



**ADDIS ABABA UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIES**  
**CENTER FOR REGIONAL AND LOCAL DEVELOPMENT STUDIES**

**FISICAL DECENTRALIZATION IN SOMALI NATIONAL  
REGIONAL STATE**

**BY**  
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**A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF  
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**ADVISOR: PROF. TEGEGNE GEBRE-EGZIABHER**





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**ADDIS ABABA**



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## *Acronym and Abbreviations*

<b>AAU</b>	Addis Ababa University
<b>ABE</b>	Alternative Basic Education
<b>BoFED</b>	Bureau of Finance and Economic Development
<b>BOCB</b>	Bureau of Capacity Building
<b>CAR</b>	Contraceptive Acceptance Rate
<b>CMR</b>	Child Mortality Rate
<b>CSA</b>	Central Statistical Agency
<b>DLDP</b>	District Level Decentralization Program
<b>EFY</b>	Ethiopian Fiscal Year
<b>ESDP</b>	Education Sector Development Program
<b>FDRE</b>	Federal Democratic Republic of Ethiopia
<b>FIRA</b>	Federal Inland Revenue Authority
<b>GER</b>	Gross Enrolment Ratio
<b>IMR</b>	Infant Mortality Rate
<b>MEDAC</b>	Ministry of Economic Development and Cooperation
<b>MMR</b>	Maternal Mortality Rate
<b>MoFED</b>	Ministry of Finance and Economic Development
<b>NER</b>	Net Enrollment Rate
<b>PSCAP</b>	Public Sector Capacity Acceleration Program
<b>RLDS</b>	Regional and Local Development Studies
<b>RSB</b>	Regional Sector Bureau
<b>SNG</b>	Sub National Government
<b>SNNPR</b>	Southern Nations, Nationalities and Peoples Region
<b>SNRS</b>	Somali National Regional State
<b>TGE</b>	Transitional Government of Ethiopia
<b>VAT</b>	Value Added Tax

## **Abstract**

*The thesis attempts to examine and assess the trends of fiscal decentralization in Ethiopia in general and Somali National Regional State in particular. This is done first by attempt to place theoretical and empirical investigation, to discern aspects of change and continuity in fiscal decentralization in Ethiopia. The study helps to critically set out factors that are responsible for similarities and differences across years and put implication of the study accordingly. We develop indicators to measure the degree of decentralization both in Ethiopia and with regional case study. The fiscal decentralization indicators are revenue share between central and regional governments, expenditure share between center and regional governments and aspects of inter-governmental transfers. We also analyze expenditure assignment in light of own revenue which reveals fiscal capacities of regional and local government respectively.*

*The research primarily inquires how fiscal decentralization is practiced in the region. In light of the above main objective it tries to see the overall impacts of decentralization on socio-economic background, capacity, planning and budgeting in the region. The researcher applied a combination of quantitative and qualitative social research methods specifically; a case study. This is because tracing the practice of fiscal decentralization in most cases entails 'how' and 'why' questions, which are better answered by case studies rather than research designs such as surveys.*

*The main conclusion that emerged from the study; higher degree of decentralization for recurrent expenditure than capital across years, low fiscal capacity of local government, diverse Fiscal capacity among regions to fiancé expenditure responsibility out of own revenue sources.*

*Previous studies on the issue have made an attempt to generate consensus. They concluded that, weak revenue bases, capacity deficiency, tendency to decentralize expenditure than revenue. However this study concludes diverse fiscal capacity both at regional and local level of government provides evidence that , resource and tax bases, infrastructure coverage , institutional strength and some other geographical and social factors are not evenly distributed this provides an explanation for the fact that the above variables may prevent full use of production factors critically indicating to give emphasis to each specific variables and their dynamic link they have to each individual region based on each characteristics.*

*This in turn provided strong support for Tegegne et.al (2007), Getachew (2002), Melkamu (2004), Degefa (2003) that emerging regions have very limited resource and sever financing gap, potential and actual revenue collection indicates that there is huge difference between the two. This indicates the need to strength the mechanism for local resource mobilization could in fact be the way forward*

**Key Words: Fiscal Federalism, State and Local Taxation, Intergovernmental Relation**

# CHAPTER ONE

## INTRODUCTION

### ***1.1. Background of the Study***

The decentralized form of government structure in Ethiopia put its foot when the current government come in to power in 1991 and proclaimed constitution that made the country to follow a federal form of government and make up the Federal Democratic Republic of Ethiopia. In Ethiopia the government structure has five tiers of administrative setup which are Federal, Regional, Zonal, Woreda and Kebele. The regional tires of government in turn consist of Zonal, Woreda and Kebele and expected to devolve power to each tier of government.

The Ethiopian decentralization drive over the years can be classified in to two distinct phases. The first phase of decentralization covers the period of (1991-2001). This period is characterized by decentralization of powers from the central government to autonomous regions which was done at ones and was centered on creating and empowering national/regional government and hence was termed as mid-level decentralization. During this period, national/regional state governments were established with changes in the local and central government system.

The second wave of decentralization came in to exercise as of 2001, with major changes taken by the central government to devolve powers. The second period of decentralization is characterized by the transfer of powers from regions to woreda which took place into two major phases based probably on regions level of development and political maturity. Thus, relatively developed four regions embarked the program first and then followed by emerging regions. DLDP in Somali region has been probably the last of all regions.

In these regard, fiscal decentralization which elaborated the sharing of revenue between regions and central government, and introduced transfers and subsidies, was part of the decentralization process. While the first wave of decentralization has registered significant achievements in local governance and regional self-rule, however it was not capable of brining genuine self-rule particularly at lower levels of administration where governance and decentralization matters most (Tegegne *et al*, 2007).

Proclamation No. 33/1992 is the most important legal document in fiscal decentralization in Ethiopia. The proclamation defined the sharing of revenues between the central government and national/regional government. The major objective of revenue assignments is (1) to enable the central government and regions to carry out their duties and responsibility (2) help the national/regional government to develop their own initiative (3) narrow the gap in the development and economic growth between regions (4) encourage activities that are for common interest to region (TGE, 1992)

In Ethiopia, a recent decentralization literature (Tegegne *et al*, 2007) noted that, most studies in fiscal decentralization as it pertains to federal regional relations were conducted prior to the recent woreda level decentralization. These studies emphasized on expenditure distribution, revenue sources and adequacy of inter governmental transfers. The study noted the presence of fiscal imbalance and the inadequacy of such measure as inter-governmental transfers to deal with imbalance. The study also revealed that regions depend considerably on the federal government in order to overcome deficit that they encounter.

Economic theories of federalism have traditionally emphasized on a locative benefits of decentralization in the provision of public goods and services such as education and health care (Juiting 2005). Based on literature in the area, we can summarize theories of fiscal federalism classifying their ideas. Accordingly there are two related ideas. **Firstly**, Hayek (1945) discussed the use of knowledge in society, emphasizing the local governments have better access to local information, which allows them to provide public goods and service that better much local preference than national government. **Second**, Tiebout (1956) introduced inter- jurisdictional competition which provides a strong mechanisms to better match public goods and services with consumer preferences. **Third**, drawing on the noted ideas, Musgrave (1959), Oates (1972), Boadway (1998), Smoke (2001) and others, built a theory of fiscal federalism, emphasizing, mainly the appropriate assignment of taxes, expenditure, and inter governmental transfer to the various levels of government to improve welfare.

Empirically, (Oates 1972) focuses on the “de facto” situation examining fiscal rather than institutional decentralization. He examines four measures of fiscal decentralization. These are share of total public revenue collected by the central government, share of central government in all public expenditure and share of the central government in capital and recurrent expenditure.

According to smoke (2001), first, a number of explicit and implicit assumptions underlying public finance theory in general and political decentralization in particular may be violated in some developing countries. The greatest challenge in these countries according to the author is the structure and characteristics of decentralized institutions that are so diverse across countries.

This study is conducted in Somali National Regional State which is found in the most eastern part of the county. The study aims to explain fiscal decentralization practice in the region by highlighting all measures of fiscal decentralization both at regional and woreda level of government and finally shades light on aspect of intra-regional fiscal decentralization in Ethiopia.

## 1.2. Statement of the Problem

Though some scholars warn the danger of decentralization, decentralized form of approach has become common practice for both developed and developing countries. Especially most developing countries use decentralization as a means of boosting the overall development of a nation, improving governance and mainly as part of their poverty reduction strategy.

As decentralization becomes an important feature of both developing and developed country, it is also important to discover and continue to look at their specific practices which can help to reveal their relevance to the overall economic development of a nation in general and gain possible benefits of decentralization specifically to regional states. While decentralization has changed the political climate of the country it has certainly led to questions regarding its various procedures, ramification and impact. So far decentralization in Ethiopia has attracted some research and study a lot however, remains to be done to get deeper into the development process in Ethiopia, particularly in light of recent development (Tegegne *et al*, 2007).

Working backwards, a number of empirical studies also investigate the relationship between central and regional government in revenue and expenditure assignment since the 1994s, majorly emphasizing on expenditure distribution, revenue sources and their adequacy at federal and regional level. The conclusion they arrived highlighted the presence of fiscal imbalance and the inadequacy of such measures as intergovernmental transfer and borrowing to deal with the imbalance, these includes the following: Eshetu (1994), Kibre (1994), Fenta (1998), Getachew (2001), Gebrehiwot (2002), Melkamu (2004), and Taye and Tegegne (2007).<sup>1</sup>

**Firstly,** to start with, Eshetu (1994) found out that revenue share of regional governments where (10%) for the 1993/94 budget year. **Second,** Getachew (2001) examined the issue and found Out that revenue share of regional governments where (19.7%) for the 1994-1999 budget year, which registered an increased trend of (9.7%). with regard to expenditure share between center and regional governments, Eshetu (1994) found out that share of regions by recurrent expenditure was (37%) and financing (30%) of their total expenditure and (41%) of their recurrent expenditure from own source of revenue. Subsequently, Getachew (2001) examined the issue and found out that regional government share in total expenditure increased to (43%) and regions are able to fiancé 36% of their total expenditure and 57% of their recurrent expenditure. **Third,**

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<sup>1</sup> See the edition, with Kibre, by Eshetu Chole, on the distribution of revenue, expenditure share between central and regional government that mainly emphasized on data set comprising with cross regional data set. While, see Fenta, Getachew, Gebrehiwot, focus on case studies within a single region but use datasets comprising various regions.

the trend for selected social and economic sector show that, Eshetu (1994) found out that regional government share in education was (73.7%) and health (81%) while economic sector showing (28.38%) for 1993/94 budget year. Subsequently, Getachew examined the issue and found out that social sectors increased to (81%).

Some of the empirical reference reviewed above emphasized with cross- regional datasets while others focus on case studies within a single region but use datasets comprising various regions. We find that both cross-regional experiments and case studies yield inconsistent conclusions on the issue of whether fiscal decentralization in emerging and relatively developed regions shows similar or the same result. The next argument postulates that fiscal decentralization significantly vary across jurisdictions so that it helps to investigate the enabling environment can be justified.

In Somali region, fiscal decentralization occurred in the second wave of decentralization. According to Tegegne (2009) some observation on the performance of various DLDP programs indicate that some modest progress has been made but there are still substantial capacity gaps at woreda level. Activities are designed as enabling, deepening and consolidating stages with implementation varying among the nine regional states. The envisaged implementation for the four regional states namely Amhara, Oromia, Tigray and SNNPR concentrate on deepening and consolidating while in the remaining five regions, the main activity will be creating an Enabling environment.

In light of above view it is now about seven year's since the DLDP commenced. In spite of the fact that this is relatively brief in terms of duration, the value added of DLDP in view of emerging region, especially in terms of increased autonomy, revenue sources, expenditure assignment among others, is not sufficiently studied and articulated in a rigorous manner. It could be argued that a time span of seven years would allow one to modestly discern patterns and trends on whether there is the likelihood of realizing tangible outcomes accruing from the policy measure.

In this context, especially one of interesting factors that makes the research more interesting is that, none of the above studies on subject matter of fiscal decentralization with the case of Somali national regional state deal in terms of identifying how the implementation is going on, the degree and extent of autonomy, adequacy of revenue sources, expenditure assignment and inter- governmental transfer in the region.

This study will thus be concerned with the extent of the enabling environment created by assessing and examining the main pillars of fiscal decentralization which are expenditure assignment, revenue assignment and adequacy of inter-governmental transfer in the Somali region and finally investigating aspects of intra regional fiscal decentralization in Ethiopia.

### **1.3. Objective of the study**

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

The research primarily inquires how fiscal decentralization is practiced in the region. In light of the above main objective it tries to see the overall impacts of decentralization on socio-economic background, capacity, planning and budgeting in the region.

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

The specific objectives of the study are:

- To examine the performance of revenue generation in the region across years after the implementation of DLDP;
- To examine patterns and trends in expenditure assignment in light of own revenue and transfer;
- To examine patterns of transfers both to regional and woreda government;
- To investigate aspect of intra-regional fiscal decentralization and identify major factors which require improvement and intervention by the federal/regional/woreda government;
- To investigate if the decentralization process in general and the fiscal decentralization in particular have any impact on socio-economic development of the region and see challenges, prospects and constraints of decentralization in SNRS.

## **1.4. Research Questions**

The research has attempted to answer the following questions:

1. What is the degree of autonomy, power and achievements of the region in decision making on revenue raising, expenditure assignment and inter-governmental transfers?
2. Are there adequate revenue sources in the region? Have external factors such as state policies, institutional capacities, climate, demographic conditions have impact on the region and woreda level of government to collect adequate revenue?
3. Does the formula used for grant appropriately address lagging regions at regional level and woredas in achieving balanced development objective? If not what variables are critical to overcome the problem? Does the formula used within a region appropriately address equity objectives?
4. Does the planning and budgeting practice supporting the decentralization process?
5. What impacts does decentralization in general and fiscal decentralization in particular have on overall socio-economic, resource mobilization, capacity building in the region?
6. What is intra -regional aspect of fiscal decentralization in Ethiopia?

## **1.5. Research Methodology**

The researcher applied a combination of quantitative and qualitative social research methods specifically; a case study. This is because tracing the practice of fiscal decentralization in most cases entails 'how' and 'why' questions, which are better answered by case studies rather than research designs such as surveys.

- Review of research documentation and secondary sources
- Interviews with key informants,
- Focus group discussions with/between stakeholders
- Furthermore, the researcher has developed guidelines and open ended questioner. Interviews and focus group discussion is taken place by prior informed consent given from the key informant and discussants.

### 1.5.1. Research Approach and Design

The research approach and design employed in this research was both qualitative and quantitative one. Together with pluralism of paradigms and the multiple perspectives of qualitative research, the design, data collections and analysis can not be as neatly quantitative or qualitative one. Taking the case/ Somali region as unit of analysis, explicit attempt was made to preserve the wholeness, unity and integrity of the case so that the generalization process is not mechanical. Furthermore, the research approaches the problem of fiscal decentralization by focusing on three measures; these are sub-national government expenditures, sub-national government revenues and intergovernmental transfers.

**Table 1.1:** Summary of Variables and Levels of Measurement under Study

Variables	Indicators	Descriptor	Level of Measurement
Sub-national government expenditures	Government expenditure share	Ratio of sub-national government spending to total government spending	Ratio level
	Government size		
Sub-national government revenues	Sub-national tax autonomy	Ratio of tax revenue to total revenue of sub-national government (tax, non-tax inter-government and capital revenue)	Ratio level
	Sub-national non-tax autonomy	Ratio of non-tax revenue (rents and fee) to total of sub-national government	
Inter-governmental transfers	Vertical imbalance	Ratio of inter-governmental transfer to total revenue of sub-national government.	Ratio level
Budgeting and planning in the region			Practice compared to theories and relatively developed regions in the country.

**Source:** IMF, working paper 100/129, 2000: 24, See especially Melkamu 2004, Fiscal imbalance in Benishangul Gumz, pp. 6-8 (from which the citations is taken)

Moreover, several previous studies have also attempted to examine revenue assignments, expenditure assignments and patterns of transfers between central and regional governments. Working backwards, one of important measures used in these studies where, non-parametric descriptive static's combining both quantitative and qualitative one which can form a precise relation in methodology.<sup>2</sup>

<sup>2</sup> See especially Eshetu edition, ( From which the citation is taken), however beyond ratio measurement the qualitative dimension is still one of potential limitation in the methodology (see especially conceptual frame work and Similar concern was raised by Taye and Tegegne (2007)

However, a major barrier to understanding is the lack of well defined theoretical frame work to empirically measure fiscal decentralization in a policy relevant way. Empirically, Eshetu (1994), Kibre (1994), Fenta (1998), Getachew (2001), Gebrehiwot (2002), Melkamu (2004), and Taye and Tegegne (2007) focuses on the “De facto” situation examining fiscal rather than institutional decentralization. In quantitative dimension most widely used measurement is the ratio of sub-national government expenditure/revenues to total government expenditure/revenue ratio (see table 1.1 above). But this indicator is criticized too simple to capture the dimension of fiscal decentralization. Specifically, it ignores key qualitative dimensions, such as taxing power, institutional strength, capacity issues and the independence of officials and its impact on spending which are very important qualitative dimensions that need to be critically considered in order to maximize benefits of fiscal decentralization in a policy relevant way.

With a belief to overcome such a limitation the research employed both primary and secondary data sources which includes the qualitative dimension. In this research descriptive study is made using both quantitative and qualitative analysis. The methods used to select the key informant, focus group discussants, type of data, data collection instrument, and methods of data analysis are described as follows.

## **1.6. Research Methods**

### **1.6.1 Selection of Key Informant and Focus Group Discussant**

In using key informants, Tremblay said “one chooses them strategically, considering the structure of the society and the content of the inquiry ---- when we use key informants, we are not randomly sampling from the universe of characteristic under study. Rather, we are selectively sampling specialized knowledge of the characteristics (1957- P.1689 cited in Yerasework, 2010).

#### **1.6.1.1. Selection of Key Informants**

In this study respondents for the interview and focus group discussion where selected based on the specialized knowledge of topics under study. In addition to these some other critical factors have also been considered which are the duty, responsibility and power they have regarding decentralization practice of both federal and regional government. Hence, key informants were selected from the following units under study.

