational levels of 1995 and 1996 are as follow 35.35 below grade nine, 61.79 grade twelve and below; 10.57 certificate, vocational and technical incomplete, vocational and technical diploma; and 24.87 percent college/university diploma and above respectively. About 62.0 percent of the civil servants are those without any training who are grade twelve and below where 57.0 percent of these are grade eight and below. Out of the 35.35 percent, 42.0 percent are those who could only read and write and out of the 24.87 percent, 51.0 percent are diploma holders (see Table 4.13). The impact of this poor training and qualification on efficiency and effectiveness is obvious and this is again aggravated by poor pay structure. In the Federal Civil Service, employees earning a salary below 200 Birr constitute 29.43, 44.41 below 300, 59.14 below 400, 66.9 below 500, and 77.0 percent below 600 Birr. It is only 4.43 percent who earn Birr 1000 and above (see Table 4.14). From such poorly trained and poorly paid civil servant it is hard to expect an efficient and effective service (FCSC, 1996 & 1997).

Table 4. 13: Federal Government Civil Servants By Level of Education

Level of Education	1995		1996		Average percent
	Number	Percent	Number	Percent	
Illiterate	15	0.03	14	0.03	0.03
Read & Write	6,676	14.52	6,349	15.01	14.77
Grade 1-3	1,351	2.94	1,291	3.05	3.00
Grade 4-8	7,825	17.02	7,649	18.09	17.55
Grade 9-12	12,748	27.74	10,630	25.14	26.44
Certificate	729	1.59	748	1.77	1.68
Voc./Tech. Incomplete	558	1.28	192	0.45	0.86
Diploma (Voc./Tech).	3,643	7.93	3,433	8.12	8.03
Diploma (College/Univ.)	3,311	7.20	3,239	7.66	7.43
Others Diploma	1,849	4.02	1,716	4.06	4.04
College/Univ Incomplete.	569	1.24	501	2.18	1.21
B.A./B.SC....	3,203	6.97	3,073	7.27	7.12
L.L.B.	96	0.21	93	0.22	0.22
M.D.	266	0.58	278	0.66	0.62
D.V.M.	54	0.12	44	0.10	0.11
Other Univ. Complete	17	0.04	NA	NA	NA
M.A./M.SC..	1,607	3.50	1,532	3.62	3.58
L.L.M.	22	0.05	20	0.05	0.05
Other Second Degrees	15	0.03	NA	NA	NA
Ph.D.	191	0.42	184	0.44	0.43
Others	30	0.07	26	0.06	0.06
Not Stated	1,159	2.52	1,278	3.02	2.77
Total	45,963	100.0	42,290	100	100

Source: Adapted from FCSC, 1996 & 1997, Personnel Statistics.

NA: Not Available

Table 4. 14: Federal Government Civil Servants By Salary Group

Salary	1995		1996		Average Percent
	Number	Percent	Number	Percent	
105-199	13,129	28.60	12,795	30.26	29.43
200-299	7,350	16.00	5,904	13.96	14.98
300-399	7,071	15.40	5,941	14.05	14.73
400-499	3,682	8.00	3,184	7.53	7.76
500-599	4,557	9.90	4,326	10.23	10.10
600-699	2,890	6.30	2,770	6.55	6.43
700-799	2,882	6.30	2,708	6.40	6.35
800-899	1,573	3.40	1,474	3.49	3.44
900-999	1,056	2.30	840	1.99	2.15
1000-1099	342	0.70	650	1.54	1.12
1100-1199	469	1.00	488	1.15	1.10
1200-1299	356	0.80	572	1.35	1.07
1300-1399	129	0.30	109	0.26	0.28
1400-1499	64	0.10	141	0.33	0.22
1500-1599	46	0.10	48	0.11	0.10
1600-1699	39	0.10	38	0.09	0.10
1700 -1799	28	0.10	41	0.10	0.10
1800 & above	153	0.30	159	0.38	0.34
Not Stated	147	0.30	102	0.24	0.27
Total	45,963	100.00	42,290	100.00	100.00

Source: FCSC, Personnel Statistics, 1996 & 1997.

The problem does not seem to be cured by new recruitment and selection because the recruitment and selection of additional new employees still reflect very poor picture. For example, the federal government has hired 1,083 and 826 employees in 1987 and 1988 Ethiopian Fiscal Year (EFY) respectively. Out of the 1,083 employees, 64.4 percent are those without any training who are grade twelve and below and half of these are grade eight and below. It is only 18.4 percent who have got diploma and above. 59.1 percent of the additionally hired employees in 1987 EFY earn a monthly salary of below 200 Birr. So, the situation is worsening rather than improving. Moreover, there is a big gap between the rate of separation and rate of replacement of the civil servants. The numbers of civil servants who separated from civil service for several reasons were 2,513 and 4,987 in 1987 and 1988

EFY respectively whereas the numbers of employees replaced(hired) were 1,083 and 826 in the respective years. The differences are 1,430 and 4,161 respectively and the gaps have shown a dramatic increment (FCSC, 1996 and 1997). The problem of skilled and trained manpower is also aggravated by those employees who are leaving the civil service voluntarily. Even if the statistics does not show the qualification and training of employees who left voluntarily, it may be hypothesized that the employees who voluntarily leave the civil service are those professionals who are qualified and well trained and who are attracted by the better pay and working condition of the private sector. This in fact requires further research to come up with concrete picture of the type of qualifications of the employees who are leaving the civil servant voluntarily. The number of civil servants who left their jobs voluntarily was less than 3.0 and 4.0 percent in 1983 and 1984 EFY of all the “civil servants separated from service” (including retirement, death, fired for incompetence and discipline etc.). This number has dramatically increased to 25.0 and 21.0 percent in 1987 and 1988 EFY respectively. In actual numbers, less than 200 people left their government jobs voluntarily in any year before 1983 E.C. which increased to 215, 1370, and 2397 in 1984, 1987, and in 1988 respectively for the country (Berhanu, 1997).

The civil servants who left the federal civil service (excluding regions) are greater than the total sum of the civil servants who left the civil service in a given fiscal year before 1983. For example, the total number of civil servants who left the civil service in 1983 E.C. was 132, but the number of civil servants who left the federal civil service only in 1987 and 1988 was 632 and 776 respectively which is about five and six times of the 1983.

The movement of civil servants from the public sector to the private sector is also a serious problem for regional governments. For example, in 1995 and 1996, regional governments have lost many of their trained personnel as they left their civil service voluntarily and this has a great impact on their capacities (Table 4.15).

Table 4.15: Total Number of Permanent Regional Employees who Left the Civil Service Voluntarily (1995 &1996).

Region	1995		1996	
	Number	As % of total No. Of regional employees separated from service	Number	As % of total No. Of total regional employees separated from service
Tigray	174	69.0	254	68.5
Amhara	330	13.1	419	26.2
Oromia	NA	NA	532	14.7
Somali	7	17.0	NA	NA
Benishangul/ Gumuez	NA	NA	63	18.4
SNNP	74	29.0	103	28.4
Gambella	26	19.5	26	27.4
Hareri	26	29.5	40	29.4
Region 14	101	20.5	184	15.9
Dire Dawa	NA	NA	14	16.3
Total	738	20.0	1,635	21.2

Source: Adapted from FCSC, Personnel Statistics, 1996 & 1997.

Even if the case of Oromia which has the largest share in 1996, is not known for 1995, there is a dramatic increase in actual number from 1995 to 1996 which indicates a very serious trend that calls up on all concerned bodies with regional governments capacity. It may be argued that this happened because of the centralized government policy before 1991 the mobility of professionals to the private sector was very limited whereas the mobility of professionals in post-1991 is relatively free because of the market oriented policy of the government. But the concern of the researcher is that the mobility of professionals to the private sector greatly affects the capacity of government institutions to implement the decentralization policy.

One more factor that affects the manpower capacity of governments is brain drain. It is well known that developing countries suffer not only from lack of skilled manpower but also from massive outflow of the few skilled manpower who are indispensable for the development of the domestic economy. Among large number of African ‘ professional speciality and technical’ and ‘executive and managerial’ personnel admitted to the U.S.A., Ethiopia “contributed” the second largest number next to Nigeria. Though the trend seemed

declining from 1982 to 1987 E.C. i.e. 7.1. in 1982 and 4.3 in 1987 as a percentage of Africa, it is again raising in the last two years which is 5.9 in 1988 and 7.8 in 1988 E.C. (Dejene & Yohannes, 1997).