At regional level, BOFED (Bureau of Finance and Economic Development 5 head officers), CBB (Capacity Building Bureau 3 head officers), BOR (Bureau of Revenue 5 head officers), Bureau of Culture and Tourism (1 head offices), Bureau of Education (1 head officers), Bureau of Health (1 head officers) and at federal level MoFED (1 Regional Development Officer) and MoFA (3 balanced development directorate) (See Annex 4)<sup>3</sup>. Regardless of interview made with key informant, the researchers also made discussion with others who have already studied the phenomena, and record both what observed and hear in the interview.

### **1.6.1.2. Selection of Focus Group Discussant**

Specifically, focus group discussion was conducted within bureau of finance and economic development. With the group consisted of regional development planning unit, regional budgeting and treasury core process unit. The discussion clearly depicted the current practice in fiscal decentralization in particular and decentralization in general. During both the interview and focus group discussion session the role of the researcher was limited to playing a facilitator role, prepare a list of topics and question rather than utilizing a fixed questioners.

- The researcher role is to gain ‘holistic ‘overview of fiscal decentralization practice, its logic, its arrangements and its explicit and implicit rules.
- The researcher attempted to capture data on perceptions of local actors “From inside” through a process of deep attentiveness, of empathetic understanding and of suspending or “bracketing” preconceptions about the topics under discussion. So the researcher role is to listen patiently and with an open mind, to be sincere about it, encourage them to express their ideas fully.

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<sup>3</sup> See details in Annex 4.

## **1.6.2. Data Collection Methods**

### **1.6.2.1. Primary Data Collection Methods**

The research primarily relied on primary data collection which is an in-depth interview of key informants to collect information on the decentralization progress in general and fiscal decentralization in particular. Structured interview guides for in-depth interview were used to collect primary data. In the process, respondents were given time an opportunity to enter the research platform with their own perspectives or “Actors View Points”.

However, due to the fact that the issue cannot be addressed by the use of one particular research method necessitated methodological triangulation; as a result the researcher used open ended questionnaires and focus group discussion as primary data collection methods. Observations were also important in some cases. Actors View Points is important in qualitative studies because it unravels underlying meanings and interpretations of those immersed in particular practices (See qualitative dimension of fiscal decentralization and focus group discussion part of this paper).

In general, while the logic and rationale of methodological triangulation is convincing and even tempting, putting into practice is a daunting matter (Yeraswork, 2010; P: 60). Since qualitative research is more diverse than quantitative one in using multiple strategies and the range of what count as useful data, and ways of collecting them, is very wide ended. Taking this fact and with a belief it can build credibility the researcher attempted to triangulate information gathered through those methods. In these contexts, the interview with all of key informant, focus group discussants was administered taking time gap and informed before 1 to 2 days. At regional level the 1<sup>st</sup> key informant was made with the regional development planning unit .The interview used a semi-structured form of questioner and used a general checklist which is divided into 4 themes having 14 guiding questions (see annex 1).

At federal level the 1<sup>st</sup> key informant was made with the regional development coordination office unit (MoFED) and the second key informant is from MoFA (Ministry of Federal Affairs) in which issue of balanced regional development were addressed.

Finally, while, the researcher, stayed in Somali National Regional State for a period of four weeks to collect the data there was an opportunity to watch, listen, and communicate with the sector office workers at various level in the region since, most of employees used chat as their refreshment, the researcher had also used the opportunity and sat down with them and get to obtain information regarding specific aspect, especially the turnover of officials etc.

### **1.6.2.2. Secondary Data Collection Method**

Secondary data have the following sources: documentary material, secondary data set and Published material.

In this study, both quantitative and qualitative data were gathered through secondary data collection method. All quantitative data regarding revenue assignment, expenditure assignment and inter governmental transfer were obtained from MoFED data set, BoFED, MoFA, Regional budget proclamation, CSA statically bulletins and budget execution reports, etc.

In qualitative research the range of what count as useful data, and ways of collecting them is very wide ended. In this context, qualitative data regarding planning and budgeting practice were gathered from various guidelines and manuals prepared by BOFED, CBB. Furthermore, qualitative data regarding administrative setup, organizational structure and over all socio-economic background were accessed from the revised regional constitution, unpublished documentary materials at regional sectoral offices and published magazines, etc.

## **1.7. Data Analysis**

In this study, based on written theoretical and empirical investigation on subject matter of fiscal decentralization, the researcher made an attempt to analyze quantitative data critically by using specific tools, which include percentages, ratios, and used to compare and integrate with the intra- regional fiscal decentralization. This can clearly depict the picture of every variable under study and make the potential user to be more confident on the result obtained.

Regarding the qualitative part, most analysis is done with words, they are organized to permit the researcher to construct, compare, analyze and bestow patterns upon them. The study put theoretical argument in which it explains explanatory framework for practices and options in fiscal decentralization. It's believed such options and practice be based on conceptual discussion on the issue of fiscal decentralization and illustrated by using number of country level experience that are better implementing fiscal decentralization, and international examples with consideration of their applicability in the region.

The quantitative analysis part is made mainly employing descriptive statistics. Finally, to draw conclusion, the study attempt to link both the quantitative and qualitative data analysis together and come up with appropriate recommendation.

## **1.8. Significance of the Study**

From development perspective, Somali region is one of the four regions identified as an emerging region, the federal as well as the regional government designed a number of strategies so as to ensure rapid and sustainable development of the region. The regional government has begun to take initiative towards implementing second wave of decentralization in the region (DLDP) in 2004/05. There was no any assessment made regarding the progress made and the achievements in the overall decentralization in general and fiscal decentralization in particular in the region. Taking the above facts this research will see the practice of fiscal decentralization and recommend appropriate policy in place. The research is believed to provide an input and way forward direction for future decentralization and help policy makers in designing appropriate policy option in place.

Against this background, academically, firstly, an assessment of the decentralization drive is not simply a matter of “Fitting in “the research in to the literature, as we shall see above (see statement of the problem and research design), limited research in the area, mostly done on other part of the country, sometimes contain, empirical reference that does not resemble or even directly correspond to Somali region. Moreover, it’s possible that some, albeit very limited, research in the area may offer further clues about the relative importance of the thesis so that it can close the literature gap in the area and help potential researchers as spring board to investigate the issue in a comprehensive way.

### **1.9. Scope of the Study**

Fiscal decentralization is a broad concept and involves broad areas of inquiry which may be correlated with many other variables that are completely different among the woredas of the region. It is not the scope of this study to cover all features of decentralization among other woredas and sector offices. The research is limited to see the measures of fiscal decentralization in the region and highlight the overall socio-economic background and decentralization link; however Intra- regional fiscal decentralization was also looked at mainly to show the current status of the region compared to national and other regions in the country. Finally, the full glimpse of fiscal decentralization and relation with other thematic areas like regional growth, service delivery, poverty, gender etc are left for other researchers.

### **1.10. Limitation of the Study**

Even though unreserved effort has been made to make the research original and valuable to policy makers, it is also important to raise some of limitation faced which might inform potential researchers and users.

1. Absences of documented papers, studies and minutes, difficulties to find key informants due to constant turnover of such people and reluctance of some to provide information.
2. Respondent’s unwillingness to give first hand (primary data) was also the main challenge. The corruption practice in the region is high compared to other regions hence respondent see or perceives the research as a way of investigation or auditing their practice. In these context the acquisition of further data, has of course been hampered by severe corrupt practices in the region and with unethical understanding concerns to protect data retrieval and retention in the region.

### **1.11. Organization of the Thesis**

This thesis contains five chapters. The **First Chapter** tries to explain the introduction part which contains background of the study, statement of the problem, objectives, research methodology and conceptual frame work under study. **Chapter Two** will present both theoretical and empirical literature review that helps to properly state a frame work for the study. **Chapter Three** presents the overall socio-economic background, decentralization practice, prospects, constraints, special features and challenges of development in the region. **Chapter Four** presents the discussion, presentation and analysis of data gathered from the study area which is the fiscal decentralization practice in the region which includes revenue assignment both from federal to region and region to woreda, expenditure assignment both from federal to region and region to woreda, the inter governmental relation at both level, and finally about intra-regional fiscal decentralization was made in order to compare and see the clear picture of the current practice at both level. **Chapter Five** presents the summary, conclusion and implication part of the study which tries to link both the qualitative and quantitative analysis and see their relation with intra-regional fiscal decentralization in Ethiopia.

## CHAPTER TWO

### BRIEF OVERVIEW OF FISCAL DECENTRALIZATION THEORETICAL AND EMPIRICAL BACKGROUND

#### 2.1. Fiscal Decentralization Theory

##### 2.1.1. Theoretical Arguments

This chapter will first discuss the fiscal decentralization theory and empirical literature both in developed and developing country. After the fiscal decentralization theory and empirical is discussed, the fiscal decentralization in Ethiopia is examined.

In Ethiopia, empirically, in an important recent decentralization literature publication, (Tegegne *et al*, 2007:53) noted most studies of fiscal decentralization as it pertains to federal regional relations were conducted prior to the recent woreda level decentralization. These studies emphasized expenditure distribution, revenue sources and adequacy of inter governmental transfers the conclusion they have arrived highlighted the presence of fiscal imbalance and the inadequacy of such measure as inter-governmental transfers to deal with imbalance. The studies also revealed that regions depend considerably on the federal government in order to overcome deficit that they encounter.

Initially the basic argument in favor of fiscal decentralization is that it improves the efficiency of the public sector and promotes long- term economic development. Hayek cited in (Hehuijin *et al*, 2005) indicated that the local government is more effective than the central government in drawing up public policy because the local government can spend less cost- to collect more information about local residents. Subsequently Stigler (1957 cited in Robin b. *et al*, 2009) interpreted that the rationality of the local government existence could improve the resource allocation to achieve an efficient level and he used two principles to interpret rationality. First local government are closer to their resident than the central government second the residents have a right to choose by voting different kinds and quantities of public service but what type of public service could be provided by the local or central government is outlined by Musgrave (1959) He pointed out that different kinds of public goods should be provided by different levels of government national public goods such as national defense and the local government is efficient to treat regional public service.

The other prominent writer Oates (1972) decentralization enhances economic efficiency because local government have better knowledge of local condition and preferences or the provision of public good than national governments due to their physical and institutional proximity. This informational proximity allow local government to deliver public goods and services that better match local preferences or deliver the same public goods and services at lower cost at the same time by diversifying government output according to local preference Oates (1995) argues decentralization at higher levels of public goods and services across jurisdiction will generally be inefficient the larger variance in regional demands for public goods, the larger benefits of fiscal decentralization.

Hehuijin *et al*, (2005) stressed decentralization of authority has the benefits of more efficient use of dispersed local knowledge possessed by local government. In contrast centralization of government authority is costly because information transmission form local to central is often distorted and incomplete. But decentralization is meaningless if the central government takes away all revenue generated in the local economy as a result of local action this suggests a link between fiscal incentives of local government and local development which is a function of local government policy.

(Rodriguez Pose *et al*, 2010) cause of the enhanced proximity between those governing and those governed, fiscal decentralization empowers individuals and helps to generate institution such as a greater trust interaction and networking, which in turn contribute to a reduction of transaction cost.

Subsequently Rodriguez Pose *et al* (2010) beside potential risk of decentralization for economic performance, poorer localities and regions may be at farther disadvantage in delivering efficient policies and strategies often times sub national governments especially in the less developed region lack adequate expertise and human resource to put in place viable policies and strategies moreover, richer and more dynamic regions can greatly extract greater resources either through the taxation of their own citizen or through a greater political leverage to negotiate with the central government where largest economies of scale and scope are involved local and regional government often lack the necessary size to deliver public goods and services efficiently with provision of transport infrastructure or utilities being most at risk fall into inefficient. Given the above points the possibility of matching policies to specific needs of population may be a pipe dream as local and regional governments do not have the necessary powers, resources, capacity and capabilities to be able to adequately address local problems.

Tegegne *et al*, (2007) highlighted the presence of fiscal imbalances and inadequacies of such measures of inter governmental transfer, and borrowing to deal with imbalance. The extent to which inter-governmental transfer and borrowing has achieved the goals of equity and balanced regional development is not adequately treated and the reason behind such high degree dependency are associated with inadequacy of revenue source.

Finally Smoke (2001) argues there can be no argument with analysis who point to potential macro-economic dangers and growth retarding effects of fiscal decentralization most of evidence however is anecdotal relevant only under particular uncommon circumstances or focused on correctable rather than inherent problems. The reality is that the appropriate degree of decentralization will vary with the context of particular countries and some steps can be taken in most countries to neutralize potential macro-economic dangers. Simply decentralizing is not going to bring development and failing to decentralize is not necessarily going to undermine it. The challenge is to devise an appropriately structured system that mandates and provides incentives for responsible local government fiscal behavior and enables the creation of a climate conducive to private investment and to develop the skills of local government employees to meet the requirements of the system and the abilities of central government officials to assist local governments in the process of their evolution to greater autonomy.

Taking the above complementing motives we can summarize the common theoretical rationale and against fiscal decentralization as follows:

### **I. Rationale**

**Resource Allocation Incentive:** they face greater incentive to allocate resource (funds or staff to those sorts of basic service infrastructure which benefits the poor.

**Local Information:** they are better placed to respond to local variations in for example conditions, tastes, standards and location requirements for such services/ infrastructure.

**Maintenance Incentive:** they face greater incentive to ensure proper operation and maintenance do the “centered” state institution.

**Greater Coordination:** it is easier to ensure coordination of state agencies line department’s staff, budgets and activities at the local level and so to ensure complementary rather competing activities and greater local resource mobilization that it is easier for locally based institutions to levy and collect taxes and user fees. Because of the more evident returns seen by those who pay.

Accordingly (De Mello, 2000b: 365) summarizes the arguments for fiscal decentralization as follows:

1. Fiscal decentralization enables sub-national governments to take account of local differences in culture environment, endowment of natural resources, economic and social institutions.
2. Information on local preferences and needs can be extracted more cheaply and accurately by local governments, which are close to the people and hence more identified with local causes.
3. Bringing expenditure assignments closer to revenue sources can enhance accountability and transparency in government action.
4. Fiscal decentralization can help promote, streamlining public sector Activities and the development of local democratic traditions.
5. By promoting a locative efficiency, fiscal decentralization can influence macro economic governance, promote local growth and poverty alleviation directly as well as through spillovers.

However, fiscal decentralization has its own limitations, which include:

1. Failure to adequately address the question of how to manage inter-governmental fiscal relations in order to meet the growing needs of public services at the local level while preserving fiscal discipline nationally and sub nationally. This requires institutional clarity and transparency to avoid coordination failures that lead to inefficient spending by local government manifested in deficit bias and higher borrowing costs that can aggravate macroeconomic imbalance and instability. To avoid such undesirable outcome there is a need for incentives and capacity building on top of institutional checks and balances to ensure prudence in sub national fiscal management (De Mello, 2000)
2. When large economies of scale and scope are involved, local and regional government often lack the necessary size to deliver public good and services efficiently with the provision of transport infrastructure or utilities being most at risk to fall in to inefficiency (proud home, 1995 cited in Rodriguez Pose *et al*, 2009:10)
3. Limited local institutional capabilities may even undermine the capacity to assimilate and adopt best practices (Oates, 1993; Otero, 2004 cited in Rodriguez pose *et al*, 2009).

4. Poorer localities and regions lack adequate expertise and human resource to put in place viable policies and strategies, more over richer and more dynamic regions can greatly extract greater resources either through taxation or their own citizen or through a greater political leverage given the above points the possibility of matching polices to specific needs of population may be a pipe dream as local and regions governments do not have the necessary powers, resource capacity and capability to be able to adequately address local problems (Rodriguess Pose *et al*, 2010).
5. It can reinforce inequities due to resources and tax bases are not evenly distributed, and regional differences in infrastructure, education, health care, climate, culture differences, and distance from the center may prevent full use of production factors.

### 2.1.2. Distribution of Roles of fiscal Policy in Fiscal Decentralization

The decentralization theory provides direction for sharing three functions among three levels of government. The standard Musgrave model of public sectors responsibility states stabilization, distribution and allocation (Musgrave, 1959).

**Stabilization:** primary responsibly for stabilization function has conventionally been assigned to central government, partly because of the obvious problems that would result if sub-national government had independent control over their own money supplies In addition local economies were considered highly open so that the effects of local fiscal policy would be dissipated into other areas. Smoke (2001) justify stabilization as a primarily a central function in developing countries first macroeconomic fluctuations can be particularly severe in emerging countries, especially in agricultural countries substantial and unpredictable climate variations and countries heavily dependent externally for basic production inputs, manufactured goods and credit. Under such condition stabilization policies must be planned and coordinated centrally by well- trained and experienced people.

**Distribution** the fiscal federalism places principal responsibilities for distribution with the central government **first** only the central government is in a position to redistribute resource from wealthier to poorer governments **second** different redistribution programs would be expected to create problems if factors of production where mobile, **third** local government tend to have access to revenue sources that are not easily levied in a way that progressive with respect to income. Although there have been challenges is to conventional recommendation that distribution be centralized it s generally accepted that decentralized governments typically more constrained than the central government in altering the distribution of income.

**Allocation:** The prescribed role of decentralized levels of government in the allocation function is substantial because demand for many public service is not likely to be uniform across space (Musgrave (2001) gains would thus be enhanced through decentralization because resident in different governments could choose through mix of public goods and taxes that best conforms to their preferences. In this framework decentralization is desirable not only because of preference differentiation but also because expenditure decisions are tied more closely to real resources costs in smaller jurisdiction.

Nuria *et al* (2008) also used to state beyond the guidance provided by Musgrave governmental roles, there are some characters of taxes of whether these taxes are to be assigned at the central or sub-national levels: These include:

- **Revenue Buoyancy;** meaning that overall revenues should change roughly in proportion to Economic base.
- **Equity;** meaning that good revenue sources are “ fair equitable in the sense of horizontal equity under which tax payers in similar circumstance should be treated similarly and vertical equity under which tax payers with different incomes should pay according to their “Ability to pay”.
- **Efficiency;** meaning that the tax should have relatively low administration and compliance costs and create a minimum distortion in the economy.
- **Political Acceptance;** meaning that taxes need to be sensitive to historical and institutions framework in the country.

There are, in addition several other principles that are desirable for taxes that are to be assigned at the sub-national level. **First** the benefit principle which relates revenue sources to the benefits being provided should be implemented to the largest extent possible. **Second** sub-national revenue source should have a tax base that is relatively evenly distributed across jurisdiction. This helps to minimize fiscal disparities among sub-national governments and reduces the burden put on equalization grants to allow a more uniform quantity and quality of services. **Third** sub-national tax source should have immobile based to minimize the likelihood of tax competition among jurisdiction in a “race to bottom”. However, not all tax competition is undesirable; a moderate tax competition give an incentive to politician and bureaucrats to be efficient and to provide services according to citizens’ performance in their choices of taxes.

**Fourth**, sub-national taxes should be geographically Neutral in the sense that they do not interfere with domestic or international commerce, they do not distort the location of economic activity across the national territory and they are not exported such that the taxes received by sub-national government are primarily borne by residents in other jurisdictions. **Fifth** is a requirement for administrative feasibility so that sub-national taxes can be implemented without undue costs of compliance and administration. certain taxes may be better administered at the local level because of the information advantage (eg. property taxes) while for the same reasons local government have a relative disadvantage in collecting other taxes (eg. personal income taxes). **Sixth** sub-national grants should exhibit generally stable tax bases: revenue source that are highly sensitive to general economic condition. (eg profit taxes) should be assigned to central government which has greater ability to deal with cyclical fluctuations in revenues through borrowing and other means. **Seventh**, sub-national taxes should be highly visible so that tax burdens are clearly perceived by location residents. Of course sub-national governments are likely to think quite differently about this, finally, sub-national tax assignments need to stable over time. A typical problem of transitional countries has been unstable assignments, with the assignment not being established in permanent laws but instead decided in annual budgets; ad hoc assignment decided on annual basis may also result in a lack of uniformity, unnecessary complexity and perverse incentives to ward revenue mobilization.

### **2.1.3. Elements of Good fiscal Decentralization Program**

These elements include an adequate enabling environment, assignment of an appropriate set of function to local governments, assignment of an appropriate set of local own-source revenue to local governments, the establishment of adequate access of local governments to development capital (Smoke, 2001).

#### **A. Adequate Enabling Environment**

An enabling environment for fiscal decentralization can begin with constitutional or legal mandates for some minimum level of autonomy rights and responsibilities for local governments. This provides a foundation on which to build decentralization but it does not by any means guarantee successful decentralization.

**First** they help to cover local government fiscal imbalance supplementing inadequate local own-source revenue to improve the ability of local government to meet their expenditure responsibilities **second** they can be used to meet national redistributional objectives helping to offset fiscal capacity difference among local governments **third** they can be used to encourage local expenditure on particular goods and services that exhibit positive externalities or are considered to be basic needs that should be distributed less unequally than the ability to pay for them according to some most transfer system even in developing countries are intended at least officially to meet these objectives. There are typical issues to recognize explicitly the different types of transfer system are appropriate in different circumstance unconditional grants are best for income distribution purpose while conditional grants a cheaper way of encouraging expenditures on particular types of target service if designed properly both types can help to encourage local resource mobilization and to ensure over time provision of a basic minimum of services in all local government regardless of fiscal capacity.

#### **E. Developing Adequate Local Access to Investment Capital**

According to Smoke (2001), local government in many developing countries get most of their capital budget from intergovernmental transfers but some decentralization governments typically states provinces and large cities are able to borrow; in some cases such as Brazil and Colombia, there is direct and significant access to commercial banks and the bond market. In other cases such as India and Poland access is limited. The real challenge for fiscal decentralization is to develop spectrum of options to finance capital investment from grants and subsidized loans for poorer local governments and non self-financing projects. Where decentralized levels of governments are relatively strong efforts to develop direct access to capital markets makes sense.

#### **2.1.4. Defining and Evaluating Revenue System**

Paul smoke (2001) also states three other broad issues regarding local revenue system **first**, the spatial dimension of local government actions requires the inter-dependence and competition across jurisdictions be explicitly considered and that mobile tax be avoided **second** central government have national goals regarding public service provision and inter jurisdictional equity that justify inter-governmental transfers and service standards **third** the optimal criteria for assigning revenue sources to authorities will generally differ from the perspectives of central and local government. These differences in perspective and potential effect must be recognized when designing local revenues system.

### 2.1.5. Designing Fiscal Transfer

This design of fiscal transfer is critical to ensuring the efficiency and equity of local service provision and the fiscal health of sub-national government. A few simple consideration are discussed by Robhin *et al* in designing these transfers, as indicated, the following guide line are indicated for grant design (Robin et al, 2009).

- 1) **Clarity in Grant Objectives:** Grant objectives should be clearly and precisely specified to guide grant design.
- 2) **Autonomy:** Sub-national governments should have completed in dependence and flexibility in setting priorities. They should not be constrained by the categorical structure of programs and uncertainty associated with decision making at the center. Tax-base sharing allowing sub-national governments to introduce their own tax rates on central bases, formal-based revenue sharing, or black grants is consistent with these objectives.
- 3) **Revenue Adequacy:** sub-national governments should have adequate revenues to discharge designated responsibilities
- 4) **Responsiveness:** the grant program should be flexible enough to accommodate unforeseen changes in fiscal situation of the recipient.
- 5) **Equity (Fairness):** allocated funds should vary directly with fiscal need factors and inversely with the tax capacity of each jurisdiction.
- 6) **Predictability:** The grant mechanism should ensure predictability of sub-national government shares by publishing five-year projection of fund availability. The grant formula should specify ways of alleviating yearly fluctuations, such as by the use of moving average or floors and ceilings. Any major changes in the formula should be accompanied by hold harmless or grand fathering provision.
- 7) **Transparency:** both the formula and the allocations should be disseminated widely, in order to achieve as a broad a consensus as possible on objectives and operation of the program.
- 8) **Efficiency:** the grant design should be neutral with respect to sub-national Governments choices of resource allocation to different sectors or type of activity unless there is clear efficiency or equity rationale for conditional grants.

Block grants are a vaguely defined concept. They fall in the gray area between general-purpose and specific purpose transfers, as they provided budget support with no strings attached in a broad but specific area of sub-national expenditures (Robin. et al 2009).

**Specific Purpose Transfer:** specific purpose or conditional transfers are intended to provide incentives for government to undertake specific program or activities. These grants may be regular or mandatory or discretionary or ad hoc. Conditional transfers typically specify the type of expenditure that can be financed (input-based conditionality). These may be capital expenditures, operating expenditure, or both. Conditional transfer may also require attainment of certain results in service delivery (output based conditionality).

Input-based conditionality is often intrusive and unproductive, whereas output based conditionality can advance grantor's objectives while preserving local autonomy. Conditional transfers may incorporate matching provisions- requiring grant recipients to finance a specified percentage of expenditure using their own resources. Matching requirement can be either open-ended meaning that the granter matches whatever level of resources the recipient provides, or closed-ended, meaning that the granter matches recipient funds only up to specified limit (Robin *et al*, 2009).

Matching requirements encourage greater scrutiny and local ownership of grant-financed expenditures: close-ended matching is helpful in ensuring that the granter has some control over the costs of the transfer program. Matching requirements, however, represent a greater burden for recipient jurisdiction with limited fiscal capacity. In view of this, it may be desirable to set matching rates in reverse proportion to per capita fiscal capacity of the jurisdiction in order to allow poorer jurisdiction to participate in grant.

### **2.1.7. What is Budget?**

A budget is a quantitative expression of a proposed plan of action by management in case of private sector or the in case of government for a specified period and is an aid to coordinating what needs to be done to implement the plan. When administered wisely, budgets compel planning, provide performance criteria and promote coordination and communication across levels. In general budgeting is about making plans for the future, implementing those plans and monitoring activities.

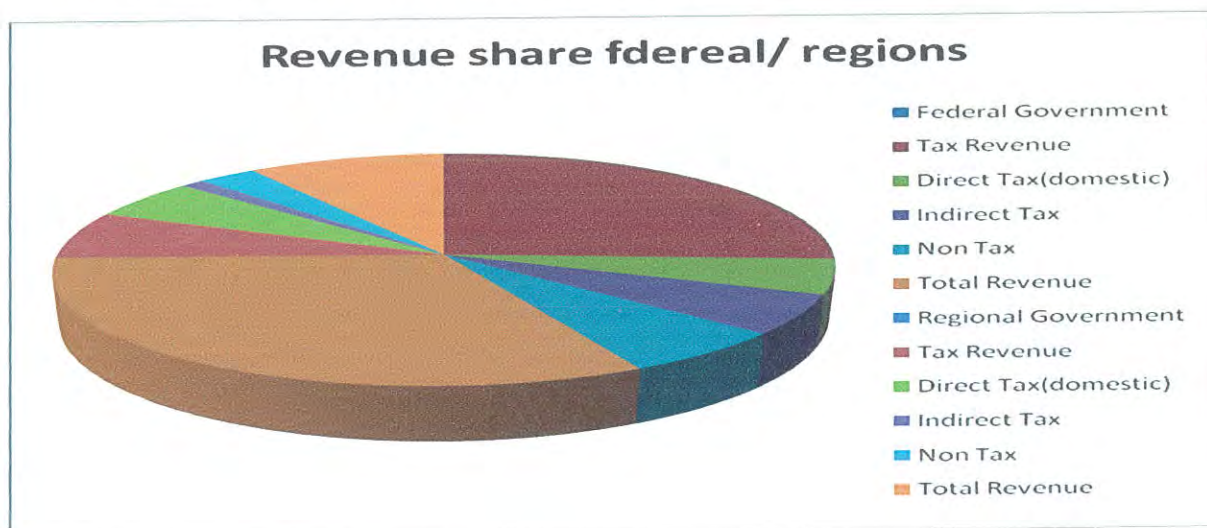
## 2.3. Aspects of Intra-Regional Fiscal Decentralization

### 2.3.1. Revenue Assignment

Four basic guidelines are suggested as starting points for defining or evaluating Revenue system (Oates, 1972) **First** local taxes should be as neutral as possible in terms of their effect on economic behavior. **Second** the benefits and costs of local taxes should be clear to those for whom services are to be provided **Third** the pattern of incidence of local taxes should meet basic equity standards **Fourth** administration and compliance costs should be minimized by avoiding the assignment of complex taxes to local governments.

(See annex 5)<sup>4</sup> presents revenue share between central and regional level of government in Ethiopia on average for the year 1996 – 2002 EFY. The data is characterized by (A) The average share of regions of the tax revenue was about (0.22, did not include import duties) (B) The average share of regions of the direct tax was about (0.46) (C) The average share of regions of the indirect was about (0.18) (D) The average share of regions of the non-tax was about (0.23) (E) The average share of region of the total import duties tax was nil.

With regard to growth trend (A) central government total revenue was increased from (13917) in 1996 EFY to (53861) in 2002 EFY which is 20% growth (B) regional government total revenue was increased from (3088.3) in 1996 EFY to (9835.1) in 2002 EFY which is 17% growth rate.



**Figure 2.2:** Revenue Share Trend-Federal/Regions (See details on Annex 5)

<sup>4</sup> The data used in these calculations are described in the data appendix 5 revenue and expenditure shares respectively.

An important feature of these data is that, with exception of direct tax sharing which shows relatively better share (.46), the other two source of revenue assignments showing the center taking the lion share (.22, .18, .23). In this context, working backwards, we can see some aspects of change and continuity in revenue sharing in Ethiopia. **Firstly** to start with, Eshetu (1994) found out that revenue share of regional governments were (10%) for the 1993/94 budget year. **Second**, Getachew (2001) examined the issue and found out that revenue share of regional governments were (19.7%) for the 1994-1999 budget year, which registered an increased trend of (9.7%) while currently the figure shows that the trend goes up to (22%).

Based on the above noted facts of trend analysis it's quite possible to show some of change and continuity accordingly in this context revenue share shows a changing figure ranging from (10%, 19.7%, 20% and 22%) for the year (1993-94 – 2001/02 EFY).

### **2.3.2. Expenditure Assignment**

Based on ratio measures (see annex 6) shows us the expenditure share between, central and regional level of government, excluding defense budget which is not decentralized to regions and net of external loan and assistance. The data is characterized by (A) the average share of regions of the total capital expenditure was about (0.30). (B) The average share of regions of the total recurrent expenditure was about (0.76) (C) The average share of regions of the total expenditure was about (0.53).

**Firstly**, expenditure share by functional distribution for capital expenditure shows that, (A) The average share of regions of the economic development sector was about (0.27) (B) The average share of regions of the social development was about (0.22) (C) The average share of regions of the general development was about (0.74). **Secondly**, expenditure share by functional distribution for recurrent expenditure shows that, (A) The average share of regions of the general service was about (0.64) (B) The average share of regions of economic service was about (0.80) (C) The average share of regions in social service was about (0.80).

**Thirdly**, with regard to growth trend (A) central government total expenditure was increased from (17365.16) in 1996 to (61779.1) in 2002 EFY, which was 19% growth (B) capital expenditure for central government increased from (5400.02) in 1996 to (29946.7) (C) Recurrent expenditure for the general government was increased from (7717.6) in 1996 to (28271.1) in 2002 EFY which is 18% growth.

Finally, The varied share of central and regional governments in both recurrent and capital including by functional distribution provides an explanation for the fact that there are two related ideas deduced firstly, there is an increased trend towards higher public spending second consistent with the combination of dependency in transfer by regional governments and increased consumption for recurrent expenditure than capital ones.

Again based on noted facts it's quite possible to show aspects of change and continuity. **Firstly**, with regard to expenditure share between center and regional governments, Eshetu (1994) found out that share of regions by recurrent expenditure was (37%) and financing (30%) of their total expenditure and (41%) of their recurrent expenditure from own revenue sources Getachew (2001) examined the issue and found out that regional government share in total expenditure increased to (43%) and regions are able to fiancé 36% of their total expenditure and 57% of their recurrent expenditure while currently the finding show that average share of regions of the total expenditure was about (0.53) excluding external loan, assistance and defense budget from the computation the average share of regions of the total recurrent expenditure was about (0.76) and finally the average share the region of the total capital expenditure was about (0.30).

**Secondly**, the trend for selected social and economic sector show that, Eshetu (1994) found out that regional government share in education (73.7%) health (81%) while economic sector showing (28.38%) for 1993/94 budget year. Getachew examined the issue and found out that social sectors increased to (81%) whereas currently the finding show that the average share of regions of the total economic development sector was about (0.27) and average share of regions of the total social development was about (0.22) and the average share of regions of general development was about(.74). In these context an important element of continuity in expenditure side was that, there is an increased tendency to decentralize recurrent expenditures than capital ones, and, the persistent dependency on the center due to mismatch between expenditure responsibility and revenue source still remain.

Finally, Shelton (2007) noted an important insight regarding the size and composition of government expenditure, Shelton put different variables will tend to show different pattern of spending and puts his arguments as follows.

Much of the increase in total expenditure associated with greater trade openness is attributable to categories that do not insure for risk. This is especially true in less-developed countries.

1. In less-developed countries, greater trade openness is associated with a centralization of expenditure: the increase in central government expenditures is partially offset by a decrease in local government expenditures.
2. In more populous countries and countries with greater ethnic fractionalization, spending categories of public goods (education, health care, public order and safety) is decentralized to lower spending by the central governments significantly offset by higher spending by local governments.
3. In industrialized democracies, better political rights and greater inequality are each associated with more distribution, though the interaction negative ([www.elsevier.com/locate/econbase](http://www.elsevier.com/locate/econbase)).

### **2.3.3. Expenditure Assignment in Light of Own Revenue by Individual Regions Perspectives**

This section is mainly intended to examine Intra-Regional fiscal decentralization. Table 4.5 presents data on fiscal capacity of regional government to measure interactive term between the percentage of total regional revenues and expenditures to each individual region for the year 1999-2002 EFY on average.

One of important proclamation regarding narrowing the gap in development and economic growth between regions is Proclamation No. 33/1992 in which the objective of fiscal decentralization in Ethiopia regarding emerging region in the country. According to Tegegne (2009) especially regarding emerging regions it is argued that regions have very limited resource and sever financing gap, potential and actual revenue collection indicates that there is huge difference between the two. This indicates the need to strength mechanism for local resource mobilization. Since lack of income is a typical future of lagging regions income raising activates should be the central future of assisting lagging regions (Tegegne, 2009).

It is not clear weather grants reduce inter-regional disparity because there always rich people in poor regions and poor people in rich region. Area grants should thus target poor people in poor regions. Inter-governmental transfers cannot be taken as long term solution to assist under developed regions since they can under line local initiatives and local aspirations in the long run it is better to develop regional and local capacity by developing their resource base and grating them full right to mobilize resource.

Moreover, post implementation capacity shows that the high vertical and horizontal imbalance among Ethiopian regions. The following major factors can be mentioned which are; issue of weak economic activities, uneven distribution of population, inefficient tax administration, low manufacturing and urban centers which create less agglomeration force. Horizontal imbalance that is defined as fiscal capacity or disparity among regions and within a region is another area of problem that need to be given emphasis, since the cause for the existence of horizontal imbalance is explained as economic base variation, natural resource endowment, population size, varying spatial distribution, infrastructure development, distance from the center, less manufacturing and industry which lead to less agglomeration forces, extent of peace and stability in the region, vulnerability to diseases and climate condition can be said the most important factors that must be considered in dealing with horizontal imbalance.

Against this back ground, **firstly** table 4.8 shows expenditure share in light of own revenue of each individual regions. Two major points of observation we can see (A) the share of own revenue to total expenditure for relatively developed regions namely, Tigray Amhara, Oromiya and SNNP was (.45, .21, .16, .17) respectively and able to finance capital expenditure in surplus. (B) The Average share of own revenues to total expenditure for emerging region namely Afar, Somali, Gambela, and B/G was (.1, 0.06, 0.17, 0.1) and almost relatively dependent on transfer.