As a case study by Dejene and Yohannes on four government organizations viz, Addis Ababa University (A.A.U.), Ministry of Economic development and Cooperation (MEDaC), Science and Technology Commission (STC), and Disaster Prevention and Preparedness Commission (DPPC) indicates, from 1981/82 to 1996/97, the average brain drain percentages for the respective organizations are 35.0, 38.0, 41.0, and 23.0. In the above four respective organizations the highest percentage of non-returnees in the respective years based on program of study are A.A.U. 1981/82-1994/95, 42.0 Ph.D. specialization; MEDaC 1980/81-1996/97 50.0 M.A./M.SC. Study, STC 1986/87-1995/96, 100.0 certificate Ph.D. and DPPC 1992/93-1995/96, 62.0 M.A./M.SC. study. It is not easy to imagine the impact of such brain drain on the manpower capacity of the country which is difficult to replace within short period of time while the impact is an immediate one.

As already mentioned, lack of trained manpower is a national problem, however, regional governments suffer more than the central government. Most of the functional institutions such as bureaux, departments and other offices at all levels of regional governments, are suffering from lack of expertise and experienced skilled manpower. In fact, the magnitude of the problem varies from region to region. Regions like Tigray, Amhara, Oromia and SNNP and Addis Ababa Administration are relatively in a better position whereas Afar, Benishangul/Gumuz, Gambella and Somali are the most seriously affected regions. This has been seen from their inability to utilize the allocated budget and also from their limited capacity to raise the budgeted revenue. Table 4.16 shows the great disparity between regional governments in their manpower. Note that if one looks at the percentage of civil servants in relation to the total population for each region, the relatively disadvantaged regions will be Amhara and Oromia since they have the highest absolute number of population in the country. But this may be a misleading approach as economies of scale can be applied for the use of manpower; i.e., if the services of very well trained personnel can benefit many people.

Table 4.16: Distribution of Total Number of Permanent Regional and Federal Employees

Region	1995		1996	
	Number	Percent	Number	Percent
Tigray	16,635	5.7	17,338	6.0
Afar	4,067*	1.4	4,067 ¹	1.4
Amhara	57,010	19.4	59,345	20.6
Oromia	79,741**	27.2	85,660	29.8
Somali	5,360	1.8	5,360 ²	1.8
Benishangul/Gumuz	4,811*	1.6	3,075	1.1
SNNP	50,000**	17.0	43,362	15.1
Gambella	2,735	0.9	2,524	0.9
Hareri	2,687	0.9	2,698	0.9
Addis Ababa	22,280	7.6	19,969	6.9
Dire Dawa	2,153	0.7	2,028	0.7
Regional Total	247,489	84.3	245,426	85.3
Federal total	45,963	15.7	42,290	14.7
Grand Total	293,452	100.0	287,716	100.0

Source: FCSC, Personnel Statistics, 1996 & 1997.

* Taken from February 1995 information.

** Since The information was not complete the total figure is reported by the bureaux.

¹ taken from February 1995 information.

² Taken from June 1995 information.

Benishangul/Gumuz and Gambella regions are not only unable to increase the number of employees but also unable to maintain the number of employees already employed. This means the total number of employees has decreased from 1995 to 1996 while most of the regions have shown slight increment.

The problem of manpower of regional governments' is not easily visible when looked at the total number of employees. The problem is visible when looked at the level of educational background of the employees in each region. Most administrative positions are filled by non-professionals who lack strategic thinking and the necessary technical skills. Table 4.17 shows how low is the educational background of regional employees.

**Table 4.17: Total Number of Permanent Regional Employees By Level of Education
1995**

Level of Education	Tigray	Amhara	Oromia	Somali	SNNP	Gambella	Hareri	Reg.14	Dire Dawa	Total No.	%
Illiterate	NA	140	NA	NA	19	12	1	560	NA	732	0.4
Read & Write	NA	3,183	3,764	744	307	126	76	809	162	8,171	5.0
Grade 1-3	NA	402	NA	220	457	78	133	530	10	1,830	1.0
Grade 4-8	NA	4,951	6,131	187	1,576	711	290	1,889	203	15,938	8.6
Grade 9-12	NA	11,301	12,013	519	3,527	986	653	3,376	1,093	33,468	18.1
Certificate	NA	26,533	30,754	38	485	418	615	470	9	59,322	32.1
Vic/Tech. Diploma	NA	761	5,781	15	1,950	52	38	1,078	25	9,700	5.3
Diploma College	NA	6,266	2,386	109	1,114	161	495	2,044	212	12,785	6.9
1 st -4 th year college	NA	716	2,183	NA	29	80	222	147	183	3,560	1.9
B.A./B.SC...	NA	1,987	2,181	48	342	68	110	364	123	5,223	2.8
M.D.	NA	259	NA	NA	NA	2	35	160	18	474	0.3
D.V.M.	NA	90	197	NA	195	5	1	13	16	517	0.3
M.A./M.SC.	NA	368	267	NA	82	NA	18	91	6	832	0.5
Ph.D.	NA	5	10	2	15	21	10	5	6	74	0.0
Special Skill	NA	NA	14	NA	NA	NA	NA	NA	NA	14	0.0
Not stated	16,635	48	59	3,476	NA	15	NA	10,744	83	31,062	16.8
Total	16,635	57,010	65,740*	5,360	10,098 *	2,735	2,697	22,280	2,153	184,708	100.0

Source: Adapted from FCSC, Personnel Statistics, 1996.

NA: Not Available.

**Table 4.18: Total Number of Permanent Regional Employees By Level of Education
For 1996**

Level of Education	Tigray	Amhara	Oromia	Beni/ Gumeze	SNNP	Gambella	Hareri	Reg.14	Dire Dawa	Total No.	Percent
Illiterate	NA	124	282	11	53	22	68	181	NA	741	0.3
Read & Write	939	2,847	2,027	78	951	150	102	1,299	111	8,504	3.6
Grade 1-3	199	662	1,438	60	305	45	29	601	11	3,350	1.4
Grade 4-8	1,881	4,821	6,073	595	3,965	622	321	2,207	156	20,641	8.7
Grade 9-12	2,168	11,597	19,166	573	13,005	1,015	829	4,076	902	53,331	22.6
Certificate	9,675	28,400	38,890	1,262	17,473	334	685	3,192	94	100,005	42.4
Voc./Tech. Incomplete	NA	61	NA	NA	NA	5	NA	99	7	172	0.1
Voc./Tech. Diploma	83	535	4,882	48	379	41	130	1,215	72	7,385	3.1
Diploma (College)	1,638	6,607	7,957	206	4,890	145	325	3,090	220	25,078	10.6
Other diploma	NA	NA	NA	96	NA	7	NA	854	185	1,142	0.5
1 st -4 th year college	5	492	1,177	18	63	10	7	917	28	2,717	1.2
B.A./B.SC...	565	2,459	2,795	94	1,528	103	147	1,727	124	9,542	4.0
L.L.B.	3	2	6	NA	NA	1	NA	9	NA	21	0.0
M.D.	78	273	282	30	NA	1	43	155	29	891	0.4
D.V.M.	22	114	117	3	83	5	1	9	10	364	0.2
other Univ. Complete	NA	NA	NA	NA	NA	NA	NA	57	NA	57	0.0
M.A./M.SC.	69	346	474	NA	288	16	10	151	5	1,359	0.6
L.L.M.	NA	2	NA	NA	NA	1	NA	NA	NA	3	0.0
Ph.D.	NA	3	17	1	175	1	1	6	NA	204	0.1
Others	13	NA	56	NA	NA	NA	NA	124	NA	193	0.0
Not stated	NA	NA	21	NA	204	NA	NA	NA	74	299	0.1
Total	17,338	59,345	85,660	3,075	43,362	2,524	2,698	19,969	2,028	235,999	100.0

Source: Adapted from FCSC, Personnel Statistic, 1997.

NA: Not Available

* There is difference between the total without classification by education and the total based on Level of Education. This is because of the fact that there are many gaps left unfulfilled as indicated by NAs. Even if many figures are missing for many regions, the educational background of regional employees is very low . For instance, in 1995 it is only 12.7 percent of the total regional employees who have college diploma and above and it is only 3.36 percent with B.A./B.SC. degree and above. 87.3 percent of regional governments' employees are below college diploma level of education. In 1996 again, 82.2 percent of regional employees are still below college diploma. This percentage is even greater for some regions like Gambella and Benishangul/Gumuez, 88.5 and 85.4 percent respectively.

The recruitment and selection of new employees by regional governments to improve their capacity is very weak which depends most on unqualified and unskilled personnel. For example, except Tigray and Amhara regional governments, the 1987 EFY regional employment consists of more than 50.0 percent grade twelve and below. Out of the total number of employees, 56.7 percent of Somali, 59.2 of SNNP, 72.1 of Gambella, 74.4 of Hareri, 75.0 of Region 14 and 61.0 percent of Dire Dawa are grade twelve and below. In general, the number of trained personnel is very low in all regions although the magnitude varies. This makes it difficult to prepare and implement strategic development plans and activities. Hence, the hope of achieving fast regional and national development at large is greatly affected by the very low administrative capacity.