Generally based on the above fact of analysis the data can provide us an explanation of two major points **firstly** , there is clearly a significant variation across regions, which means the size of expenditure financing and dependency on the transfer vary significantly across regions, while there is higher tendency toward lower fiscal capacity among emerging regions although there are exception with relatively developed regions who can finance at least their capital expenditure in surplus and showing relatively greater fiscal capacity. **Secondly**, the significant variation between own revenue to expenditure financing implies staggeringly large dependency of emerging regions on the center covering only 10% to 15% of their expenditures respectively, Whereas relatively developed regions show relatively quite lower dependency on the center covering 20% - 25% of their expenditures respectively.

The data suggests that there is great deal of variance exists in the capacities of regions to collect taxes and discharge responsibility assigned to them. This may mean two things **first** the relatively developed regions who tends to show similar revenue expenditure financing reflects an underlying similarity in levels of development although their industrial structure, population,

private sector and natural resource endowment and size of their economic composition still quite different, **second** emerging regions similar revenue expenditure financing reflects an underplaying similarity in levels of development although some of the above points still be quite different within each region.

The similarity and different amounts of expenditure and own revenue funding to the total regional revenue expenditure is a major observation we can deduce and, this in fact implies relatively developed regions and emerging regions vary in tax raising capacities and at the same time inequities that emanate from as a result of different potential tax payers and size of economy in each regions could in fact result in valid net fiscal benefits which is basically referred in fiscal federalism literature as horizontal fiscal imbalance which could in fact may lead to distortions in decision making unless equalization measures overcome inequalities (Weilbs, 2005).

In sum a small n-analysis, may fail to further elaborate the issue in detail. In this regard to treat and see both relatively developed and emerging regions according to economic size of composition and emphasizing to the system of revenue rising capacities designed to ensure that both relatively developed and emerging region have the potential to finance of expenditure responsibility at comparable levels of tax rates and other variables calls for other research that use systemic theory based on a better understanding of each individual region may in fact be the way forward.

## **CHAPTER THREE**

# **SOCIO-ECONOMIC BACKGROUND, CONSTRAINTS AND CHALLENGES, AND PROSPECTS OF DEVELOPMENT IN SOMALI NATIONAL REGIONAL STATE**

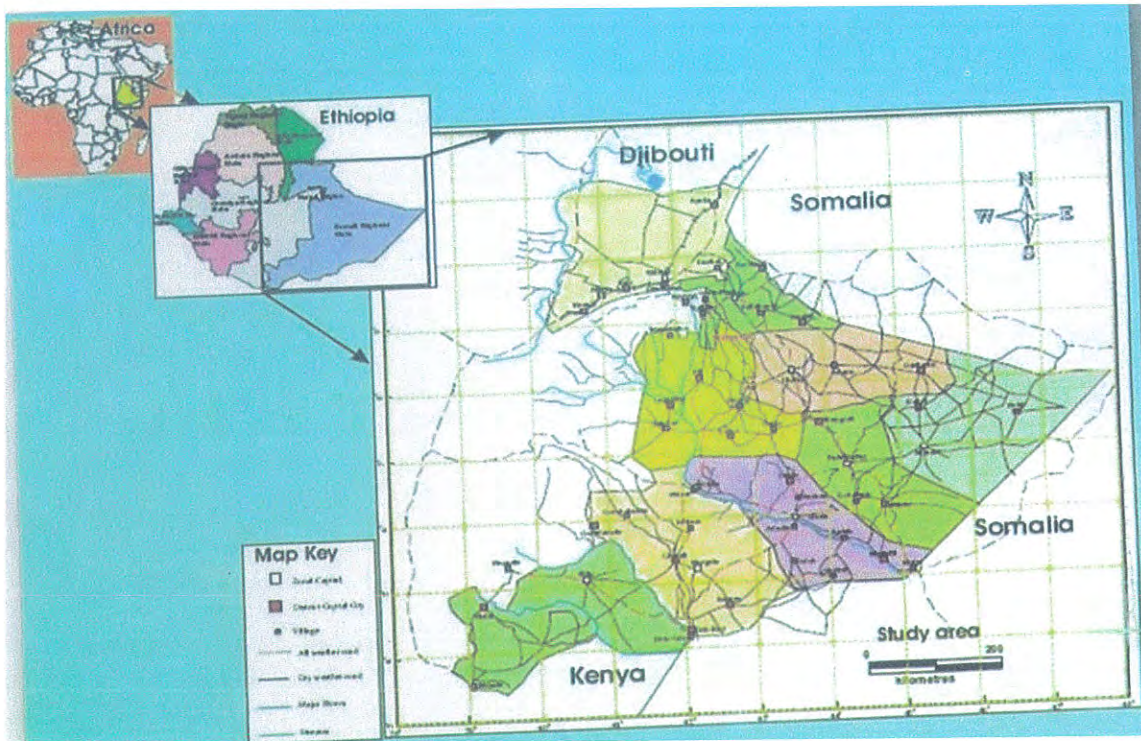
### **3.1. Profile and Description of Study Area**

This chapter deals with description of the area under study which is the Somali National Regional State. The first part deals with locations, topography and other physical characteristics of the region. The succeeding section tries to highlight the administrative setup, population projection and the overall Socio-economic background of the region which includes education, health, rural development and natural resource endowment in the region. The objective of assessing the above service delivery in the region is assumed to highlight the situation with thematic area the research is dealing with which is fiscal decentralization.

#### **3.1.1. Location and Topography**

The government of Somali National Regional State (SNRS) is one of the nine member states that make up the federal democratic republic of Ethiopia. The region is located at the most tip of eastern and south east of Ethiopia. Somali extends between 3<sup>0</sup> to 15<sup>0</sup> North latitude and 40<sup>0</sup> to 48<sup>0</sup> East longitudes having a total area of 350,000 km<sup>2</sup>. According to the revised constitution, the Region has common boundaries with Oromia National Regional State in the west and south west, with Afar National Regional State in the north east and republic of Djibouti in the North West, Somalia in the East, Kenya in the South. Somali Region is the second largest region next to Oromia in territorial size.

**Figure 3.1: Map of the Study Area**



Source: 12 pastoralist day celebration magazine (2010)

### **3.1.2. Administrative Organs and Population Characteristics**

The administrative structure of the Somali region consists of 9 administrative zones, 52 woredas and 67 urban settlements. According to the 2009 population projection based on the population and housing census of 2004 abstract report the total population of Somali region was estimated to be 4,439,174. Of the total population 1,970,363 were females and 2,468,784 were males (44% and 56% respectively). The average household size is 6.6, the level of urbanization in the region is estimated to be 16% while the majority (about 84%) of the total population is pastoralists and agro-pastoralist settled both in rural and semi-rural areas.

There are approximately 98,629 households that reside in Somali region. The average population density is 13 persons per square with a greatest variation among woredas of the region; population densities are highest in agro-pastoral zones including Gode, Jigjiga and Liban. The largest zone of the regions is Jigjiga zone with over 966,211 residents and the slowest Fiq zone with 347,769 (CSA, 1994, 2009).

The 1991 government change in Ethiopia has ushered in a decentralization system of Governance. This is a departure from the past political system which did not allow for self-rule and institutional development and harmony between different ethnic groups. Decentralization in Ethiopia is hoped to bring about harmony and co-operation between different groups and promote local self rule (Tegegne *et al*, 2007).

Somali National Regional State is one of the states enjoying the benefits of decentralization, it allow the state to self rule and cooperation between different groups. Although Somali region is historically one of the most marginalized areas by the previous regimes, currently the region has gained substantial achievement in development status according to the regional annual performance report of (2002 EFY).

The region with federal government support made quick improvement towards access to social service, particularly in the last few years. For instance, access to clean and potable water is 55.5% in 2002 EFY which registered an increment from 44% at the beginning of the year 2001 EFY. Similarly, the potential primary health care and the animal health coverage reached 77% and 54.6% for the year 2002 EFY respectively, though several important aspects of socio-economic development can be raised, discussing all aspects is not the scope of this study. The succeeding section will briefly discuss the socio-economic situation and resource endowment of Somali region.

### **3.2. Socio-Economic Background of Somali National Regional State**

The region represents a major part of the country forming approximately 27% of the land area and possessing a lion share of natural resources such as live stock, natural gas, salt, mineral and irrigable land but at the same time, it also shows major development related bottlenecks of the country with a greater severity of poverty, undeveloped socio-economic infrastructure, severe corruption weak institutional capacity, environmental degradation etc.

One of the special features of the economy is pastoral and agro pastoral economy this makes the region to be peculiar among other regions in the country except some. The majority of population (84%) is pastoralists and agro pastoralists; the main occupation of the inhabitants in the region has been livestock breeding, commerce and sedentary agriculture. The region falls within dry climatic region of Ethiopia. The region has two climatic zone, namely hot arid climate and hot semi-arid climatic zone. The hot arid climatic zone dominates the south and south eastern part of the region and large part of the region approximately 60-80% falls within hot arid climate (DLDP Report 2008).

### **3.2.1. Education Sector**

The education service coverage in the region can tell a lot on how the sector is making contribution to the overall development effort in the region. According to the capacity building basic service delivery report (2008), it was depicted in various documents that only about 2 out of 10 children in the region attended primary education in 1997 E.C. (2004/05) the situation becomes worse when it comes to secondary education where only 2 out of the 100 young were in attendance.

The number of primary schools increased from 160 in 1997/98 to 663 in 2001/02 and according to annual performance report (2002 EFY: P.29) primary education (1-8) GER has been increased to 63.8% in 2002 from 46.7% in 2001 which is 17.2% increment with Regard to secondary education (9-12) GER has increased to 12.08 in 2002 from 7.3% in 2001. What we can deduce from the above fact is that the sector is making a progress in meeting the needs of the people. There are major factors hindering the sector to not fully use the capacity. This includes capacity issues in human resource like lack of committed employees in the region, so, the region need to use the university located in the capital city Jijiga to train appropriate and skilled human power according to the needs of the region. Furthermore, higher government official also need to attract committed teachers from the center using different techniques such as additional benefits and ensuring the sector as a priority area. However in the absence of the above factors, it is impossible to reach at the desired objective of development.

#### **3.2.1.1. Education Budget in Capital Expenditure**

The federal government of Ethiopia has been committed to the provision of better education for the whole society. This is demonstrated, in part, through more than doubling of the commitment to education as a part of the total government budget. Table; 3.1 shows capital budget expenditure trend and percentage share from total sectoral budget. In 1996/97 the share of education was 11.3% and shows an increasing trend to 14.97% in 1998/99 which registered the highest increment across years. In sum, the capital expenditure budget in education is growing, although it is still quite low and show fluctuation in annual growth rate. On average education takes 11.8% of capital expenditure from total sectoral budget.

**Table 3.1:** Education Sector Capital Budget Expenditure Trend 1996/97-2001/02EFY (IN 000' Birr)

Budget Year	Share of Capital Budget	% share of total	Total Sectoral Budget
1996/97	15.400	11.3%	136.100
1997/98	15.200	10.45%	145.400
1998/99	29.600	14.97%	197.600
1999/00	41.000	12.48%	328.400
2000/01	46.100	11.49%	401.500
2001/02	72.900	95%	760.000
<b>Total</b>	<b>220.2</b>	<b>11.8%</b>	<b>1968.500</b>

**Source:** BOFED and others own computation

**Note:** The Figure only takes capital expenditure excluding community projects, external loan and assistance.

### 3.2.2. Health Sector

Health sector strategic plan of SRS stated the region is typically characterized by poor health status compared to other regional state of the country or the national Average. The crude death Rate is estimated to be 9.80 per 1000 population, life expectancies of males and females are 58.7 years and 55.4 years respectively. IMR is estimated at 83.0 per 1000 while the CMR is 119.00 deaths per 1000 (DLDP summary report, 2008).

MMR rate is estimated at 500-700 per 100,000 live births. Accordingly, in 2006 there were 6 hospitals (2 are new and non functional since 2006) 110 health stations and 89 health posts according to capacity Building DLDP summary reports (2008). Currently according to the Regional Annual performance report (2002 ) the number of Kebeles (new) with at least one functioning health post has increased from 500 (70%) to 681 (96%) These all put together has increased the Health post service delivery (coverage) from 57 to 76% as of 2002 EFY.

Functioning health centers were increased from 28 Hcs, to 41/Hcs. The health center service coverage has increased from 16% to 21 %, while the potential health coverage has been raised to 76%, considering both functional and those under construction health centers. Regardless of the improvement made; a number of factors can be raised for the poor health service delivery in the region. These include:

- The pastoral life style along with low level of education
- Pastoral health extension package is not yet fully functional in the region.

- Shortage of capacity, planning, implementation and monitoring activity at woreda health offices, delay in compilation of health projects, shortage in provision of drug supply can be some of critical factors (Capacity Building DLDP summary reports, 2008).

Table 3.2 shows capital budget expenditure trend and percentage share from total sectors budget. In 1996/97 the share of health was 8.45% and shows an increased trend to reach 23.36% which is the highest level over the years. In particular compared to education budget health expenditure shows a consistent annual growth rate, though showing a decreased allocation for the year 2001/02. On average health takes 15.02% of capital expenditure from total sectors budget.

**Table 3.2: Health Sector Capital Budget Expenditure Trend 1996/97-2001/02EFY (In 000'Birr)**

Budget Year	Share of Capital Budget	% share of total	Total Secteded Budget
1996/97	11,500	8.45%	136,100
1997/98	16.200	11.14%	145.400,
1998/99	30.500	15.43%	197.600
1999/00	60,600	18.45%	328.400
2000/01	93.700	23.36%	401.500
2001/02	83.200	10.49%	760.000
<b>Total</b>	<b>295.7</b>	<b>15.02%</b>	<b>1,968.500</b>

**Source:** BOFED and others own computation

**Note:** The figure only takes capital expenditure excluding community projects, external loan and assistance.

### 3.2.3. Water Sector

Water can be categorized as a basic necessity for human survival, hygiene, livestock, agriculture, health etc. The quantity and quality of water must be one of priority area that the regional policy makers need to emphasize on if the welfare of the society to be maintained and overall development to be sustained.

According to DLDP report (2008), coverage of clean drinking waters as of 2007 was 32% and reportedly claimed by the regional water bureaus was the presence of access to water supply of 10 liters per person per day and 15 liters per person per day in rural and urban areas of the region respectively. The average distance traveled to access water on average varies from place to place. Areas which have better access to service; people had to travel on average a distance of 2km while on those areas where people were under privileged of access to service, they had to travel on average of 7km.

But, currently according to annual performance Report (2002) at the end of 2001 EFY access of the portable water supply coverage of the region has increased from 40% to 60%. Currently average water coverage of the region in 2002 is estimated at 55% with total beneficiaries of 2,475,000 persons. In conclusion, in light of decentralization progress in the region and with subsequent expansion of agricultural activities, growth and transformation plan, both at federal and regional level, intervention for the realization of large irrigation schemes would respond to greater need of communities and possibly would enable the majority of the people to diversify their livelihood coping strategy.

Furthermore; Table 3.3 depicts the capital budget expenditure and the percentage share from total sectoral budget. In 1996/97 the share of water and mines was 3.89% and show an increment trend to 40% in the year 2001/02, however a 40% percentage share includes a water drill construction in Jijiga Town. In which it may distort the average allocation of capital expenditure to the sector, taking the above limitation in mind, the average capital expenditure allocated to water shows 21.9% with consistent annual growth rate though some fluctuation in the trend.

**Table 3.3:** Water, Mines and Energy Sector Capital Expenditure Trend (1996/97-2001/02 EFY (IN 000'Birr)

Budget Year	Share of Capital Budget	% share of total	Total Sectoral Budget
1996/97	5.300	3.89%	136,100
1997/98	9.200	6.32%	145.400,
1998/99	13.800	6.98%	197.600
1999/00	30.000	9.13%	328.400
2000/01	69.000	17.20%	401.500
2001/02	304.000	40%	760.000
<b>Total</b>	<b>431.300</b>	<b>21.91</b>	<b>1968.500</b>

**Source:** BOFED and others own computation

**Note:** The figure only takes capital expenditure excluding community projects, external loan and assistance.

At national level Ethiopia is one of the gifted in water resource, of which they are potentially waiting to give their fruits to the greater need of society. The current government initiative towards using these potential for large irrigation schemes, energy generation, and others are promising and seems it will pave the way and may answer to the greater need of society if done on sustainable and collaboration of all stake holders at all level. Regardless of the above

promising way Ethiopia is also one of Africa lowest rates of access to water, sanitation and hygiene.

Half of population must walk up to four kilometer daily to fetch water a 2004 report of WHO estimated that only 22% of the population has Access to safe water and only 7% has Access to sanitation. But it is also important at current the figure modestly changed, however how much the Millennium Development Goals seems it still remains a lot to be done because the country planned to ensure improved access to water and sanitation, 70% and 56% respectively.

Moreover, Table 3.3.1 show the relative position of Somali Region compared to other region, though there are substantial improvement, based on succeeding data money factors can be raised for unsatisfactory development of irrigation potential and percent utilized. Firstly, at national level there is lack of sustainable development and management of the nation's water resource mainly due to lack of institutional capacity and work force expertise both in terms of technical and professional which can transform the trend. The same factors can also be mentioned at regional level, however the severity of the problem being very strong.

**Table 3.3.1:** Irrigation Potential of the Major Water Basins in Ethiopia

River Basin	Potential and Actual in use			Pastoral area in the basin (km <sup>2</sup> )	% of the Country's Pastoral Areas	Pastoral Regions
	Potential gross irrigable (Ha)	Net area under irrigation(Ha)	Percent utilized			
Abay	977915	21010	2.1	12,480	2	Benishangul-Gumuz
Awash	204400	69900	34.2	93,600	15	Afar / Dire Dawa/ Somali
Aysha	None	None	0.0	12,480	2	Somali
Baro / Akobo	748500	350	0.05	24,960	4	Gambella/BGZ
Danakil				68,640	11	Afar
Genale / Dawa	435300	80	0.02	124,800	20	Somali/Oromiya
Omo / Gibe	450120	27310	6.1	24,960	4	SNNP
Tekeze	312700	1800	0.57	-	-	-
Mereb	37560	8000	21.3	-	-	-
Wabi Shebelle	204000	20290	9.9	162.240	26	Somali/Oromiya/ Dire Dawa
Total Pastoral Areas of Ethiopia	3,495,795	161010	4.6	624,000	100	-

**Source:** MoWR (2002) cited in MoFA 2008 draft

Finally, it is possible to overcome the problems, regardless of both institutional and expertise bottleneck. Currently, the nation is investing a huge resource in expanding universities construction to each region which mainly concentrate to introduction of new technologies, research and development in sustainable water resource development which can solve the

problem in the long run and issue of strengthen the practice at all levels and at regional are being to be main emphasis to be given.

### **3.2.4. Natural Resource Endowment**

The region is endowed with a lion share of natural resources such us livestock, natural gas, salt, mineral forest products such us gum and myth. It has, 18.6 million livestock population, four potential seasonal rivers. The most prominent drainage systems of the region are Wabi-Shabelle, Genale and Dawa. The adjacent high grounds of Oromia contribute almost all of the water to the main drainage system of the region. Genale and Dawa rivers drain to the western part of the region and confluence at place called doloodo to Juba River in neighboring Somalia, which eventually drain to the Indian Ocean.

### **3.2.5. Agriculture and Rural Development**

Agriculture takes the main stay of development for the last quarter of decades in Ethiopia. One of special feature as the main stay of the economy in the region is being pastoralist and agro-pastoralists which make the region to be different from other regions in the country except few. The majority of population which is almost 84% are pastoralists and agro-pastoralists, The main occupations of the inhabitants in the region are livestock breeding, commerce and sedentary agriculture in the woina dega (warm temperature) areas of Jijiga (the region capital) and around main river basins (Wabi-shebele, Genale wayed, and Dawa).

### **3.2.6 Agriculture Potential of the Region**

Maize and sorghum are among the major crops produced in the region. Drought resistant sorghum is predominant, particularly where water is scarce. In addition to maize and sorghum, the region produces wheat, millet, vegetables and fruits using irrigation and rainwater. Jijiga, Liben and Gode zones are known for their cereal, vegetable and fruit production. The region has high potential water resource for irrigated agriculture. It has Shebelle, Genale and Dawa rivers. Gode and Liben agro-pastoralists produce various types of food crops and vegetables using these rivers for irrigation. The two zones account for lion's share of the regional agricultural output (MOFA draft, 2008).

In Shebelle river sesame, cowpeas, vegetables and fruit are also cultivated; (wheat, barley, maize), and some groundnuts in Babile District; also small amounts of chickpeas, flax, peas, oats, lentils, Irish and sweet potatoes, onions, garlic, and chat (some as cash crops); Gus' is the principal arrangement used to ensure all households are able to plough and cultivate some land. The Dawa-Ganale river livelihood zone is characterized by the sharecropping system whereby landowners offer the large part of their land to a pump owner in return for water; the pump owner then takes on labourers ("burjuwasi") to cultivate the land on a 50-50 sharecropping basis. In Liban zone beans are also cultivated, and sesame, groundnuts and early maturing (3 month cycle) maize have been introduced in some areas. Here "Gob", a system of collective agricultural activities where by farmers assists one another, is practiced (USAID, 2008 cited in MOFA).

### 3.2.7. Livestock Production

The region is estimated to have 9053000 heads of sheep, 8547000 goats, 3796000 cattle, 2032000 camels and 213000 equines totaling 23641000 livestock (Regional SPM, 2005). Livestock product exports and imports of consumer goods for resale are the main sources of livelihood in the region. The economy is more closely integrated with the Gulf States than other parts of Ethiopia that has created opportunity for livestock marketing (MOFA Draft, 2008). Furthermore, Table 3.4 shows human population and livestock resources of Somali Regional State. The region has relatively rich and evenly spread livestock resources (8.4 TUL per km<sup>2</sup>) and a fairly good ratio of animals per inhabitant (0.7 TLU per person). Only one territory, Aysha, seems to be marginal from the standpoint of pastoral development (PADP, 2004). The commercial know-how of Somali livestock stock traders is an important asset for future expansion of market share of livestock in the region.

**Table 3.4:** Population and livestock resources of Somali Regional State

Homogeneous Pastoral Territories	Net range area (km <sup>2</sup> )	Human resources		Livestock resources		
		Population	Inhabitants per km <sup>2</sup>	Total TLU	TLU / km <sup>2</sup>	TLU / Inhabitant.
Aysha	6,168	52,857	8.6	4,058	0.7	0.1
Jijiga Plateau	25,099	965,988	38.5	449,106	17.9	
Western Somali Lowlands	39,903	455,450	11.4	498,788	12.5	1.1
Eastern Somali Lowlands	75,605	676,248	8.9	343,657	4.5	0.5
Central Somali Midlands	73,519	742,728	10.1	623,035	8.5	0.8
Southern Somali Lowlands	42,149	404,953	9.6	191,588	4.5	0.5
Western Somali Midlands	26,449	284,661	10.8	146,938	5.6	0.5
Northern Somali Lowlands	15,100	315,115	20.9	163,238	10.8	0.5
Total	301,484	4,002,170	60.11	2,533,365	8.4	0.7

Source: PADS, 2006 cited in MoFA draft 2008

Though the region is endowed with considerable unexploited potentials, still the region faces several constraints with which pastoral and agro-pastoral households have to cope with livestock disease, water scarcity, shortage of feed and range land degradation and lack of human, financial and physical infrastructures are identified as the most serious ones which need critical attention.

### **3.2.8. Road Sector**

The Road sector plays a pivotal role in order to make the transfer of information, trading and facilitate service delivery across regions, woredas and Kebeles. Giving a particular attention to this key sector and accessing such objectives is reflected and being implemented by the federal and regional bureaus, The Somali region rural road authority was established in 1992 E.C, with the intent of widening road networks in the region, through, amongst others, maintenance and development, constructing rural road networks which brings the people to have access to their basic demand and help to assist the development of the region.

The length of road network in the region was about 862 km, which the figure reportedly increased to 12,064 Km. Of this length it was revealed that all weather road and dry season road constituted about 2933 km and 9131 km respectively. The average distance to be traveled by people to access a high way at regional level was estimated to be 50km. It was also reported that the maximum distance to access on all weather road was 40km while the maximum distance was 24km to access a road with DS standard (DLDP report 2008:27)

With respect to air transport, there is an international airport at Goode while kebrihdhar and Shilabo have airstrips that can service lighter air crafts. Currently Jijiga hair strip is improved to international air port level. There is also an old rail way line that runs between Djibouti and Addis Ababa which cross via aysha woreda (in the Somali region). Generally, the road infrastructure coverage in the region can say a lot, and currently there is remarkable achievement in the sector compared to previous year. Furthermore, Table 3.5 shows a road project construction and completion in Somali. The data for the year 2011 is characterized by (1) the three road projects showing almost the same progress of completion, which are Harer-Jijiga, Degabur-Shekosdh and Jijiga-Togoachale 65.6%, 68% percentage of completion respectively. The rest showing 36 to 40% of completion on average.

**Table 3.5: Road Construction Project in Somali**

No	Project Name road improvement/ Construction	Distance by Km	The current progress of completion by KM	% of completion
1	Harar-Jijiga	106	69.5	65.56%
2	Degbur-shekosh	105	71.4	68%
3	Shekosh – Keberidhar	115	39.3	34.17%
4	Kebridhar – Dhanan	95	39.7	41.7%
5	Dhanan – Gode	83	35.1	42.28%
6	Kebridhar – dhanan	108	32.8	30.37%
7	Jijiga – togowehare	63	41.3	65.55%
8	Emla – Laba	89	40.2	45.16%
9	Laba – Gode	90	32.9	36.55%
10	Babile – Fiq/meintaince/	30	7.5	25%
	<b>Total</b>	<b>844</b>	<b>409.7</b>	<b>48.54%</b>

**Source:** 13 pastoralist day celebration magazine (2011 p. 14) and % of completion own competition

### 3.2.9. Tourism Potential

Though tourism is given less emphasis in the region, if studied and exploited well it can be an important source of income to the region. The region is endowed with natural and cultural tourist attraction. The major ones include Dakata Rock valley, the Erer-fafam elephant sanitary (shared with oromia) and the natural hot spring of Erer- gota. The wabi shabbele, Genale Rivers are also famous of their hippo and crocodile (Information and cultural heritage bureau of Somali regional state 2008.p.1).

According to one recent study done by the region in Shinile zone, it was indicated that the potential sites of tourism include Aysha, Adele and Garaslech tag, ruins of ancient Buildings of Islamic and pre-Islamic times. The zones have Islamic sites which have ruins of mosques and other buildings. Such sites includes qala'ad or Jaladysa (Denble woreda) and laakorbo (meiyso woreda) qala'ad, located along the zayla-Harar trade route, is 42km west of Denbel town and Lakokbe 37km west of meiyso town. Other areas of potential tourist attraction area include hot and cold spring facilities available at Erer, Hamayasa Alaua are among the best place which needs an emphasis to promote the region to tourist attraction.

In sum through region endowed with potential natural resource endowment, nonetheless, these natural resource and tourism potential need to be studied developed and properly marketed to the benefit of the people and serve as a potential source of income to the region.

### **3.3. Decentralization Progress and Practice in Somali Region**

The section tries to discuss data obtained from field research and put the discussion, analysis and argument which support or oppose decentralization practice in the region both at theoretical and policy level. Finally it draws conclusion by linking both sections. Specifically the first part will discuss decentralization in Somali National Regional State, mainly to reveal, when and how decentralized form of governance started in the region, powers and responsibilities of different tiers government and institutional and legal frame work in the region.

#### **3.3.1. Decentralization in Somali National Regional State**

As decentralization becomes an important feature of both developing and developed country, it is also important to discover and continue to look at their specific practices which can help to reveal their relevance to the overall economic development of a nation in general and gain possible benefits of decentralization specifically to regional states.

The 1991 government change in Ethiopia has ushered in decentralized system of governance. This is a departure from the past political system which did not allow for self-rule and institutional development and harmony between different ethnic group, Decentralization in Ethiopia is hoped to bring about harmony and cooperation between different groups and promote local self-rule (Tegegne *et al*, 2007).

Thus, decentralization in Somali region needs to be understood in parallel with Somali region being as one of members state to form the federal form of governance structure in Ethiopia which is ratified on Hamle 10, 1987 EFY, that is best described as “Federal Democratic Republic of Ethiopia”

Given the theoretical assumptions about decentralization, the importance of decentralized form of governance over unitary form could be explained by several factors **Firstly**, one possible explanation involves, local government is more effective than the central government in drawing up public policy because local government can spend less cost to collect more information about local residents (Jutting *et al*, 2005).

**Second**, decentralization of authority has the benefit of more efficient use of dispersed local knowledge possessed by local government. **Third**, political or democratic decentralization offers citizens the possibility of increased participation in local decision making process. Improved representation leads to better access to local public services and social security schemes reducing vulnerability and insecurity (Jutting *et al* cited in Tegegne *et al*, 2007).

The succeeding section will discuss the second wave of decentralization (DLDP) in Somali national regional state.

### **3.4. District Level Decentralization Program in Somali National Regional State (DLDP) <sup>5</sup>**

The Ethiopian decentralization drive of the post-1991 years has taken another step in the devolution of power and functions to local units of government since 2001; practical steps were taken towards empowerment of woreda government in the four major regions, namely, Tigray, Amhara, Oromiya and SNNPRS. These steps were characterized by new developments such as block grant, inter governmental transfer, power to use own revenue and to generate additional income from existing sources (Tegegne *et al*, 2007).

According to Mahad (2007), powers in a form of political, administrative, fiscal as well as material have been devolved to woredas as a starting point. Woreda election has been conducted (Tir, 1996 EFY) which is a months before the actual implementation of DLDP in which community have elected their representative at woreda level. The following section is intended to illustrate powers and functions of each tier of government based on revised constitution of SNRS.

#### **3.4.1. Powers, Functions and Responsibilities of Local Administration <sup>6</sup>**

Consistent with Article 52, of the federal constitution of 1995, the revised constitution of Somali national regional state has defined the power and functions of the state government. The sub-Article 1 of Article 47 stated the powers and function of the state government as “all powers and functions not given expressly to the federal government alone or concurrently to the federal government and the state government are reserved to the state”.

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<sup>5</sup> Mahad, 2007 General views are discussed in the unpublished MA thesis, and see especially last paragraph of selection of key informants of this paper pp.10 in which most of citations and discussion of DLDP were taken.

<sup>6</sup> Local governments include all sub national/woreda and kebele governments in this paper.

Again, the regional constitution defined the separation of powers and the subsequent creation of check and balance between three major organs of the state. Firstly, the state council is the highest organ of the state authority, its responsible to the people of the state. Furthermore, article 57 stated the highest power of the state is vested in the chief executive and the cabinet council and the chief executive and cabinet council are accountable to the state council. The chief executive shall be the head of the executive and the chairman of the cabinet council (Article 61 Sub Article 1).

The state judicial organ shall be organized as Supreme Court, zonal high court and woreda court. The constitution also established an independent judiciary based on Article 65(sub-1). Regarding powers, functions and responsibilities devolved to local administration. The constitution stated woredas would have their own elected executive, legislative and judiciary organs with defined power and function in their jurisdiction (See Annex 3, powers, functions and responsibilities of the state)

### **Powers and Functions of Woredas**

Subject to the revised Somali National regional constitution and proclamation No. 76/2001, article 77 the woreda local administration within the area of jurisdiction shall:

1. exercise all legislative, executive and judicial power and functions
2. Protect the constitution and other laws of Somali Regional state and promote peace, security and democratic governance.
3. Implement policies, laws, regulations and directives issued by the federal and regional state organs.
4. Issue its own by laws/regulations, directives and internal working procedures subject to the Somali regional state constitution and the provision of this proclamation.
5. Administer and protect land and other natural resources in a sustainable manner. And in accordance with land administration proclamation of the Somali regional state. Promote and facilitate sustainable local development through strategic, rolling and annual plans.
6. Provide viable cost effective services that meet the needs of the people consistent with the resources available to its and in accordance with the power and functions stipulated in the proclamation of the establishment of the sector offices of the local administration, the Somali regional state constitution and the provisions of this proclamation.
7. Exercise powers over finance and human resources and prescribes in the appropriate provision of this proclamation.

8. Delegate to withdraw from the kebeles or other administrative levels, in special circumstance if it so decides, any of the functions and services ascribed to it this is subject to.
  - a. there should be delegation agreement
  - b. The necessary resources been and made available for the exercise of the delegated functions, powers, services and responsibilities.
  - c. Appropriate procedures for monitoring and supervision are setup up and implemented.
  - d. Measures taken to bring about the described change in the locality as a result of delegation must attain the attention of the public

### **Powers and Functions of Kebeles**

According to Somali National Regional State Proclamation No. 76/2001 Article 78, kebele administration within its area of jurisdiction shall:

1. Protect the constitution and other, promote peace, security and democratic government
2. Implement guide lines and plans which are issued by the woreda administration.
3. Consistent with the legal instruments of the woreda and region issue locally relevant and operational guide line and other implementation within kebele.
4. Taking in to account of higher level strategies and plans prepare, implement and monitor the performance of the development plans with full participation of the local community and their mass organizations development agents and other relevant local agencies.
5. Participate in the preparation of land use plan with the technical support of regional and woreda endeavors to maximize the development potential in the content of environmental protection and conservation.
6. Deliver services delegated to it by the woreda demonstration under article 77/91 of this proclamation in an efficient and participatory manner.
7. facilitate the involvement and participation of kebele and inhabitants in local development efforts,

**Source:** Revised Constitution of SNRS (2002)

The functional activities outlined in the constitution and proclamation are not even clear to woreda governments and concerned officials at regional level and thus woreda governments operates with no clear direction and mandates. This is because according to Regional unit key informant, there is absence of clarity of mandates and responsibilities between the regional and local levels of government. Furthermore, local governments have been so far attempting to do something about education, health, water and agriculture as apriority of local development but have done little about rural roads, natural resources and other related development issues due to capacity and financial constraints.( Mhaad 2007) On the another hand according to regional key informant there is fear of prestige loss by the regional government to devolve powers in which they see themselves as competitors in service they are providing and invariably slow the process.

The functioning and the operations of local governments in the Somali region in general are not systematic and clear even with the legal frameworks explained above. The current woreda functioning are inclined to traditionalism rather than the formal constitutional rights outlined (i.e., clan orientation and loss of prestige) than progressing to advanced ways of governance. According to regional unit key informant the cabinet meets irregularly as per the needs of the day, i.e., they perform their duties in a fire- fighting manner. No schedules of activity prioritization and even if there are schedules of activities it is good in the paper. The same applies to line offices ,though they prepare their activities at beginning of the year, but then, they don't specify the timing and the programming of their activities. majorly due to absence of comprehensive legal and institutional (e.g Job Description) frameworks ,which end up with un clear demarcation of duties between coordinating offices in the cabinet and various line offices which has created duplication of efforts and dysfunctional conflicts among them (Mahad, 2007)<sup>7</sup>.

At theoretical level, Smoke (2001) puts his argument as follows regarding the legal mandate given to each tier of government, Smoke argues, no matter what constitution or law says central government agencies rarely have a desire to decentralize service they have been providing particularly decentralization involves loss of prestige and resources to these agencies and they perceive each other as competitors, thus almost invariably slow the process.