The concentration of unskilled and unqualified manpower in the regional and federal civil services and the continuous reduction of trained personnel show the inability of the civil service agencies to compete with the private sector. Regional governments are losing just like the federal government the very few trained personnel because of poor pay which is the direct reflection of the central government pay structure. The situation is more frightening in the future as the private sector gets stronger to attract professionals while the central and regional governments' officials are not ready to take any radical measures of retaining professionals³.

What should be noted here is that the impact of very weak civil servant is not only on the public sector but also on the private sector. The private sector will develop to the fullest extent and contribute to regional and national economic development if only there is an efficient and effective public bureaucracy which is in charge of executing public policies and creating an enabling environment for the private sector. For example, private investors have a vested interest to invest in regional governments. But, by the time these investors begin to operate in any region, they begin to attract professionals from regional civil servants and hire them with better pay and other benefits. At this time, regional offices remain vacant and also the activities to be performed by these offices remain incomplete including cases of investors and then investors get stuck. Hence, improving the capacity of regional and

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The Prime Minister and other federal and regional officials have repeatedly mentioned that the public sector is unable to compete with the private sector since the public sector could not afford to compete. And they proposed that the only way is to continue with those who still want to stay in the public sector.

federal government institutions need a due attention for effective and meaningful economic development

Because of all these problems, the implementation of current decentralization policy of Ethiopia is very much constrained both at federal and regional levels.

4.2.3. CAPACITY BUILDING EFFORTS IN ETHIOPIA

Decentralization calls for training of the public servants at different levels in the implementation of the policy. Management training for national, regional and local government staffs should get the priority. This is necessary to develop both leadership and professional competence to better speculate needs, views and perspectives from various levels. Such training and capacity development are also part and parcel of the process of empowering regional and local leaders to seize the initiative on alternative policy options, programs and plans (NUECA, 1993).

As soon as regional governments are established, one of the immediate problems was the acute shortage of trained manpower to fill the various bureaux and other administrative offices of regional governments. The TGE tried to solve the problem by transferring professionals from central sectoral ministries and other offices to different regional governments. Accordingly in 1994/95, 679 skilled professionals of the central government have been transferred to different regional governments. This measure has provided some opportunity to fill some of the gaps of skilled manpower. Another strategy used to minimize the problem was hiring professionals at regional levels. Regardless of these efforts, many bureaux, departments and offices are suffering from lack of trained personnel. In fact, the problem of shortage of skilled manpower is still growing. The problem is more acute for some professionals such as engineers, accountants, economists, lawyers, administrators and doctors (MEDaC, 1998).

The need for human resource capacity development to upgrade the quality of staff in the regional bureaux, zonal departments, and woreda offices has been very well understood by central and regional governments. In response to this need the central government has been engaged in different short-term and long-term training schemes which are carried out through its various executive organs. The Regional Affairs Office of the

Prime Minister Office, the Ethiopian Civil Service College, the Ethiopian Management Institute, Federal Civil Service Commission and the Ethiopian Mapping Authority are some of the institutions which are undertaking vital tasks in training. MEDaC has also offered training with the assistance of bilateral and multilateral agencies in the areas of planning and plan implementation, evaluation and monitoring; and in project management. The Federal Civil Service Commission has undertaken a series of training for higher and middle level professionals in the area of management and administration. Ethiopian Mapping Authority also conducted training on mapping and surveying to regional participants (MEDaC,1998).

The Ethiopian Civil Service College is established mainly with the purpose of alleviating the problem of trained manpower at regional levels. The college is not limited in formal academic teaching. It also provides short-term training programs in various disciplines especially for employees working in Afar, Somali, Benishangul/Gumuz and Gambella regions with certificate. The college began short-term training recently in July 1997. The training program includes accounting, budgeting, auditing and administration, law, drafting and surveying. The following Table 4.19 provides the general picture of short-term training conducted by the college.

Table 4.19: Total Number of Employees Who have Completed Short-Term Training By Regions and By Disciplines in Ethiopian Civil Service College (July-Nov.1997)

Region	Disciplines				
	Accounting	Auditing & Administration	Law	Drafting & Surveying	Total
Afar	3	21	17	20	61
Oromia	2	NA	NA	2	30
Somali	19	29	12	42	102
Benishangul/Gumuz	3	18	1	17	39
Gambella	15	22	21	37	95
Total	42	90	52	118	327

Source: Adapted from Department of Regional Planning & Development, MEDaC, 1998.

NA: Not Available.

The Ethiopian Civil Service College is providing long-term academic training with B.A. degree in Law, Economics, Accounting, and in Municipal Engineering and Town

Planning. There college has received 1823 students in the above departments and out of these 347 and 360 have graduated in November 1997 and on May 9, 1998⁴ respectively. Table 4.20 shows the regional distribution of the training opportunities in the college.

Table 4.20: Enrollment of Students By Departments and Regions In Ethiopian Civil Service College (1994/95-1997/98).

Regions	Departments					Total	Total Percent
	Law	Economics	Accounting*	Municipal Engineering & Town Planning**			
Tigray	82	59	70	39		250	13.7
Afar	21	15	11	2		49	2.7
Amhara	97	69	88	44		298	16.3
Oromia	105	59	77	42		283	15.5
Somali	97	31	66	6		200	11.0
Benishangul/Gumuz	42	23	23	8		96	5.3
SNNP	167	85	96	56		404	22.2
Gambella	52	18	7	NA		77	4.2
Hareri	13	8	11	7		39	2.1
Region 14(Addis Ababa)	9	2	NA	NA		11	0.6
Dire Dawa	3	2	6	1		12	0.7
Federal Government	34	32	28	10		104	5.7
Total	162	144	130	286		1823	100

Source: Adapted from Department of Regional Planning & Development, MEDaC, 1998.

* Started in 1995/96.

** Started in 1996/97.

The Ethiopian Management Institute (EMI) in cooperation with the Regional Affairs Office of the Prime Minister Office, rendered an extensive short-term training service for professionals on various courses such as project planning, implementation and evaluation; management and development planning, public finance, human resource management etc. In the last four years, the institution had trained 1,643 trainees working in various bureaux and departments of regional governments. Training programs of the institute have helped

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Taken from Ethiopian Television News Transmitted on May 9, 1998.

to upgrade the strategic and analytical skill of trainees and minimize trained manpower shortages of regional governments. Table 4.21 shows the training performance of the institute by regional governments.

Table 4.21: Total Number of Regional Trainees by EMI

Region	Number of participants	Percent
Tigray	137	8.3
Afar	58	3.5
Amhara	204	12.4
Oromia	247	15.1
Somali	60	3.6
Benishangul/Gumuz	216	13.2
SNNP	137	8.3
Gambella	209	12.7
Hareri	190	11.6
Region 14	124	7.6
Dire Dawa	61	3.7
Total	1634	100.0

Source: Adapted from Department of Regional Planning & Development, MEDaC, 1998.

Various ministerial offices and organizations of the federal government have also provided short-term and long-term training for their employees to improve their executive capacity. For example in 1995, 1,589 employees have been trained in Ethiopia and out side Ethiopia. 62.9 percent of the trainees were trained in the country and the rest were trained in various countries outside Ethiopia. Most of the trainees were short-term trainees from one to three months who constitute 74.9 percent of the total trainees (FCSC, 1997).

Even if the efforts being made are encouraging, the administrative capacity of regional and central governments is still very weak. Moreover, such efforts are challenged by several factors such as mobility of the civil servants to the private sector and brain drain. So, there is a felt need for more extensive training efforts by regional and central

governments. Mere extensive training may not improve the capacity of the public sector unless it prepares itself to compete with the private sector and retain professionals by improving the working conditions and the pay structure.

4.3. DECENTRALIZED PLANNING AND INVESTMENT MANAGEMENT IN ETHIOPIA

There is a growing recognition that development becomes more effective and sustainable when plans are prepared at regional and sub-regional levels which demands the shifting of greater authority from central planning institutions to regional and sub-regional planning institutions. This provides opportunities for popular participation in the planning process. In theory, the central theme of decentralization policy is promoting popular participation. Through participation, the people will provide more accurate and detailed information about the local needs and conditions so that plans are more likely to be relevant, implementable, and acceptable to the local people. This is because of the fact that, the people who will be affected by a project are involved in the planning stage and hence, they identify themselves with the project. Decentralization is also advocated as a way of improving the management of development projects by increasing flexibility and responsiveness since it is easier to make adjustments if unanticipated changes are required. Moreover, participation through decentralization gives responsibility to the people and the people learn more quickly when they take responsibility for their decisions. They also obtain an invaluable training in resource allocation which is most important for development to take place. Decentralization is also advocated as a means of improving coordination between the various agencies involved in planning and implementing development projects at regional and local levels (Conyers and Hills, 1984).