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<sup>7</sup> See for critical discussion Mhaad Daud 2007

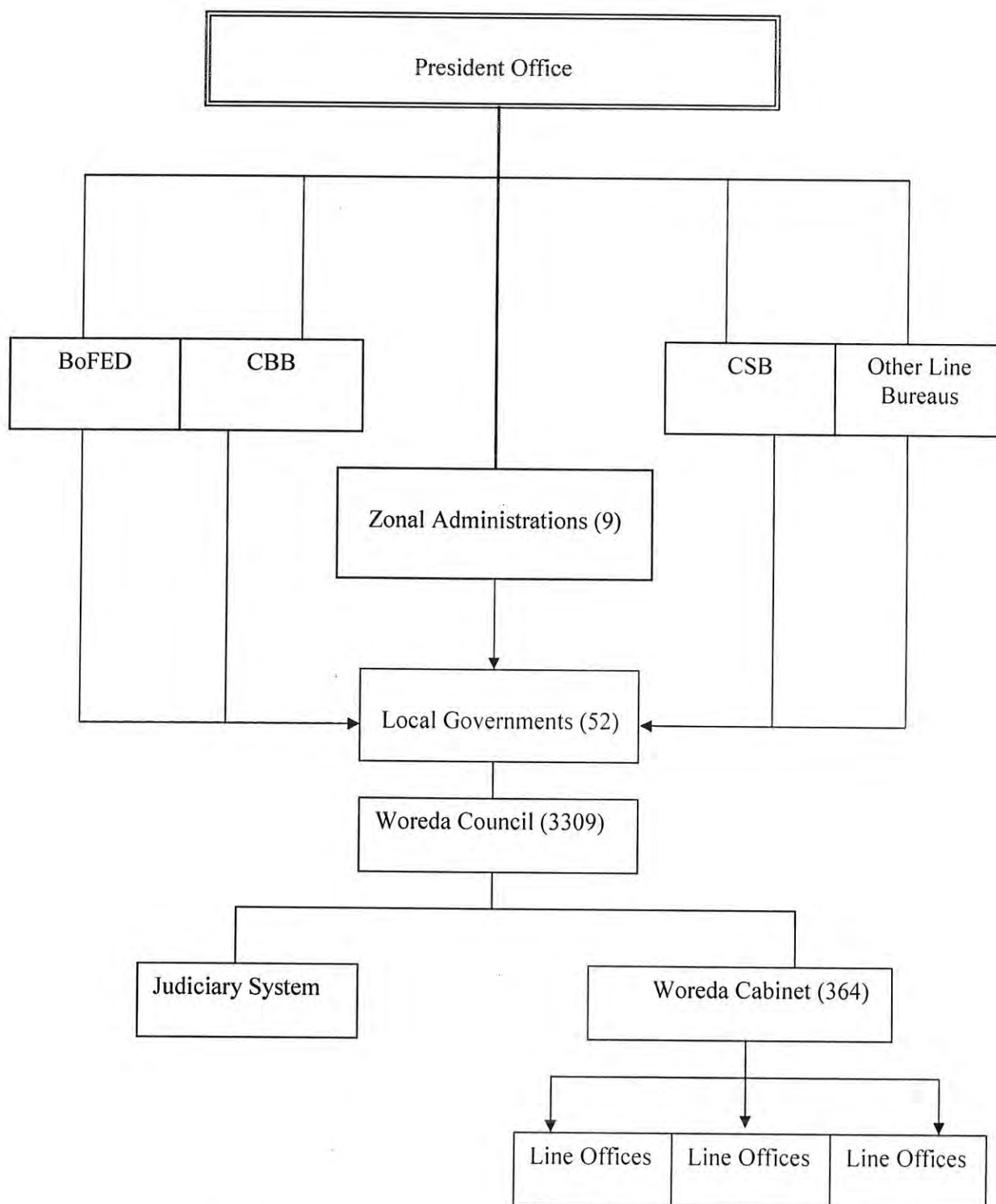
The above theoretical explanation is supported by regional unit key informant, accordingly most of powers and functions assigned by constitution are only good for documentation purpose, the reality is that even woreda cabinet councils lacks power due to potential reasons ranging from loss of prestige, absence of clear linkage between different tiers of government. awareness creation and information disbursement (i.e., sometimes legal framework prepared for local administration are not disseminated at specified time).

Based on the noted facts, the study recommends to strength an enabling environment which can ensure the officials to exercise the power and functions assigned to them by law and make sure that there is at least minimum level of autonomy for their rights and responsibilities. This in turn can provide a firmer foundation on which to build effective and efficient decentralization and encourage fiscal responsibility, accountability and increase incentive to fully participate in the overall decentralization scheme and increase welfare of the people in the region.

#### **3.4.2. Institutional Framework and Relations of Different Tiers of Government**

The revised constitution of SNRS establishes four levels of government which is divided into regional, zonal, woreda and kebele tiers of government. The region function have been formally divided between woreda and state functions where by each tier exercises powers and functions according to the constitution. The local administration tier of government consists of four administration tiers, the zonal, woreda, kebele and municipal administration (Jijiga). The four tiers organizational structure, functions and institutional framework of DLDP at local administration of Somali National Regional State is presented in the following figure II and table 3.6 respectively.

**Fig 3.2: Organizational structure of the four level of government of Somali National Regional State**



Source: Mahad (2007)

In this context, Mahad (2007) in his study of DLDP progress in the region put “ the institutional framework in the region as follows, which at the same time discuss the organizational structure explained above. “At regional level, there is the president office which is mainly concerned with the political, administrative and overall coordination of DLDP program. Secondly, BoFED is responsible for the planning and budgeting process of DLDP. Thirdly, CBB which is the presumed father of the program is concerned with policy and capacity issue of implementing organ at local level. Fourthly CSA, on the other hand is concerned with man power and staffing issues, the above noted four major institutions with mandate and Influences (though not clear) of DLDP in Somali Region”.

According to key informant the relationship and specific roles of institutions concerned with the implementation of DLDP both at regional and local levels lack clarity and formality. At woreda level, the relationship and job description between the cabinet coordinating office heads and line office heads is not clear and there is considerable confusion among them on what should constitute their working and reporting relationships.

This is mainly due to line office heads are nominated from the region and earn more than Woreda cabinet and council officials. This implies power conflict of one another. With regard to woreda and regional government relationship, though there are document guiding the relationship but are only for documentation purpose. The communication between the regional bureaus and woreda government is also limited.(Mhaad 2007)

However, there are also change and continuity, during field research that the researcher observed, like involvement of other sectoral and line bureaus directly or indirectly to the commencement of the program, restructuring of kebele tiers of government from 2900 nominal Kebeles to 729, which is targeted to facilitate the service delivery progress in the region.

**Table 3.6: Institutional Framework of DLDP at Local Administration**

<b>Institutions Created by DLDP</b>	<b>Institutions Decentralized</b>
<b>A. Woreda Council</b>	1. Expenditure and revenue (Finance) office
Office of the speaker	2. Education office
Office of the deputy speaker	
<b>B. Woreda Executive Committee</b>	3. health office
Office of the woreda chair person	4. Agriculture office
Office of the woreda chair person	5. Basic infrastructure development office
Finance and economic coordinating office	6. Cooperative office
Pastoral and community coordinating office	
Justice and security administration coordinating office	7. Civil service and training office
Capacity building coordinating office	8. Women affairs office
Community mobilization and participation	9. AIDS secretariat
	10. Militia office
	11. Police office
	12. Shairia court
	13. Women Affairs office
	14. Constitutional court

**Source:** Mahad (2007)

At local level, different institutions which is created or modified/decentralized by the DLDP program play the actual role of implementing the program. This consists (see table 3.6 above) of woreda council headed by the speaker and his / her deputy, the executive cabinet consisting of the woreda chair person, his / her deputy and five (FEDCO finance and economic coordinating office), CBCO (capacity building coordinating office), PADCO (pastoral and community coordinating office), JASCO (justice and security administration coordinating office), and CMPCO (community mobilization and coordinating office).

Finally, there is the judiciary system which is in principle independent from the administrative operation and influences of woreda councils and executive cabinet. The working relationship between the woreda administration and court is not clear. That is the judiciary system of woreda is accountable to the regional of judiciary administration and to woreda organs and thus judiciary system is more of deconcentration/delegation than devolution.(Mhaad 2007)

With regard to budgeting the fiscal and financial independence of local government is highly correlated with the degree of autonomy and effectiveness of local tiers of government in addressing the socio economic and political problems in their jurisdiction, in fact the subsequent section will made the issue very clear. The higher the independency the higher will be the

interference of the regional government in the affairs of local governments, the data shows that about 80% to 90% of the annual budget of woredas in the region is based on subsidy they get from the regional government. The allocation of this subsidy to woredas, since 2004, has been schemed to have been based on a certain grant formula considerate of certain criteria such as population size, relative expenditure needs, and relative revenue raising capacity. In all cases size of population takes the lion share with proportion of 50%-60% while expenditure needs and revenue raising capacity takes 30%-35% and 10%-15% respectively.

Finally, despite, the generic functions that woreda in Somali regional state are presumed to discharge as already mentioned before, realities , as to exercise of those mandates, on the ground are completely differ and characterized by absence of doing those functions. According to regional unit key informant possible reasons include; lack of capacity, too much concentration of capable processional and expertise at regional level, repeated power turnover, inter-clan and animosity, neglect to empower woredas through the provision of technical as well, as other supports by the respective regional sector bureaus.

The following section which is intended to show special issues, challenges and constraint of DLDP in Somali region will elaborate the issue explained above in details. To improve transparency and accountability in each hierarchy of government, constitutional provisions should be translated into practices as intended. Woreda councils and executives (cabinets) should stand independent of each other in all aspects, including financial and personnel administration.

To sum up, ultimately, intensified cooperation among different tiers of regional state and local government necessitates strong regional institutions. Taking all the noted facts ,It is straight forward to emphasize on the creation of some new mechanism and strong institutional frame work, that would help to facilitate cooperation and integration among different tiers of government in the region.

### **3.4.3. Planning and Budgeting in the Region**

#### **3.4.3.1 Planning in the Region**

There are elements of top down and bottom up approaches in planning. Guidelines facilitated at regional level are passed all the way to the woreda and proposal initiated by sector offices and completed by planning bureaus pass the way to the regional executive committee and later to the regional council for approval (Tegegne, 2009).

Regarding the practices of decentralized planning and strategic plan, regional and woredas have prepared five year development plan and annual budgets. The strategic plans to serves a guide for development activates whether plans prepared are real regional plans or woreda plans or were aggregation of sector plans and whether there is adequate planning capacity at each level is a matter of specific consideration (Tegegne, 2009).

Regardless of capacity defiance in the region, planning process both at regional and woreda level resemble the above arguments, however, whether there is adequate planning capacity at each level is a real problem to close these gaps federal advisor committee are assigned at each level to coordinates the planning practices at each level. At regional level the capacity to prepare own planning and budgeting process includes

- Indicative plans form the region setting out priority areas.
- Block grants transferred to woredas are divided into three major parts which are salary, petty cash, and capital at region level.

#### **3.4.3.2. Planning Function of Local Administration**

According to proclamation no79/2001 the local administration shall have the power and function to promote the development of local administrative of which includes:

- preparing the development plan for local administration
- preparing rolling and annual development plan for local administration
- Monitor the implementation of development plans and polices within the local administration.

#### **Box 4.1: Planning Process in the Region both Sectoral and Woreda Planning**

- ❖ Every office prepare it's activates and submit to capacity building coordinating office (for regional sector bureau) and to woreda office which consolidate the plan and
- ❖ Submit to development projects committee headed by BoFED
- ❖ Other member committee also involves major coordinating and line offices such us education, health, rural development etc.
- ❖ Discussion will be made on the plan by the coordinating committee
- ❖ The plan will be submitted to woreda cabinet which assigns financial figures (in percentage) to activates proposed by line office and refined by development project committee.
- ❖ Finally submit to the woreda council for the case of local administration and submit to regional parliament for sectoral planning.
- ❖ Both the woreda council and regional parliament will approve the plan and the budget which finally the plan waits the implantation phase.

(Key informant regional development unit (BOFED) Development plan coordination office unit (BOFED). Furthermore, the process reveals the plans at woreda level are initiated by both the federal support and regional support team. The situation clearly shows us the capacity constraint at each level. However, involvement of kebele tiers and community participation in planning process is non existent. In this regard the region can take an experience from relatively developed region in the country and the federal governments in facilitating for inter regional cooperation for better experience sharing in planning and budgeting. In this context, whether plans prepared are real regional plans or woreda plans or whether aggregation of sector plans and whether there is adequate planning capacity at each level is a matter of specific consideration.

### **3.4.4. Special Features, Challenges and Constraints of Decentralization in the Region<sup>8</sup>**

#### **3.4.4.1. Challenges**

Regardless of the improvement introduced, which includes DLDP, different capacity building programs. The following main points remain the main challenge; (regional unit key informant)

- Insufficient financial autonomy (the region heavily depend on the federal government to discharge responsibility and the woreda in turn heavily depend on the region).
- Lack of clear and pre established frame works at lower tiers as well as regional sector bureaus.
- Lack of accountability, transparent public service delivery and coordination failure among different tires of government.
- Lack of capacity both in terms of financial and human expertise
- To much concentration of human resource expertise at the center

The discussion bellow shall review each challenges in turn, focusing on basic issue of capacity, power turnover, security, pastoral way of livelihood and their general content in light of DLDP. Following these, a brief summary shall state what these evidence means about the extent and nature of DLDP in Somali region.

#### **3.4.4.2. Special Issues and Constraints**

**Pastoral Way of Life:** The DLDP design and the livelihood coping Strategy of Somali people Contradicts in some aspect .Since most Somali people are pastoralists who move from one place to another in search of water and pasture for their livestock ,This provides for the fact that with no permanent settlement, while DLDP on the other hand benefit mainly sedentary communities with permanent settlements. Therefore, incommutability of the program with the way of live in the pastoral community is another problem that underpins the effective implementation of DLDP.

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<sup>8</sup> On these points, see generally Mahad (2007), (from which most of citation and discussions was made)

In this context there exists mobile education (ABE), mobile health centers and station, which can facilitate service deliver responsibility; according to key informant from CBB, the recent revising of local administration tier of government has reduced the kebele structure from over 2900 nominal kebeles to 713, with main intent of targeted and coordinated service delivery.

**Security:** Peace is the only way to development and everything, in these regard the region need to pay close attention in building peaceful co-existence since, the previous unstable situation in the region significantly creates unfavorable environment which discourages investment and development in general.

**Capacity:** According to regional level key informant local governments in Somali region suffer from capacity problems in all dimension (human, financial and material).

**Firstly,** Shortage of skilled human power is one of the most pronounced and frequently mentioned challenges. Due to these, there are schools, health posts built by woredas that are not functioning and giving the desired service delivery to the local community. This is especially exacerbated by the fact that most of the devolved man power returned back from woreda as (due to reasons majorly ranging from remoteness of the woreda to clan related aspects), i.e., while the researcher conducting field survey, observed the dismissed employees due to language reasons.(Mhaad 2007)

**Secondly,** Financial capacity is another issue impeding the implementation of DLDP in Somali region. Accordingly the discussion made in chapter four clearly shows the revenue share b/n regional sector bureau and woredas are not clear and predictable .Most of woreda revenue base and sources are poor and stagnant overtime, with no observable and dynamic development of own revenue raising capacity.

**Thirdly,** there is administrative and technical capacity constraints due to the fact that, most (not all in some woredas ) of the woreda cabinet officials are semi-illiterate (Mahad, 2007). Woreda has powers and functions in relation to management of its human resource. However there are practices of traditionalism in employment opportunities i.e. clan oriented, low participation of women's in leadership position and uncoordinated staffing of young graduates. In this context officials of woreda and kebele were not able to deliver appropriate service for they where not educated well. The situation becomes worse according to key informant where some of employees and DAS failed to normally preside over their work places and had little or no understanding of pastoralists. In sum, despite significant progress made, capacity constraint in its entire dimension is relatively underdeveloped.

**Power Turnover:** In absence of strong legal framework it's quite possible to expect repeated power turnover as norm rather than exception. A primary essential condition for strong local government is security of existence. Obviously, local governments can not carry out their responsibilities properly if their existence is in danger by the ability of authorities at higher levels of government. Job security requires that members of local governments only be dismissed for specific, justified reason and under formal procedures that requires the dismissing authority to show that the dismissed person has violated the law with clear procedures (Kalin, 1998 cited in Mahat, 2007).

According to regional unit key informant, the above explained fact or absence of job security is the most problematic realities of both local and regional government in the region. Both sectoral and woreda government employees expect dismissal (whether dismissal is legal or illegal is not a matter of concern) whenever at any time when the order comes from the region or some invisible hands. For instance Mahad (2007) put the issue as follows; both sectoral and woreda government are dismissed based on the interest of the delegation. For instance, if an official in the woreda does not have a good personal relation with delegation he/she will be dismissed automatically by creating false allegation for him/her. Thus, within last five years, most woreda have under gone change of woreda government four to five times under auspicious of delegation from the region. This implies woreda administrators are upwardly accountable to some powerful regional officials rather than people who elect them. This possibly created corrupt practices and absence of transparency in the operation of local government, since most officials will not stay long, they embezzle public resource during their short stay.

**Community Participation and Empowerment:** Participation according to Jacob (2005 cited in Mhaad 2007) may be defined as: the capacity and the ability of the community to contribute to share in and benefit from diverse social, economic, political or other processes of the society. Participation in development is an indicator of decentralization and involves in the first place the local community. Participation is therefore a continuum a permanent state which can only be achieved through providing the means for effective involvement in all facets of all facets of the society and actively promoting this as a matter of policy and practice (Cistulli 2002,cited in Mhaad 2007).

Participation, according to Cistulli (2002), has to be planned by policy and other measures such as: commitment by governments and civil society to the principle: Search for methodologies of effective participation for development; commitment to fund and support target sectors and

programs. On the other hand, the term empowerment has different meanings in different socio-cultural and political contexts, and does not translate easily into all languages. Whatever the definition of empowerment is, it has the following closely intertwined elements which are synergic to one another (Narayan, 2002 Cited in mhaad 2007):

- . Access to information;
- . Inclusion and participation;
- . Accountability, and
- . Local Organizational capacity.

From the above elements, it appears that participation is subset of empowerment; however in this study the two terms are used interchangeably and together as other terms such as community involvement community consultation and community action. Community participation and empowerment in the development from planning to implementation to monitoring and evaluation is one of the essences of decentralization program without which the success of decentralization is unthinkable. However, in most scenarios of where and when a decentralization program is implemented particularly in developing countries the participation of all stakeholders are either not adequate or completely absent. Grassroots community participation or what development administrators call the people-centered development such as DLDP has many theoretical advantages.

- Reduces cost by mobilizing unused labor and local resources
- Leads to timely completion of development projects
- Leads to efficient operation and effective service delivery

Despite the fact that community participation and empowerment is recognized both in the DLDP document as well as the revised constitution and proclamation, it seems that it is not well understood well by local governments as well as the community according to Regional unit key informant. Local officials understanding of community participation and empowerment is that of community is mobilized for the sake of free labor and political manifesto, on the other hand community understands participation is for the sake of official's interest attachment. This implies there is understanding problem in both cases, hence participation in all dimension is not established well so far in the region both at regional and woreda level of government.( Maad 2007)

Mahad (2007) put community participation in his study of DLDP in the two sample woredas as follows; officials in the woreda recognize the importance of community participation in the local development process. However so far, there are no clearly established modalities of involving the community in the process of development. This is with knowledge that there is a coordinating office for community mobilization and participation in the structure of all woredas. But according to the heads of the office in both Babile and Jijiga woreda, the office does not have idea of how to involve community in the planning and implementing development projects among other things, due to financial, human and capacity constraint as well as lack of community participation by local officials.

According to Mhaad , community participation is a challenge facing the local development in general and DLDP in particular in the Somali region. whether this challenge can be meet depends on the recognition of regional government officials to establish a policy environment so that efforts to establish specific political and legal frame work within which all the planning institutions (governmental and non-governmental), communities at large and the private sector will operate and thus affect their potential contribution to the local development agenda.

#### **Inter-Clan Conflicts and Animosity**

According to Mahad (2007) probably a peculiar problem to the Somali region brought by DLDP is the conflicts and animosity among clans living in the woreda over the ownership of the woreda and sharing of the position (nomination as well as normal employments) of the woreda. Beside the overall insecurity problems perpetrated by the nabadiid/anti-peace elements operating in the region inter-clan conflicts and animosity are other challenges hindering the implementation of DLDP in the region.

According to Mhaad, the inter-clan conflicts and animosity has led to marginalization of some clans who are either minority in the woreda or clans who didn't have political weight in the regional politics. Moreover, there are some clans who are trying to expand their territories to get more woredas or kebeles by removing /getting rid of other clans who previously didn't have their own separate woreda and are now trying their best to get new woredas through hook and crook means to the extent of using force to drive out other clans from their woredas.

Moreover, because of this inter-clan conflicts and animosity the budget of some woredas are sometimes distributed (in cash) among clans living in the woreda. While on other times it is the project which are distributed among clans to avert conflicts .all these put together are impeding the DLDP implementation in the region.

**Good Governance:** According to Mhaad, though the regional constitution and proclamation clearly outlined the power and responsibilities of woreda level governments, their mandate is frequently violated by regional and party officials. According to regional unit key informant efforts made to ensure accountability of councils and executive members have not yet brought about concrete result, Both regional and woreda councils have not had enough and coordinated public meetings, public hearings and complaint handling channels. At the top of these there is a problem of ensuring public transparency and accountability with regard to resource management, the public was not given opportunity to participate in woreda budget appropriation, planning and monitoring and evaluation, depriving the advantage of resource prioritization and overlooking the development needs of grass root communities. In this regard, there was a tendency of favoritism by authorities to concentrate public services in kebeles of their own clan members.

**Monitoring and Evaluation System:** The sector offices at woreda level, various component bodies of woreda (woreda council, woreda cabinet) the public and sector bureaus at regional level shall have an obligation to monitor and evaluate the departments and/or offices of the woreda in the region. In doing so responsible regional and woreda officials shall:

- Establish an institutionalized woreda monitoring and evaluation system. In particular it shall receive and assess annual review reports from each woreda and attend annual review progress report and take possible measures.

To conclude, the study, attempted to asses the enabling environment created to lay down a firmer foundation on which efficient and effective decentralization could be established. However, DLDP in the Somali region lacks almost all theoretical principles and conditions that are necessary to create a firmer foundation on which the program to provide a change to welfare improvement of a society. Firstly, a number of explicit and implicit assumptions underlying public finance theory in general and fiscal decentralization in particular are violated. The greatest challenge in the region is the structure and characteristics of decentralized institution are so diverse across zones, woredas and Kebeles. The overwhelming majorities of woredas are centralized/decentralized in which local governments is the creation of regional governments.

### 3.3.5. Regional Development Comparison<sup>9</sup>

Table 3.8 depicts the overall infrastructural and regional development in Ethiopia, compared to developed and emerging region. In 2009 Social index for the emerging region was (0.792, 0.755, 3.00, and 3.36) for Afar, Somali, Benishangul-Gumuz and Gambella. When compared with 3.36 for the Gambella to be the highest, Benishangul taking the second position, still afar and Somali registered the least. It is interesting to report that compared to well developed region still Gambela has relatively high level of social index, Tigray and Benishangul take second position while the lowest level is registered for Somali and afar (.755,0792) respectively.

Again infrastructural index for emerging region was (.378, .08, .30, .42) Afar, Somali, Benishangul-Gumuz and Gambella respectively and for relatively developed regions (.47, .37, .52) for Tigray, Amhara and SNNP respectively. Accordingly the data reveals that SNNP registered the highest and Tigray takes the second position and Gambela more or less showing similar level of infrastructural index, while Somali and afar registered the least.

As the above noted section made it clear, we can draw up the over all regional development index for every region. The three indicators above show that Tigray index are generally higher than compared with well developed region and Gambella index are generally higher than compared with emerging region in the country and Somali registered the lowest of all in regional development index.

**Table 3.8:** Regional Development Index

Regions	Social Index	Infrastructural Index	Urban Industrial Index	Regional Development Index
Afar	0.792597	0.378954	0.04407	0.405207
Somali	0.75535	0.0864	0.052654	0.298196
Benishangul	3.003714	0.30171	0.065649	1.123691
Gambella	3.367433	0.428085	0.169062	1.321526
Tigray	3.302753	0.471816	0.500791	1.42512
Amhara	1.37994	0.377978	0.933099	0.897006
SNNP	1.917513	0.52066	0.445148	0.961107

Source: Tegegne (2009: p.18)

<sup>9</sup> On these points see generally Tegegne 2009, PP. 17- 22 (from which the citation is taken)

In general the regional development index share of both relatively developed and emerging region shows a variable data in all aspect. The main findings we can draw from the above analysis are as follows:

- i) Social index in emerging region is high compared to relatively developed region.
- ii) Infrastructural index is high comparable to levels in emerging regions.
- iii) Urban industrial index is high comparable to level in emerging region.
- iv) There are two regions registered above. Index of an overall regional development index among emerging region that are Benishangul-Gumuz and Gambella but there is one region registered above 1 among relatively well-developed region. While the lowest level of regional of development index is registered for Somali (0.29298190).

## **CHAPTER FOUR**

### **FISCAL DECENTRALIZATION IN SOMALI NATIONAL REGIONAL STATE**

#### **4.1. Revenue Assignment from Regional and Local Administration Perspective**

##### **4.1.1 Revenue Assignment from Regional Perspective**

The first and prime pillar of fiscal decentralization is revenue assignment. To put the analysis in perspective, we can see revenue assignment from the regional and local perspective. However; one has to be careful in attempting to compare the analysis between the pre-and post district level decentralization period. This is because during the district decentralization period there is additional tier of government which is given the power of taxation (see annex 2 and 3, regional and local government powers of taxation respectively).

At regional level Proclamation No. 33/1992 was one of the legal documents that qualifies regional governments to the power of taxation. At local level the revised constitution of Somali National Regional State proclamation no 76/2001 is an important document that qualifies local administration to the power of taxation (see Annex 3). Central and regional revenue sharing in Ethiopia is based on the following sources; the central government draws on duties taxes, income tax from employees of central government workers, profit tax, etc. While regional governments use personal income tax collected from employees of regional governments, rural land use fee etc and shared revenues (see Annex 2 Revenue sharing between central, regional and joint).

We can identify five possible categories of revenue sources. (A) those levied and collected by the central government and used for (macro Economic stabilization purpose e.g. custom duties (B) those levied and collected by the central government, but used substantially by the regions (e.g. personal income tax (C) those levied and collected by the central government but shared by it and regions according to some formula (e.g. profit tax, from enterprise owned by joint) (D) those levied by the central government, but collected by the regions and used for their own purpose (e.g. personal income tax from employees of regional governments) and finally (E) those levied, collected and used by regions (F) in some aspect of current practice of woreda decentralization , those lived by regions but collected by woredas and used jointly or collected and used by woredas themselves.

Since there are no single or best measures of revenue decentralization, we investigate and examine the issue by employing revenue and expenditure ratio (see qualitative and quantitative dimension of measuring fiscal decentralization in methodology and statement of the problem section of this study). Initially the data are disaggregated in to regional bureau/sectoral and woreda level of government. Revenue is disaggregated into tax revenue, (direct tax, and indirect tax) and non-tax and expenditure is disaggregated as capital, recurrent and by functional classification.

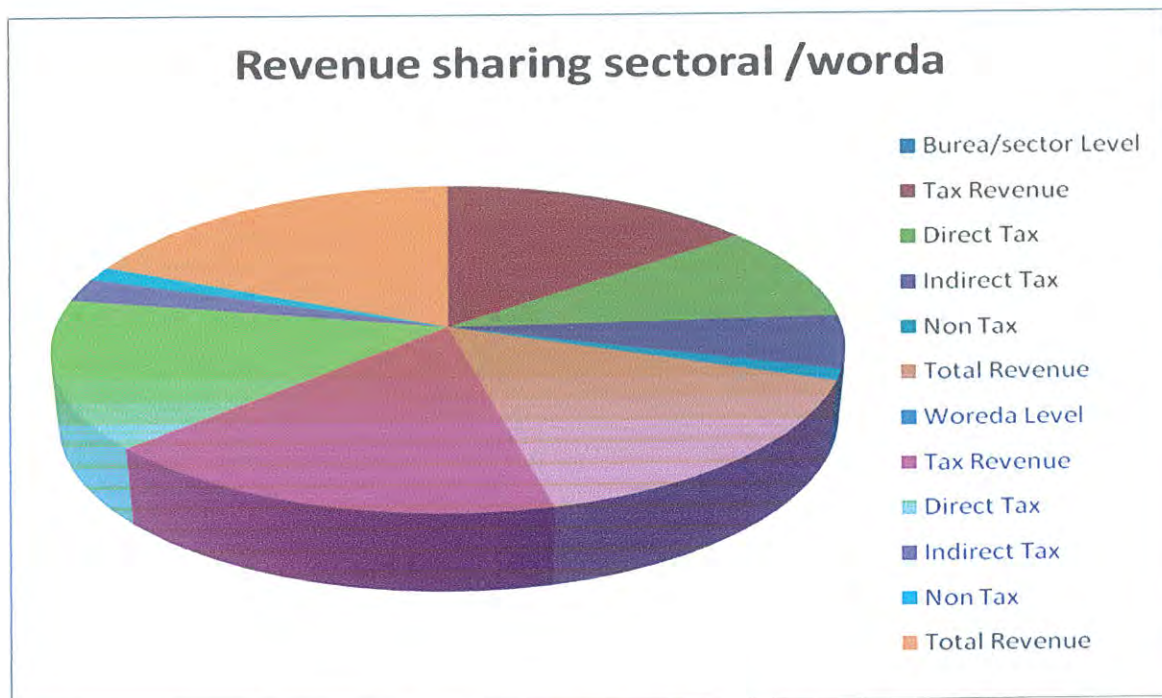
**Revenue Ratio:** is defined as the ratio of woreda to total regional government revenue (RR) is the most approximate measure of decision making power of the lower levels of government.

$$RR = \frac{\text{Total Local Government Revenue}}{\text{Total Regional Government Revenue}}$$

The value of ER (expenditure ratio) and RR (revenue ratio) ranges between 0 and 1 and a value more than one indicate surplus. Using the above measures of decentralization, the study examined the revenue share, performance and generation. A summary of revenue sharing trend with different revenue sources at three levels of government is presented in table 4.1 and the data is characterized by:

(A) The average share of woredas of the total revenue was about (0.22) (B) The average share of woredas of the tax revenue was (0.31) (C) The average share of woredas of the direct tax was about (0.4) (D) The average share of woredas of the indirect tax was about (0.18) (E) The average share of woredas of the non tax was about (0.66).

With regard to growth trend, revenue collection at regional level registered the following trends specific to each category (A) tax revenue has shown an increase from 56.40 to 203.22 million for the period 1999-2002 EFY.(B) direct tax has shown an increase from (4.3-269.25 million) for the period 1999-2002 EFY. (C) At regional level total revenue shown an increase of 60.87 to 208.41 million birr for the period 1999 -2002 EFY respectively.



**Figure 4.1:** Revenue Share Trend Secoral/Woreda(see details on tabel provided at the end of this section, PP. 79)

We can draw the following from the above analysis;

- (I) At regional level the contribution of direct tax is high. With regard to indirect tax and non tax revenue, the contribution of indirect tax is high and non tax revenue source have the least contribution. At regional level total revenue collection was increased from (60.87) to 208.41 million and at sectoral level it increased from 28.21 to 151.63 million for the period 1999-2002 EFY respectively.

The following observation can be made regarding revenue collection in the Somali region. First is regarding the composition of revenue. Among the different sources of revenue, direct tax seems to have the highest contribution to the regional revenue. One possible reason for this is the increased number of government employees in the region which will increase the direct tax. In some context the improved tax effort following the recent tax reform could also be a reason for increased direct tax.

The second observation that can be made is despite the increase in total revenue from 60 million to 208 million between the years 1999 and 2001 EFY, the overall position measured by its ability to discharge expenditure responsibility remained below the national average (See details on page 41-45 aspects of intra regional fiscal decentralization analysis).

A number of reasons can be identified for the poor performance of revenue generations. First, some tax items are difficult to collect especially in situations where there is no adequate capacity. A case in point is property tax. Though property tax is visible and difficult to evade, there are many efficiencies and obstacles associated with its collection. First, enforcing local residents to pay property tax on timely base is found out to be difficult. Second, there is a great deal of complex valuation problem involved in property tax assessment. This is beyond the capacities of regional experts causing revenue from this tax base to stagnate. Business income tax from the region is highly constrained because of the nature of the business.

According to regional unit key informant views the region has a higher proportion of illegal (contraband) business from which tax collection is very difficult to exercise. The tax contribution of agricultural and urban land use are almost nil in the region. Land related issues in the region are clan based. Tax collection from land is thus not an easy issue since it requires the involvement of clan heads, political leaders and tax administration officials. On top of this the condition in the region also contributes to the low revenue effort in the region. For instance most woredas are found in remote areas and they find it difficult to communicate with the regional capital. These woredas also have undeveloped financial institution making revenue collection difficult. All these lead to discrepancy between planned and actual collection to be high.

#### **4.1.2. Revenue Assignment from Local Administration Perspective**

The decentralization of power from region to zone and woreda is a recent phenomenon that is known as the second wave of decentralization or DLDP. Accordingly revenue assignment to local administration was based on the revised constitution of Somali national regional state proclamation No.76/2001 article (93), which states that local administrations shall collect revenue from assigned sources.

Proclamation no 76/2001 and SRG revised constitution is an important legal document that qualifies woredas to have the following revenue sources, such as income tax from employees of the woreda and other government offices whose salary is paid from the budget of the woreda, income tax from employees of public enterprises owned by the woreda, income tax from employees of private persons and locally licensed companies in the woreda, land use and agricultural income tax, tax on rented accommodation and housing, business tax from schedule 'B&C' traders in accordance with income tax law, minor mineral enterprises, woreda government owned public enterprises, and land use fees on non-agricultural enterprises.

At the same time woredas are mandated to introduce new taxes as long as it is not in contradiction and violation of tax laws of SRG and FGE, though the practice being absent both at regional and sectoral bureaus. Even if, the above power of tax collection responsibilities are given to woredas, however, finance related functions have been devolved to woredas with unclear taxing power. Though the regional constitution and proclamation indicates the power of taxation, the real practice reveals there is repeated problem towards revenue sharing responsibilities between regional and woredas. In this context revenue collection responsibility is assigned by BoR arbitrarily between woreda and regional sector bureaus. This provides an explanation for the fact that there is no clear and articulated revenue source to woredas.

Again refereeing back to table 4.1, there is evidence to indicate that there is great variation in decentralizing sources of revenue between woreda level of government and bureau/sector offices (A) on average woredas share is 32% of total regional revenue while 72% of revenue goes to regional sector bureau, moreover, total revenue at woreda level shows an increasing trend from 32.65 million in 1999 to 56.78 million in 2002 EFY respectively. The largest share comes from direct taxes which constitutes the highest shares of the regional total own revenue. The categories of direct taxes include agricultural income tax and rural land use rent, which constitute 2% to 5% of own revenue.

In sum from local administration perspective, it is better to emphasize on strengthening their capacity both institutional and political ones. The logic is fiscal mechanism may not be expected to work effectively if there is no an adequate degree of local political development and accountability. In this context the regional revenue sharing experience tell us that regardless of considering capacity in institutional and political development, own revenue are deducted from total budget of local government, which invariably under mines incentives to collect local own source of revenue.