In Ethiopia, Decentralized planning and project management began right after the establishment of regional governments particularly after Proclamation No.41/1993 was proclaimed which embodied the legal framework for planning in the country and clearly determined the powers and duties of the central and regional executive organs. According to the proclamation, the two most important organs of planning are MEDaC and Bureau of Planning and Economic Development (BoPED) at the central and regional levels

respectively. MEDaC is responsible for initiating policy proposals that will enable to define the country's long-term development priorities and strategies. It prepares plan methodology and general macro-economic and social parameters and guidelines that enable the preparation of the country's long, medium, and short-term development plans. It also prepares plan preparation and presentation guidelines for central and regional government organs. BoPED is responsible for most of the above activities within its jurisdiction i.e. regional level with due observance of national parameters, strategies and priorities . For example, Article 54 of Proclamation No.41/93 states that BoPED prepares, and upon approval; follows up the implementation of long, medium, and short-term development plans based on the national development strategy to be executed by the regional government, elaborates plan preparation and submission of directives forwarded to it by MEDaC in a way suitable for the region and also causes the timely delivery of same to the organs of the regional government.

Hence, central planning organ (MEDaC) and regional planning organ (BoPED) have strong relationships by the fact that the latter prepares regional plans based on the strategies and directives developed by the former. In this way the central government has given the planning function to regional governments which helped the central government to reduce its burden of planning and implementation of development projects. Moreover, this enabled to set the structure for popular participation in development planning and implementation. In principle, the local people starting from kebele level are encouraged to actively participate in priority identification, planning, plan implementation, monitoring and evaluation of development projects. However, in practice, regional governments have not exerted efforts in this regard which is worth mentioning. But regions such as, Tigray, Amhara, Oromia, SNNP and Region 14 Administration have started recently⁵.

The lowest level at which sub-national development plans are initiated is the woreda. However, there is no planning structure at this level. As already mentioned, this level of regional government is organized with legislative, executive, and judicial powers. But, surprising enough, the executive body does not consist of full-fledged planning structure.

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Field observations and information from various mass media. For example , at the beginning of 1998 Region 14 has participated the people to discuss on the development agendas of the region and also to set priority areas of development.

The planning responsibility is given to a committee called Woreda Development Committee consisting of representatives from sectoral offices and the Woreda Council. The way planning is carried out at the woreda level is as follows. Sector development offices and agencies within the woreda prepare their respective sector plans and present to the Woreda Development Committee. The Woreda Development Committee reviews and makes all the necessary adjustments, and then submits the woreda plan to the Woreda Council for approval. The approved plan is sent to zonal level through two different channels i.e. through Woreda Council to Zonal Administration; and through sectoral offices and agencies to different zonal sector departments (MEDaC, 1998).

The Zonal Planning and Economic Development Office receives the woreda plan proposal from zonal sector departments and checks its consistency, assess its feasibility and then makes necessary adjustments. Once it does this, it prepares the zonal development plan proposal and passes it to Zonal Administration (Zonal Executive Committee) for approval and then the approved zonal plan is sent to Regional Council by Zonal Administration and to regional planning and economic development bureau by zonal planning and economic development office. Zonal sector departments also send their respective plans to their respective regional sector bureaux (MEDaC, 1998, and Tegegne, 1997).

The regional planning and economic development bureau receives zonal development plans from zonal planning and economic development offices and also from regional sectoral bureaux. After the plans are reconciled, the bureau of planning and economic development allocates budgets to different sectors and the budgets together with the plan proposal are discussed with representatives of the different sectoral bureaux and representatives from regional executive committee .The meeting adjusts and approves the budget. Finally, the executive committee passes the regional plan proposal to regional council for final approval. In all these planning chains, the role of planning organs is limited in the areas of developing guidelines and coordinating the plans of the various sectors rather than developing plans by themselves. As a result, the planning organs play marginal positions and are not capable of forming an umbrella unit for preparing integrated planning with the necessary participation of the people (MEDaC, 1998, and Tegegne, 1997).

It is not hard to imagine how complex, long, tiresome and time consuming is the chain of planning at regional level. Even if plans are initiated at the woreda level, they are

required to pass through all the hierarchies for approval. As a result, the planning pattern still follows a centralized system than a decentralized one. Moreover, the centralized nature of the planning process at regional levels can be seen from the fact that the planning process starts with issuing of directives from regional council to the regional planning and economic development bureau. These directives are believed to set the overall development objectives and priorities. The planning bureau again develops sectoral guidelines to be applied by all sector bureaux and zonal planning office. The regional sector bureaux pass the guidelines to their respective zonal sector departments and in their turn they pass to their respective woreda sector offices (Tegegne, 1997). It is under such chain of guidelines that the plan is said to be initiated at the lower level. It is hardly possible to reflect the full discretions, interests, and priorities of the woredas and zones under such chain of directives and guidelines. Even under such chain, sectoral representatives play a dominant role in forwarding proposals with little or no participation of the people. After all woreda and zonal level of administrations prepare plan proposals to the regional government rather than preparing and implementing by themselves. So, the current regional planning practice at regional level in Ethiopia does not reflect the decentralized pattern of regional planning. Hence, development planning and project management have been decentralized from the center to regions but not yet sufficiently decentralized to sub-regional levels.

4.3.1. CENTRAL-REGIONAL ROLES IN PROJECT MANAGEMENT AND ADMINISTRATION

The relationship between the central and regional governments in the area of project management and administration is visible in two major aspects. The first is the relationship established on the basis of external loan and assistance and the second is the relationship established on the basis of capital budget subsidy. These two relations involve several regional and central government organs such as regional councils, regional sector bureaux, and regional planning and economic development bureaux and at the central level it includes sector ministries, commissions and MEDaC as the main coordinator of the whole effort. In the pages that follow, some aspects of central-regional relations in managing and administering development at the different levels will be discussed.

4.3.1.1. THE MANAGEMENT OF EXTERNAL LOAN AND ASSISTANCE

External assistance and loan are one of the major sources of resources for development projects in developing countries. Several strategic projects such as highway construction, hydroelectric dam construction and major irrigation dam construction involve external loan and assistance since developing countries in most case do not have the capacity to undertake these projects from internal sources.

Ethiopia is one of the developing countries which is characterized by very low per capita income and very low saving that results in very low investment. According to the World Bank estimate of per capita income in 1994, the Sub-Saharan African Countries average was 380 USD, while the estimated figure for Ethiopia was only 100 USD per annum. The estimated figure for neighboring Kenya was 250 USD. This shows that Ethiopia's per capita income is low even by African standards. The distribution of gross national product of Ethiopia by its use in 1994 showed that 97% was used for consumption. As a result, the share of gross domestic saving to that of GDP was only 3% (MEDaC, 1997d). Because of this very low domestic saving, the country highly depends on foreign loan and assistance to undertake development projects that need large capital outlay. Many bilateral and multilateral organizations are assisting the current Ethiopian development effort. The multilateral donor agencies include European Union(EU), European Economic Commission (EEC), The World Bank (WB), African Development Bank (ADB), and the United Nations (UN) System. The Bilateral donors are almost all European Countries, the United States and Japan (Gizachew, 1997).

It is the strong belief of the Ethiopian Government that donors play an important role in the development process and it is the primary responsibility of the central government to mobilize and coordinate the flow and use of external resources. All externally funded program arrangements are entered with donors by the central government only. Donors are not encouraged constitutionally to negotiate with regional governments. Once the framework of the agreement is signed by the federal government (MEDaC), the donors may have discussions with regions on technical matters. The rationale for such constitutional limitation that donors need not negotiate with individual regional governments is that such

arrangements have impacts on:“ macro-economic balance for the whole country, equity on the distribution of resources, accountability for the loans in particular, and the negotiation capacity of regions” (Gizachew, 1997:3).

The central government formulates development plans, sector policies, strategies and programs (MEDaC with sector ministries). The plans, policies, strategies, and programs are prepared based on five year development plans of the country. Donors are expected to assist the capacity building process for development plan formulation in various fields and also fund the program which the government has formulated as priorities but not to design development plans, policies, strategies and programs. In all respects, external assistance and borrowing is centrally run by MEDaC. Even if the rational cannot be totally disregarded, such centralization has created decision bottlenecks for both the donors and recipient regions (Gizachew, 1997). Interviewees with officials of MEDaC, heads of the various divisions such as UN, EEC, WB and ADB explained the relationship between the central and regional governments as follows⁶. Once projects to be funded by donors are prepared by regions, the projects are presented either to sector ministries through the regional council or to MEDaC through the same authority. In the first case the respective sector ministry will present the aggregate sectoral plan to MEDaC for approval. When it is approved , the sectoral ministry will give the fund to the respective regional bureau based on the original plan it received from the region. If changes have been made by MEDaC, the change for regional plan will be proportional to the primary plan. The signatories for such kind of assistance are MEDaC, the sector ministry concerned and donors. In the second case, the regional planning and economic development bureau prepares development projects based on regional priority and presents to the regional council and the regional council again presents the plan to MEDaC for approval. When it is approved, the regional council, MEDaC and donors will sign on the agreement. Once the fund is approved, the utilization and management of the fund will be governed by the agreement.

With regard to monitoring and evaluation of externally funded projects implemented at regional level, the reporting process is as follows. The project management reports to regional planning and economic development bureau, the bureau reports to the regional

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The information used for central-regional relationships and for project monitoring and reporting mechanisms is gathered form the same officials in the ministry.

council and the regional council to MEDaC and finally MEDaC reports to the Prime Minister Office on the accounts of all projects being undertaken. In addition to this institutional channel of reporting and monitoring, there is a committee for each project when donors want to have which consists of members of representatives of donors, project management, BoPED and MEDaC. The committee of each project periodically makes field visit to the project to see the physical accomplishment of the project because financial reports of projects tend to be reported high while the real physical accomplishment is yet at low level compared to the amount of fund used. In fact, after 1995 such reports and monitoring were very weak because it was aimed at giving much responsibility and autonomy for regional governments. However, the result is not encouraging particularly in Afar, Gambella, Benishangul/Gumuz and Somali regions where very “unstable leadership led by self-centered political leaders with no concern for the people exist”⁷. In these regions project performance reports are made while nothing has been done in practice. As a result, in these regions projects were not carried out within the given time framework and as it was desired.

Because of these and other problems in those and other regions, the central government has developed a project monitoring mechanism for projects funded by external assistance and loan. The mechanism mentioned that there are serious project monitoring problems in the country generally and outlined some of the root causes of the problems as follows.

1. Lack of complete coordination between the central and regional institutions and also absence of clear relationship and information flow between central agencies.
2. Absence of uniform project implementation reporting format and time of reporting.
3. Lack of timely and appropriate response from higher officials for reports indicating the existence of implementation problem.
4. Absence of continuous field monitoring.
5. Absence of computerized system to organize and use the inflow of loan and assistance in a meaningful way (MEDaC, 1997a).

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Ato Berhanu Jembere, Minister, Regional Affairs of the Prime Minister Office, in an interview held with Radio Fana on February 24, March 2 and 9, 1998 explained that these regions suffer not only from lack of administrative and personnel capacity but also from irresponsible tribal political leaders who are competing for personal interest and authority than for the region and the people at large. As a result, project performance in these regions is always at the lowest stage as compared to other regions.

Effective and efficient coordination between the various hierarchies of government organizations was one of the most important preconditions for effective decentralization policy. But as it is indicated by MEDaC, this is a problem for Ethiopian decentralization policy.

Taking in to account all the above problems, MEDaC has developed project monitoring mechanism in the following ways for projects funded by external assistance and loan. The monitoring mechanism is organized under two major hierarchies i.e. the central monitoring organ and regional monitoring organ. The central monitoring organ includes the following key executive organs. 1. Prime Minister Office 2. Ministry of Economic Development and Cooperation 3. Ministry of Finance 4. Disaster Prevention and Preparedness Commission 5. Sector Ministries, Commissions and Authorities (MEDaC, 1997a).

The Prime Minister Office (PMO) is responsible for policy related monitoring problems. Monitoring problems related to policy issues will be reported directly to the PMO together with possible solutions. Other operational monitoring problems may better be treated by other concerned monitoring organs at different levels depending on the level of the problem (MEDaC, 1997a).

Project monitoring at central level is to be conducted quarterly based on the reports from regional and central executives. The central monitoring organs will make field visit at least once in a year in order to evaluate the uniformity of financial and physical implementation information and credibility of the information and also to exchange information and views with the project management . MEDaC is responsible for coordinating the central monitoring organs since it negotiates and enters agreement with external donors and creditors with a responsibility to monitor all projects funded by external loan and assistance (MEDaC, 1997a).

Projects funded by external loan and assistance at regional levels will be monitored by sector bureaux. The sector bureaux organize project implementation report from each project unit operating under it or from partially independent project offices. Each, bureau prepares project implementation reports to the regional planning and economic development bureau which is the regional monitoring organs secretary. Regional monitoring organs will

make field visits at least twice in a year so as to gather primary data and to solve project problems on time (MEDaC, 1997a).

Interviewees from MEDaC, explained that the project monitoring relationship between the center and the regional government is designed to have such a system that external loans and assistance will be considered to regions as part of their capital budget and they will be considered as any capital budget from the central treasury. Hence, the project monitoring is becoming more centralized than any time in post-Derg system. In fact, the government would have done this from the very beginning until regions become strong enough to monitor their projects effectively and could have prevented the embezzlement and mis use of millions of Birr by individuals and group of people in the name of projects. This has been reported in regions like Afar, Benishangul/Gumuz , Gambella and Somali. However, this needs more investigation⁸.

As to the equity aspect, informants from MEDaC, explained that there is no a well developed system of distributing external assistance for regional government up to now. A region capable of preparing project document to be approved through the necessary procedures, will get the fund. As a result those regions which do not have capacity to prepare project do not benefit much from external assistance and this widens the regional development difference. This can be seen from Table 4.22 taking European Union assistance as an example.

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The embezzlement and mis use of project funds in the above regions have been reported and made clear to the public on Ethiopian Television and Ethiopian Radio programs by the respective regional councils.

Table 4.22 Actual Expenditure and Estimates of European Union Assistance and Its Regional Distribution for 1989 and 1990 EFY (In Million Birr).

Federal/Region	1989 Actual Expenditure	Percent	1990 Estimate	Percent
Federal	546.62	90.91	504.47	85.00
Tigray	10.50	1.73	6.41	1.10
Afar	6.46	1.06	2.53	0.44
Amhara	3.79	0.60	7.03	1.20
Oromia	19.26	3.20	34.10	5.80
Somali	0.0	0.0	4.4	0.8
Benishangul/ Gumuez	NA	NA	NA	NA
SNNP	15.27	2.50	29.75	5.00
Gambella	0.27	0.00	0.49	0.1
Hareri	NA	NA	NA	NA
Addis Ababa	0.12	0.00	1.2	0.21
Dire Dawa	NA	NA	NA	NA
Grand Total	601.21	100.00	594.42	100.00

Source: Multi Lateral Department, EU-Division, MEDaC.

NA: Not Available

Among the regions, Tigray, Amhara, Oromia, and SNNP are beneficiaries since they have better capacity to prepare development plans. Regions like Benishangul/Gumuez, Hareri and Dire Dawa have got nothing from EU over the two years fund. Afar is better than other low capacity regions. Somali and Gambella have got very meager amount. Looking at the federal-regional share of loan and assistance, the federal government takes the loan's share. In 1989 EU assistance the federal government has taken 90.90 percent of the total assistance and 85.00 percent of the 1990 estimated assistance. It is also true for World Bank loan and grant. Table 4.23 shows the fact clearly for 1989 loan and grant, and for 1990-1993 EFY loan estimates.

Table 4.23 Share of Federal and Regional Governments World Bank Loan and Grant for 1989 and Loan Estimates for 1990-1993 EFY (In million Birr).

	1989 (Actual)	1990	1991	1992	1993
Federal	381.3	596.27	1583.40	1442.34	1205.35
Regional (a)	26.53	94.39	116.51	55.16	20.50
Grand Total (b)	408.26	690.66	1699.91	1497.5	1226.30
a as % b	6.5	13.7	6.9	3.9	1.7

Source: Multilateral Department, World Bank Division, MEDaC.

Except for 1990 estimate, the share of regional governments from World Bank grant and loan is always below 10.0 percent and their shares are expected to decline from time to time as the above table indicates. Hence, development activities will be dominated by the central government rather than by regional governments which is not the purpose of decentralization policy.

4.3.1.2. CAPITAL BUDGET PREPARATION AND IMPLEMENTATION

Capital budget is mainly budgeted for the purpose of undertaking development projects. If any level of government is expected to undertake meaningful development activities, it must have sufficient capital budget. As already mentioned, regional governments in Ethiopia are highly dependent on transfer. They cannot cover their recurrent budget let alone to include capital budget. So, the source of capital budget for regional governments is from the central government or other sources arranged by the central government. When looked at the sources of capital budget in Ethiopia, there are two major sources viz, internal sources (central treasury and domestic borrowing), foreign sources (foreign loan and assistance). None of these are under the control of regional governments except domestic borrowing which did not assume any role yet. As already mentioned the mobilization and management of foreign assistance and loan are left entirely for the central government. As a result, regional governments have to deal continuously with the central government for capital budget.

Regional governments have been given sufficient authority to prepare their own development projects based on the national framework and taking into account the specific

realities and priorities in the respective regions. As a result, there is no uniform way of allocating the capital budget in all regions. Some regions like Afar, Benishangul/Gumuz, Gambella, and Somali give emphasis for social development where the social infrastructures are at the lowest stage. They plan to improve their human capital while relatively well off regions such as Tigray, Amhara, and Hareri can choose to develop their directly productive activities. Natural resources and agricultural development seem to have received the greatest proportion of the resources in Oromia and SNNP regions because of the tremendous natural resources and agricultural bases of the regions (Tegegne, 1997).

The relationship between the central and regional governments can further be elaborated by looking at the capital budget preparation, implementation and monitoring. Proclamation No.41/1993 which provided the legal framework for planning activities in the country, has clearly identified under Article 54 how regional capital budgets are prepared, implemented, and monitored. The organs responsible for capital budget preparation at regional level are the various sector bureaux and BoPED reviews the development plans and capital budget proposals of the various sector bureaux. Based on these proposals it prepares the annual consolidated development plan and capital budget proposals of the region and transfers the consolidated plan and capital budget to the regional finance bureau to be incorporated in the annual budget of the regional government and upon approval by the regional council, BoPED follows up the implementation of the plan and the capital budget by different sector institutions. As already mentioned, regional governments get their capital budget from the central government. The capital budget subsidies of regional governments are presented to MEDaC and it analyzes the annual regional plans and budget subsidies and presents the subsidy to MOF for consolidation in the annual regional government budget. Upon approval MEDaC follows the implementation of capital budget (Proclamation No.4/1995).

The monitoring of capital budget subsidy from the central government treasury is carried out through the normal procedure of accounting. That means regional governments will account to the ministry of finance for all capital expenditures from the central treasury. Hence, the relationship between the central and regional governments on the basis of capital budget preparation and monitoring is still strong since regional governments are highly dependent on the central government transfer. Even if it is said that the planning functions

have been decentralized to regional levels, there are some centralizing elements such as the accounting of capital budget expenditures by MOF, implementation monitoring and follow up by MEDaC and the like. With this brief overview of project management and administration, the remaining sub -topic will briefly discuss the management and administration of investment activities in the country.

4.3.2. DECENTRALIZED INVESTMENT MANAGEMENT AND ADMINISTRATION

The objective of the new economic development policy which was launched by the TGE in 1991 aimed at replacing the past government monopolized, complex and weak structured economic system by liberalized economic system to bring about a healthy, rapid and sustainable economic growth. During the transitional period, different policies, laws, regulations, strategies and organizational restructuring have been taken and began implementation with the aim of restructuring the command economy into market- oriented and liberalized economy. In fact, the restructuring process is still going on. The five years development program has been launched with its main focus on rural and agricultural centered development strategy. Priority areas or sectors have been identified which are considered to have a significant role and greater contribution to the economy and these include Agriculture, Mining, Industry, Energy, Education, and Health (MEDaC, 1997d).

4.3.2.1. PUBLIC INVESTMENT MANAGEMENT AND ADMINISTRATION

With the above priorities in mind, public investment in Ethiopia is aimed at improving the economy's efficiency thereby increasing the productivity of the economy as a whole. The economic infrastructure development in Ethiopia is very low for efficient operations of the economy. Similarly, the level of social service provisions is also very low. According to the available data, in 1993, about 50 percent of the Ethiopian population do not get proper health services and about 80 percent of the population do not get clean water. The level of provision of education is also low. In 1980, the level of elementary school participation was 23 and 44 percent of the total females and males respectively reaching the age of joining

elementary level of education had the opportunity to join elementary schools. In 1993, the elementary school participation rate declined to 19 and 27 percent for females and males respectively. Secondary schools participation is even lower than these rates. In 1993, only 11 and 12 percent of the total females and males respectively were able to join secondary school. From this it can be seen that Ethiopia's educational and health services are very low. In order to mitigate these economic and social problems, the present government focused investing on economic infrastructure and on social services (MEDaC, 1997d).

Even if agriculture and social services are part of the investment priorities, currently greater attention seems to have been given for economic infrastructural development such as road construction, energy, and transportation and communication. This is because of the fact that the development of economic infrastructure is the precondition for other priority sectors. The development of economic infrastructure reduce unnecessary transportation costs. The three sectors account for the lion's share of the sectoral distribution of annual capital budget. For example, in 1996/97, the share of road construction, energy, and transport and communication out of the total federal capital budget was 31.9, 24.5 and 15.6 percent respectively which constitute 72.0 percent of the total sectoral capital budget (MEDaC, 1997d). These sectors are mainly reserved for the federal government as clearly indicated by Proclamation No. 7/1992a clearly indicates.

Functional responsibilities of regions in carrying out development activities have been broadened consistent with the decentralization policy. Most of the development activities are to be undertaken by regional governments. Even if there was a lot of understanding that regional governments are responsible for many economic development activities, more than 50. percent of the capital budget is allocated for the federal government. As the plan for the period of 1998/99-2000/2001 shows, the share of the federal government will decrease by 2 percent per annum while that of the regional governments will increase by 2 percent per annum from their respective shares of the initial 1996/97 capital budget. Table 4.24 shows the general picture of capital share between the federal and regional governments from 1996/97-2000/2001.

Table 4.24 Share of Capital Budget by the Federal and Regional Governments (In million Birr)

	1996/97		1997/98		1998/99		1999/2000		2000/2001	
	Budget	Share	Budget	Share	Budge	Share	Budge	Share	Budget	Share
Federal	2663.7	57	2847.9	55	3018.8	53	3195.3	51	3478.3	49
Regional	1983.9	43	230.1	45	2677.0	47	3070.0	49	3620.3	51
Total	4617.6	100	5178.0	100	5695.8	100	6265.3	100	7098.6	100

Source: MEDaC, 1997d.

Regardless of the indicated share, public investment over the next three plan years will increase by 54 percent as compared to the 1996/97 budget. Even if the trend shows a 2 percent annual increment of the share of regional governments, it may not be sufficient enough as compared to their development responsibilities. Although it can be agreed that regional governments must get the greater share of capital budgets, not all regions utilize fully the allocated capital budget. In fact, there is an encouraging trend when looked at the mere financial implementation rate. In 1994/95 and 1995/96 the total regional capital budget implementation was 66.5 and 90.20 percent, 537.1 and 1163.1 millions of Birr was not used respectively. In 1996/97, the implementation rate of regional governments was 100.8 percent that means the total capital budget allocated for regions was utilized fully. However, good rate of financial implementation by regions as total does not reflect the fact that all regions have used their capital budgets 100 percent. There are regions which are using their capital budget efficiently and effectively and also there are others which do not use effectively and efficiently. Regions like Tigray, Amhara, Oromia and SNNP are examples of the first type whereas Afar, Somali, Benishangul/Gumuz, Gambella and Dire Dawa are of the second type. Table 4.25 shows capital budget utilization/ implementation rate by regional governments for the year 1994/95-1996/97.

**Table 4.25: Regional Governments Capital Budget Implementation (1994/95-1996/97),
(In Million Birr)**

Region	1994/95*			1995/96**			1996/97**		
	Budget	Actual	Implem. In %	Budget	Actual	Implem. in %	Budget	Actual	Implem. in %
Tigray	180.4	137.20	76.06	157.50	153.72	97.6	155.80	211.74	135.90
Afar	88.56	21.00	23.71	77.08	45.09	58.50	87.11	36.15	41.50
Amhara	293.01	210.03	71.68	227.21	228.77	100.69	313.40	300.33	95.83
Oromia	367.13	243.90	66.43	258.00	257.88	99.95	418.90	426.28	101.76
Somali	86.70	43.18	49.80	90.22	86.31	95.66	113.70	111.74	98.27
Ben./Gum.	59.96	29.68	49.50	35.90	21.24	59.16	66.13	58.38	88.28
SNNP	260.69	183.77	70.49	214.24	174.40	81.41	231.30	234.57	101.41
Gambella	55.54	16.88	30.40	34.28	33.53	97.84	43.97	39.68	90.24
Hareri	14.30	11.17	78.11	10.91	6.79	62.21	15.01	9.49	63.22
Region 14	185.98	164.54	88.47	179.00	154.14	84.44	177.54	196.39	110.62
Dire Dawa	10.45	4.16	39.8	5.08	4.19	82.59	10.20	9.67	94.75
Total	1602.72	1065.51	66.50	1289.40	1163.10	90.20	1633.10	1634.40	100.8

Source: MOF, 1998.

* Includes all sources i.e central treasury, external borrowing and external assistance.

** Only from the central treasury (External borrowing and external assistance are not included).

As already mentioned, the trend of public investment is encouraging in general, but there is a hidden fact in some regions in this positive trend. As mentioned earlier, in regions like Afar, Somali, Benishangul/Gumuz and Gambella, financial implementation rates do not reflect the real physical accomplishment of investment activities. This means real investment activities have not been implemented equal to the rate of capital budget implementation.

The sources of capital budget/investment are from treasury, foreign assistance and foreign loan. For example, for 1996/97, 1997/98 and for 1998/99-2000/2001 plan years, on the average the country depends 38.1 percent on foreign sources. Such dependence on external sources for investment does not guarantee future development (MEDaC, 1997d).

4.3.2.2. PRIVATE INVESTMENT MANAGEMENT AND ADMINISTRATION

One of the most important changes taken by the new government is reducing the direct role of government in the economic activity and encouraging the private sector to play a greater role in the economy. The government has provided legislation to facilitate and encourage private investment. The policies encourage both domestic and foreign investors so as to widen the scope of participation of the private sector since the domestic private sector is not yet strong enough to take advantages of all investment opportunities.

The first legal framework for investment was provided by the TGE through Proclamation No. 15/1992 which was proclaimed to provide for the encouragement, expansion and coordination of investment. This proclamation has been amended by Proclamation No. 37/1996 since the first proclamation was considered as lacking some transparency. According to proclamation No. 37/1996, the organs of the investment administration include the Investment Board, The Investment Authority and Regional Investment Offices.

The investment Board consists of seven members headed by the Prime Minister. The five members are designated by the Prime Minister and the other member is the general manager of the Authority. The Board is the supreme law making and supervising organ related to investment issues in the country (Proclamation No. 37/1996).

The Investment Authority is accountable to the Investment Board. It has the following major powers and duties.

1. It serves as a central body of all investment activities of the country and also promotes and enhances investment activities in the country;
2. It initiates and submits to the Board policy and implementation measures needed to create a conducive investment climate for both domestic and foreign investors and to follow up the implementation of same upon approval;
3. It issues investment permits and decide on applications for incentives;
4. It monitors the implementation of investment projects for which it has issued permits;

5. It registers capital imported into and invested in Ethiopia by foreign investors and issues certificates evidencing same;
6. It negotiates bilateral investment promotion and protection treaties for conclusion between Ethiopia and capital exporting countries and to sign same upon approval by the Council of Ministers (Proclamation No. 37/1996).

With regard to the relation between the investment Authority and Regional Investment Offices, the administration of investment in respect to the following shall be under the jurisdiction of the authority.

1. Investment made by foreign investor;
2. Investment made by foreign nationalities taken for domestic investors;
3. Investment made, in areas eligible for incentives, by domestic investors who are required to obtain trade and operating licenses from concerned federal organs;
4. Joint investment by domestic and foreign investors.

Investment activities other than those mentioned above shall fall under the jurisdiction of regional investment organs (Proclamation No. 37/1996).

Regional investment organs exercise the authority of investment management in their respective jurisdictions. However, currently, there are some key investment activities that are monopolized by the federal investment authority. At the beginning, regional governments were empowered to determine the tax holiday(income tax exemption) and exemption from customs duty. As a result, all regions were using different tax holidays and customs duty exemption based on their own criteria and interest to promote investment in their jurisdictions. But this power has been completely centralized by the authority as indicated by Proclamation No. 37/1996. According to this proclamation the granting of incentives by way of exemptions from import taxes and customs duties shall fall under exclusive jurisdiction of the authority. With regard to tax holiday, the Council of Ministers have provided Regulation No.7/1996 to determine the investment incentive in the country. The proclamation provided several criteria for income exemption. The first is investment in pioneer investment activities which gives tax holiday that ranges from three to five years. For investment between Addis Ababa and Nazreth within radius of 15 kilo meters of the

main highway connecting the two cities and five years for investment in regions such as Gambella, Somali, South Ommo, Afar, and Benishangul/Gumuez. Pioneer investment for the rest of regions guarantees four years tax holidays. The second criterion is termed as investment in promoted investment activities which enables investors to get tax holidays from one to three years. One, three and two years for the above categories of areas respectively. The third exemption criterion is investment to expand and upgrade existing enterprise which may be either in pioneer or promoted investment activities. If the investment is to expand pioneer one, tax exemption is two years and if it is promoted one, the exemption is one year (Regulation No.7/1996).

The role of regional government in the process of income tax exemption and customs duty exemption is limited to examining and ascertaining the acceptability of the exemptions and transfer the application of the investors to the authority. So, exemptions are designed by the central government organ rather than by regional governments unlike the early practice. Such pull of authority from regional governments once decentralized to them will create unnecessary mistrust between the federal and regional governments. That is to mean, regional governments may question sincerity and the commitment of the central government for decentralization policy.

Even if the rate of investment is not as it is expected, between the period (1992/93) and June 1997, 3520 private investment projects with estimated capital of 27097.6 million Birr have been approved in all regional governments . Out of the total approved investment projects, 732(20.8%) with investment capital of 4956.7 million Birr have started production whereas 552 (15.7%) projects are still under implementation. What is worrisome when looked at balanced regional development principle is that 70% of the projects and 72% of the private capital investment which have started production are concentrated in three regions only i.e Tigray, Oromia and Addis Ababa and the remaining 8 regions share 30% of the projects and 28% of their capital. As it is true for all other important decentralization preconditions such as financial capacity, manpower and planning capacities; Afar, Benishangul/Gumuez, Gambella and Somali regions received the marginal amount of private investment because of physical distance from Addis Ababa and mainly due to poor economic infrastructure (MED, 1998). For example the road net work densities in '000' km² in 1996/97 in the four regions were 10.94, 5.85, 8.63 and 12.34 square kilo meters for Afar,

Somali, Benishangul/Gumuz and Gambella respectively while the highest is 175 for Region 14 and the national average is 38.5 square kilo meters. Because of these and other problems such as poor capacity these reasons are marginalized from private investment flow. Generally, the distribution of private investment in the country is very uneven which aggravates regional development differences rather than narrowing the gap. Table 4.26 shows the general distribution of private investment activities in regional government. The four regions i.e. Afar, Somali, Benishangul/Gumuz and Gambella received a total of private investment capital which is less than two times as compared to Tigray and Oromia.

Table 4.26 Private Investment in Regional Governments (1992/93-1996/97)

Region	Number of Projects Approved		Capital Invested/Expenditure For Approved Projects (In million Birr)	
	1992/93-1996/97	Projects on Production	1992/93-1996/97	Expenditure on production
Tigray	349	251	3325.56	2076.56
Afar	64	8	1095.22	564.07
Amhara	312	93	3714.90	352.81
Oromia	774	143	3523.45	613.07
Somali	10	NA	127.83	NA
Beni./Gumuz	37	18	362.28	159.94
SNNP	312	91	1351.28	264.49
Gambella	8	4	28.36	22.16
Hareri	88	1	364.25	1.45
Region 14	1515	121	13062.16	896.67
Dire Dawa	51	2	142.29	5.51
Total	3520	732	27097.60	4956.73

Source: Adapted from Department of Regional Planning and Development, MEDaC,

1998.

CHAPTER 5: SUMMARY AND CONCLUSION

Ethiopia has a long history as an independent sovereign state. Although it has a long history as an independent and sovereign state, it has never evolved into a strong unified state which in turn hampered the development of modern administrative system and modern nation. Political and historical factors are responsible for such kind of failures. Several attempts have been made to unify the country, however, successful attempts were made by emperor Menelik II. The development and establishment of modern government was further carried out by Emperor Haile Selassie I whose effort was reflected in his success of establishing the first constitutional Monarchy state in the history of the country in 1931. This state was characterized by highly centralized system of administration.

The collapse of the Imperial Government and the coming of the Derg regime in 1974 did not improve the centralized nature of the state.

Ethiopia began to exercise decentralization since 1991 by the TGE. The hitherto centralized system of government is exercising a decentralized system through the establishment of regional governments by Proclamation No.7/1992a. Currently, Ethiopia has been organized under parliamentary form of government comprising of the Federal government, nine Regional Governments and two Administrations. In principle, it is made up of three tiers: the Federal Government as the highest unit, Regional Governments as intermediary unit and the Woreda Administrations as the basic unit. In practice however, it is made up of five tiers viz, Federal Government, Regional Governments, Zonal Administrations, Woreda Administrations and Kebele Administrations from higher to lower levels respectively.

The new decentralization reform in Ethiopia has introduced a new organization of the Ethiopian state different from the traditional approach. The major aspect of this spatial restructuring is regionalization delimited largely on the bases of ethnicity and language. The emerging regions are different from one another in terms of population, area, economic and social infrastructure. The current decentralization policy tries to narrow regional differences through the provision of equal quantity of equipment, capital expenditure to regions weighted according to population, level of development, and their revenue raising capacity. Regardless of these equity criteria, some regions like Afar, Gambella, Benishangul/Gumuz

and Somali are not benefiting as much as they should benefit because of lack of manpower and institutional capacity to implement the budget allocated for them.

Among other things, federalism requires effective coordination and cooperation between the central and regional governments. Federal and regional governments have many relationships in various administrative issues to implement the laws of the nation. This paper has examined federal-regional relationships in Ethiopia in line with the following major issues viz, finance, personnel, planning, project and investment management.

In any decentralization policy, the true measure of regional and local autonomy is the degree of fiscal independence that regional and local governments enjoy. The decentralization of fiscal system in Ethiopia was provided by the TGE through Proclamation No.33/1992b which defined the sharing of revenues between the central and regional governments. In this proclamation revenues have been divided into three major categories namely, central, regional and joint sources. When the three sources are examined, joint revenue sources did not benefit regional governments since they are still under the management and control of the central government. When looked at the federal and regional revenue categories, the former dominates the national revenue sources which accounts for more than 83 percent of the national revenue sources. The revenue sources left for regional governments are very weak and narrow as a result regional governments are heavily dependent on central government transfers for both recurrent and capital expenditures. Such heavy dependence on central transfer may create a problem for regional governments in the process of independent decision making as the resource to implement the decision is largely expected to be financed by the central government transfers. The federal government monopolizes not only the revenue sources but also the expenditure of the country. It spends 61.3 percent of the national expenditure.

Even if lucrative tax bases are under the central government control, regional governments are not effectively and efficiently collecting and utilizing the revenues left for them. This is because of the fact that they lack capacity. This problem is more acute in Afar, Benishangul/Gumuz, Gambella and Somali regions. The problem of these regions is not limited to their poor capacity to collect and utilize their own revenue but also their poor capacity to utilize the transfers or grants allocated for them by the central government.

Adequate administrative and personnel capacity is in general one of the most important preconditions for effective decentralization policy implementation. But this is the most critical problem for current decentralization policy in Ethiopia. Both central and regional governments suffer from shortage of trained manpower. Although the shortage is a national problem, the magnitude of the problem varies from central to regional and from region to region. Regional governments in general suffer from lack of trained manpower more than the federal government. And again among regions there are some regions like Somali, Afar, Benishangul/Gumuz and Gambella which are suffering more than other regions.

Poor personnel and administrative capacity of the current decentralization policy is further aggravated by many additional problems such as irrational bureaucratic rules and regulations, archaic nature of the bureaucracy, lack of confidence to make decisions by civil servants, the movement of the civil servants from the public sector to the private sector because of poor working conditions and salary, and brain drain.

To improve the low administrative and manpower capacity of regional governments, the federal government has been conducting long-term and short-term training for regional civil servants organized by different federal institutions such as Ethiopian Civil Service College, the Ethiopian Management Institute, the Federal Civil Service Commission and the Ethiopian Mapping Authority. Although the efforts are encouraging to cure the problem in a meaningful way, it requires more training efforts accompanied by improved working conditions and salary.

Genuine decentralization policy is very well explained by decentralized planning and investment management whereby local institutions and the people at large participate in the planning and implementation processes. Decentralized planning, project and investment management at regional level began in Ethiopia right after the establishment of regional governments. The function of planning, project and investment management are decentralized if not fully to regional governments from the central government but not as such to sub-national levels where decentralization policies focus. This can be seen from the planning structure of regional governments that reflects a centralized structure than decentralized one. One of the major sickness of current decentralization policy is the failure of many regions to utilize capital budget for the purpose allocated. Regions like Afar,

Benishangul/Gumuz, Gambella and Somali are good examples for such kind of failures and such failures result in slackening the development of such regions and the nation at large. The level of popular participation is still at the lower stage and worth mentioning efforts are not yet recorded.

The new economic policy which was launched by the TGE in 1991 did not only focus on decentralizing government activities to lower units but also on decentralizing economic activities to the private sector driven through market oriented economic policy. Private investment activities are taking place in a positive trend better than any time before in the country. Private investment was expected to be more than the current rate however, the investment activity is not as it was expected. Moreover, the current investment direction is towards few regions such as Tigray, Oromia, Addis Ababa (Region 14), SNNP, and Amhara. This trend aggravates the existing regional development differences than promoting balanced regional development.

By any criteria, the current decentralization policy does not seem to ensure balanced regional development. Regions which are relatively considered as “ backward” such as Afar, Somali, Benishangul/Gumuz and Gambella are still further lagging behind others.

When looked at the current decentralization policy and implementation, most of the preconditions for effective decentralization program i.e. effective inter-organizational relations, availability and access to resources and capacity of implementing agencies are not effectively fulfilled. Although it is early to generalize, the current decentralization policy did not materialize what was expected from because of the above problems. Hence, more efforts are required from the central and regional governments so as to achieve the desired objectives of decentralization that can promote economic development and improve the lives of the citizens.

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ANNEXES

Annex 1

Proclamation No.41/1993 and Proclamation No.4/1995
Proclamations to Define the Powers and Duties of the Regional Executive Organs
and Powers and Duties of the Executive Organs of the Federal Democratic Republic of
Ethiopia respectively.

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 approved;
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 revenue and expenditure.

Finance Bureau

The Finance Bureau shall have the powers and duties to:

1. supervise the compliance of the operations of the organs of the regional government with the Government financial policies; laws and regulations and directives;
2. prepare and submit to the executive committee of the region; together with its recommendations, a consolidated annual budget of the region after reviewing recurrent budget proposals received from the regional government organs, capital budget proposals received from the Planning and Economic Development Bureau of the region; and administer the approved budget;
3. submit from time to time general reports to the executive committee of the region, on the financial operation and situation of the regional government; prepare and submit supplementary budget proposals when necessary;
4. ensure the proper assessment, collection and recording of the revenue of the regional government from any sources provided for by the appropriate law;
5. establish accounting systems of the regional government and supervise the implementation of same by the organs of the regional government, and inspect the accounts of the organs of the regional government;
6. negotiate and sign in the name of the regional government credit agreements, obtained from domestic lending sources, supervise and administer such debts;

7. be the repository of and safeguard the shares, negotiable instruments and other similar financial assets of the regional government;
8. prepare, and supervise the implementation of, directives concerning the purchase and utilization of the supplies of the regional government;
9. be responsible for and administer the property of the regional government which is not administered or utilized by any other organ of the regional government.

Annex 2

Proclamation No.1/1995

A proclamation of the Constitution of the Federal Democratic Republic of Ethiopia

Article 95 Revenue Share between the Federal and Regional Governments.

Article 96 Federal power of taxation. The following shall be revenues for the Federal Government:

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

Article 97 State/Regional Powers of Taxation. The following shall be revenues for States/Regional governments:

1. income taxes on employees of the Regional and of private enterprises.
2. fees for land usufructuary rights.
3. taxes on incomes of private farmers and farmers incorporated in cooperative associations.
4. profit and sales taxes on individual traders carrying out a business within their territory.
5. Taxes on income from transport services rendered on water within their territory.
6. taxes on income derived from private houses and other properties within the Region/State. Rents on houses and other properties they own.

7. profit, sales, excise and personal income taxes on income of enterprises owned by the States/Regions.
8. taxes on income derived from mining operations, and royalties and rentals on such operations consistent with the provisions of sub-Article 3 of Article 98.
9. fees and charges relating to licenses issued and services rendered by State organs.
10. royalty for use of forest resources.

Article 98 Concurrent/Joint Revenues. The following are revenue bases owned jointly by the Federal and Regional Governments.

1. profit, sales, excise and personal income taxes on enterprises they jointly established.
1. taxes on the profits of companies and on individuals due to shareholders.
3. taxes on incomes derived from large-scale mining and all petroleum and gas operations, and royalties on such operations.

DECLARATION

This thesis is my original work and has not been Presented for a degree in any other university and that all sorts of materials used for this thesis has been duly acknowledged



Fenta Mandefro

25 May 1998

This thesis has been submitted for examination with my approval as a university advisor.

Meheret Ayenew (Dr.)

25 May 1998