**Table 4.1 distribution of revenue by classification and levels of government sectoral/woreda (IN MIILION 000')**

<b>Region Level</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>Total</b>	<b>Average</b>	<b>%shareon Average</b>
Tax Revenue	56.4	78	85.5	203.22	<b>423.12</b>	<b>105.78</b>	-
Direct Tax	4.3	65.5	65.3	161.15	<b>296.25</b>	<b>74.0625</b>	-
Indirect Tax	13.3	12.4	21.9	42	<b>89.6</b>	<b>22.4</b>	-
Non Tax	4.4	5.9	15.4	5.19	<b>30.89</b>	<b>7.7225</b>	-
<b>Total Revenue</b>	<b>60.87</b>	<b>83.9</b>	<b>100.64</b>	<b>208.4</b>	<b>453.81</b>	<b>113.4525</b>	-
<b>Burea/sector Level</b>							
Tax Revenue	26.1	63.9	49.7	148	<b>287.7</b>	<b>71.925</b>	0.69
Direct Tax	16.8	51.5	39.5	105.9	<b>213.7</b>	<b>53.425</b>	0.6
Indirect Tax	9.3	12.4	10.26	42	<b>73.96</b>	<b>18.49</b>	0.82
Non Tax	2	5.9	4.75	3.6	<b>16.25</b>	<b>4.0625</b>	0.44
<b>Total Revenue</b>	<b>28.1</b>	<b>69.9</b>	<b>54.53</b>	<b>151.6</b>	<b>304.13</b>	<b>76.0325</b>	<b>0.78</b>
<b>Woreda Level</b>							
Tax Revenue	30.19	14.02	35.4	55.2	<b>134.81</b>	<b>33.7025</b>	0.31
Direct Tax	26.15	14.02	23.7	55.2	<b>119.07</b>	<b>29.7675</b>	0.4
Indirect Tax	4	-	11.6	-	<b>15.6</b>	<b>7.8</b>	0.18
Non Tax	2.47	-	10.6	1.56	<b>14.63</b>	<b>4.8766667</b>	0.66
<b>Total Revenue</b>	<b>32.65</b>	<b>14.02</b>	<b>46.1</b>	<b>56.78</b>	<b>149.55</b>	<b>37.3875</b>	<b>0.22</b>

SOURCE; BOFED and others own computation

Note; the value - indicates miising figure

## **4.2. Expenditure Assignment from Regional and Local Administration perspective**

### **4.2.1. Expenditure Assignment from Regional Perspective**

Expenditure assignment is the second pillar of fiscal decentralization. It can be seen from two perspectives. The first perspective is the general guide line that the central government and regional governments bear all financial expenditure that is necessary to carry out all responsibilities and functions assigned to them. The basic rule of efficient expenditure assignment is to assign each function to lowest level of government consistent with its efficient performance. So long as there are variations across jurisdictions in tastes and costs, there are clearly efficiency gains from carrying out public service in a decentralized manner (Eshetu, 1994).

Theoretically Oates (1972) show how Jurisdiction size can be determined by the balance between competing forces, welfare loss from taste differences, which argues for small jurisdictions and welfare gain, from burden sharing, this argues for large jurisdictions. According to this decentralization theorem each public service should be provided by the jurisdiction having control over the minimum geographic area that would internalize benefits and costs of such provisions.

Empirically Tegegne *et al* (2007) show studies of fiscal decentralization in Ethiopia indicates the presence of fiscal imbalance and the inadequacy of such measures as inter governmental transfer and borrowing to deal with imbalances. With regard to expenditure assignment, regions are increasing their share of expenditure both in recurrent and capital budget though capital seems to be less decentralized than recurrent expenditure.

Using ratio measurement, we tend to measure expenditure share to local administrations and sectoral bureau i.e. total woreda level expenditure both in terms of capital and recurrent to total regional government expenditure. The ratio approximates fiscal decentralization or share of public expenditure to each level of government in each category.

**Expenditure Ratio (ER):** This can help us to see the ratio of local government expenditure and total regional government expenditure. Regional expenditure is the sum of woreda expenditure and bureau level government spending. This ratio approximates fiscal decentralization in terms of expenditure in each category.

One aspect to make clear is that in order to avoid double counting grant given to bureau level and woreda level of government will be subtracted (if any). This is because certain level of government gives grants to lower level of government subtracting grant ensures the expenditure is recorded only once.

$$ER = \frac{\text{Total local government expenditure}}{\text{Total regional government expenditure}}$$

Table 4.2 presents the measures of decentralization or expenditure share between bureau/sectoral and woreda level of government for the year 1996/97-2001/02 EFY. The data is characterized by (A) the average share of woreda of the total expenditure was about (.45). (B) The average share of woreda of the total recurrent expenditure was about (.55) (C) The average share of woreda of the total capital expenditure was about (.28).

Expenditure share by functional distribution for recurrent expenditure shows that (a) the average share of woredas of the administrative and general service was about (.46) (b) the average share of woreda of the economic service was about (.88) (c) the average share woreda of social service was about (.57) d) The average share woreda of general service was about (.59). With regard to growth trend, (A) Administrative and general service increased from 164.87 in 1998 to 529.62 million birr (B) general service has been increased from 38.38 million to 81.24 (C) economic service has been increased from 49.49 to 84.65 million.

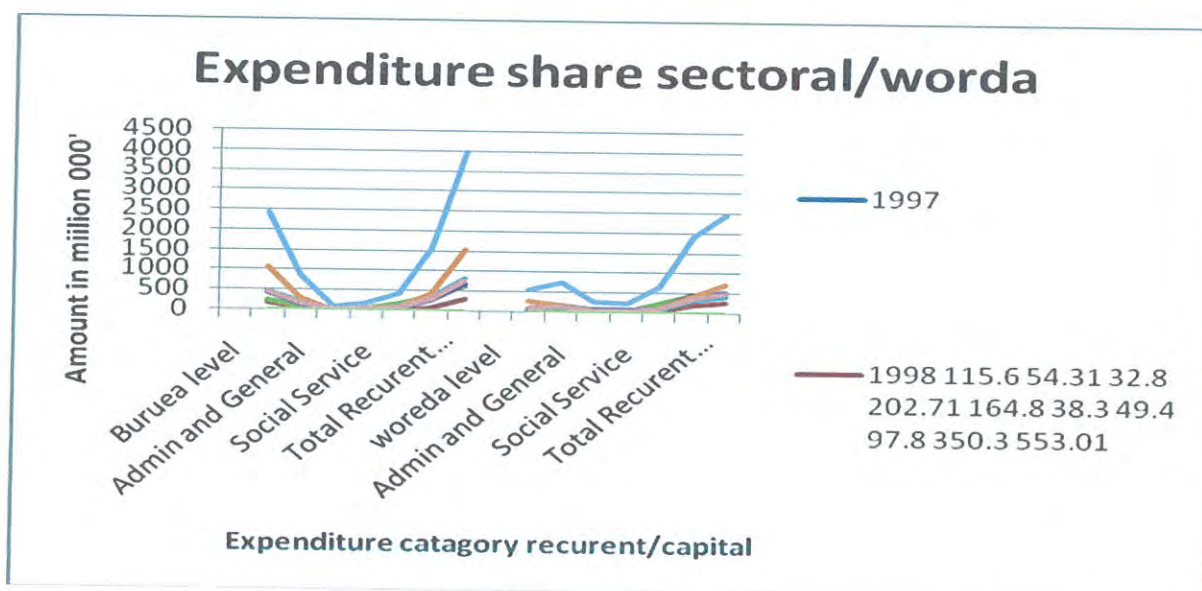


Figure 4.2: Expenditure Share Trend Sectoral/Woreda (see details on tabel provided at the end of this discussion, pp. 85)

Generally, the following are some of the most important observation regarding expenditure;

- (i) Sectoral bureaus share in capital expenditure is high (.62) and woreda governments share in recurrent expenditure is comparable (.55). This fact reflects or indicates the low degree of decentralization in capital expenditure from regional sector bureaus to woreda level of government.

The varied share of sectoral and a woreda government in both recurrent and capital including by functional distribution imply that there is an increased trend towards higher public spending. However recurrent expenditure seems relatively decentralized to lower tiers of government than capital one. It could be argued that it is advisable to adjust the proportion of recurrent /capital ratio at minimum standard mainly taking or considering weak capacity of woredas and institutional and infrastructural bottleneck in the region.

#### **4.2.2. Expenditure Assignment in Light of Own Revenue from Local Administration Perspective**

The decentralization of expenditures responsibility from region to woreda level of government is a recent phenomenon in the region. However, there is no clear and proper assignment of expenditure that is explicitly backed up by a formal or legal frame work. The budget utilization for expenditures at local administrations take the form of woredas prioritizing their needs such us education, water, health, agriculture etc. mainly within the frame of priority areas indicated by BoFED.

According to respondents, the regional level sector bureaus play a dominant role in expenditure assignment. Particularly, most of decisions on capital expenditures are done at regional level. The only expenditure spent at woreda and zonal level constitutes some modest portion of recurrent expenditures. Accordingly based on data facts, in table 4.2, regional sector bureaus almost constitute 72% of the total capital expenditures, while the share of regional sector bureaus in recurrent expenditure showing 45% which is less than woreda share. This implies there is too much control of capital expenditure at regional level, while woredas are particularly engaged in of the recurrent one.

According to a key respondent, one of key problem in this context is lack of capacity both in technical and administrative one to undertake capital projects. In this context the regional government assigns some technical advisory experts to prioritize their needs, while this also leads to manipulation in making decision on budget allocation which invariably slow the budget transfer.

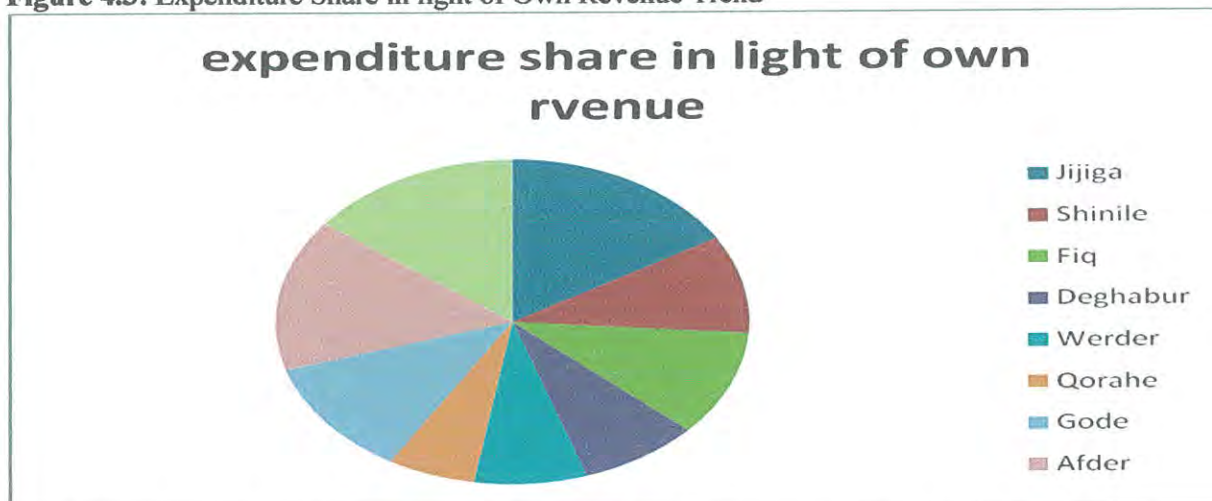
Mahad (2007) in his DLDP study in two sample woredas of Somali region put the capital budget prioritization of sample woredas as follows; it shows inclination to four major areas, namely education, health, basic rural infrastructure, rural water, rural roads, communication, agriculture etc. The author clearly indicates that both woredas have allotted the whole (100%) capital budget to education, health, basic rural infrastructure and agriculture (with internal prioritization among them). In general the author concludes the prioritization of education, health, basic infrastructure and agriculture is evident from the budget allocations of both woredas and shows the extent of basic service requirements of different woredas in the region. Some woreda (e.g. Jig-jiga) have started the DLDP with certain level of basic service, while others (e.g. Babile) have started from scratch.

On the other hand the author mentioned that the recurrent budget particularly the salary portion is increasing dramatically. That is while the proportion of the capital budget is less than the recurrent one in growth trend, the recurrent budget (specifically the salary portion) increasing. This finding agrees with the author observation that while the budget is increasing year after year, while the proportion of capital budget shows fluctuation.

The reason attributable to the dramatic increase in the recurrent budget in general and the salary portion in particular is mainly due to unnecessary and untimely staffing and filing of woreda structure by the regional civil service bureau without the consultation of the concerned woreda officials. This has created redundancy of support staffs that consumes a significant amount of the budget in the form of salary but gave little or no service to woredas. To this regard, therefore, officials in both Jijiga and Babile woredas complained that the money received by employees in a form of salary and service they gate are not commensurate (Mahat, 2007).

Furthermore, Table 4.3 shows data on fiscal capacities of zones in the region to examine expenditure share in light of own revenue for the year 1996/97-2001/02 on average. The data is characterized by (A) The average share of own revenue to total expenditure was (0.178) (B) The average share of own revenue to recurrent expenditure was about (0.24) (C) The average share of own revenue to capital expenditure was (0.84) and finally compared to other zones, Jijiga zone shows higher contribution (16.8) and Qorahe registered the least (3.47).

**Figure 4.3: Expenditure Share in light of Own Revenue Trend**



**Source:** (see details on the tabel provided at the end of these discusion, pp. 86)

The data reflect, on average local or zones are able to fiancé 17% of total expenditure assigned to them and showing 83% dependency on the regional government to discharge their expenditure responsibility. Moreover, when disaggregated, on average zones are able to finance 24% of their recurrent expenditure from own revenue sources and 84% of their capital expenditure. In contrast, the level of financing between recurrent and capital expenditure show that they show relatively strong capacity to finance capital expenditure but also implies low degree of capital expenditure at the same time.

In summary taking all the above facts and what international examples can tell us in this regard, the individual element of decentralization program must be closely linked. This means local sources of revenue should be matched as closely as possible to local expenditure responsibility. In this context to close the gap between the mismatch inter governmental transfers should target local expenditure needs and local capacity differences as a major concern

Table 4.2 Distribution of Expenditure share by function and levels of government sectoral woreda/

Region Level	( IN MIILION 000')						Average	Average%Share	
	1997	1998	1999	2000	2001	2002 Total			
Ecnomic Development		115.6	112.25	141.93	221.7	466.36	1057.84	211.568 -	
Social Development		54.31	76.9	107.5	107.58	187.95	534.24	106.848 -	
General Developmwent		32.8	51.6	159.4	31.41	92.6	367.81	73.562 -	
<b>Total Capital Expenditure</b>		<b>202.71</b>	<b>240.75</b>	<b>408.83</b>	<b>360.69</b>	<b>746.91</b>	<b>1959.89</b>	<b>391.978 -</b>	
Admin and General		164.8	228.7	340	377.63	529.62	1640.75	328.15 -	
Ecnomic Service		38.3	64.35	46.2	69.83	81.24	299.92	59.984 -	
Social Service		49.4	113	111.3	69.86	84.65	428.21	85.642 -	
General Service		97.8	420	166	168.85	223.79	1076.44	215.288 -	
<b>Total Recurent Expend.</b>		<b>350.3</b>	<b>826.05</b>	<b>663.5</b>	<b>686.17</b>	<b>919.3</b>	<b>344532%</b>	<b>689.064 -</b>	
<b>Total Expenditure</b>		<b>553.01</b>	<b>1066.8</b>	<b>1072.33</b>	<b>1046.86</b>	<b>1666.21</b>	<b>540521%</b>	<b>1081.042 -</b>	
<b>Buruea level</b>									
<b>Total Capital Expenditure</b>		<b>203.7</b>	<b>247</b>	<b>415.6</b>	<b>474.1</b>	<b>1082.8</b>	<b>2423.2</b>	<b>484.64</b>	<b>0.72</b>
Admin and General		62.58	104.54	152.93	228.04	325.55	873.64	174.728	0.54
Ecnomic Service		8.87	28.35	15.37	19.06	11.97	83.62	16.724	0.22
Social Service		20.51	53.36	38.9	33.92	35.63	182.32	36.464	0.43
General Service		24.15	188.04	58.35	72.41	92.15	435.1	87.02	0.41
<b>Total Recurent Expend.</b>		<b>116.11</b>	<b>374.29</b>	<b>265.55</b>	<b>353.43</b>	<b>465.3</b>	<b>1574.68</b>	<b>314.936</b>	<b>0.46</b>
<b>Total Expenditure</b>		<b>319.81</b>	<b>621.29</b>	<b>681.15</b>	<b>827.53</b>	<b>1548.1</b>	<b>3997.88</b>	<b>799.576</b>	<b>0.55</b>
<b>woreda level</b>									
<b>Total Capital Expenditure</b>		<b>57.4</b>	<b>49.4</b>	<b>87.2</b>	<b>72.5</b>	<b>290.8</b>	<b>557.3</b>	<b>111.46</b>	<b>0.28</b>
Admin and General		102.29	124.24	187.1	149.59	204.07	767.29	153.458	0.46
Ecnomic Service		29.51	36	80.88	50.77	69.27	266.43	53.286	0.88
Social Service		28.99	59.64	72.4	35.93	49.02	245.98	49.196	0.57
General Service		73.74	231.96	107.66	96.46	131.64	641.46	128.292	0.59
<b>Total Recurent Expend.</b>		<b>234.53</b>	<b>451.84</b>	<b>448.04</b>	<b>332.75</b>	<b>454</b>	<b>1921.16</b>	<b>384.232</b>	<b>0.557</b>
<b>Total Expenditure</b>		<b>291.93</b>	<b>501.24</b>	<b>535.24</b>	<b>425.93</b>	<b>744.8</b>	<b>2478.46</b>	<b>495.692</b>	<b>0.45</b>

SOURCE; A) 2996/2002 efy data from mofed general government expenditure quarterly performance and others own computation  
 Note; the ratio excludes defence, external loan and assistance wich only takes domestic performance

Table 4.3 Expenditure assignment in light of own revenue trend by zone ( In miilion 000')

<b>ZONES IN REGION</b>	<b>Cappit.Expend.</b>	<b>Recct.Exped.</b>	<b>Total Exeped.</b>	<b>Own Reve.Exç</b>	<b>Reve.Exped.Rat</b>	<b>Rev.Rect.Ratio</b>	<b>Rev.Capit.Ratio</b>
Jijiga	17.3	48.8	66.1	16.8	0.25	0.35	0.98
Shinile	10.3	32	42.3	9.725	0.23	0.3	0.95
Fiq	11.1	28.2	39.3	4.8	0.13	0.17	0.43
Deghabur	8.6	31	39.6	4.7	0.11	0.15	0.56
Werder	8.1	25	43.1	5.45	0.12	0.21	0.67
Qorahe	6.3	38.2	44.3	3.475	0.07	0.09	0.55
Gode	12.3	41.6	35.9	7.63	0.21	0.18	0.63
Afder	16	29.4	45.4	12.775	0.27	0.43	0.78
Liben	15.3	34	49.3	10.9	0.2	0.32	0.72

Source.A) 9 1997-1999 data from Mhaad daaad ( 2007) b) 1998- 2002 from somali region revenue bureue Bofe and others own computation.

### 4.3. Inter-Governmental Transfer from Regional and Local Administration Perspective

#### 4.3.1 Inter-Governmental Transfer from Regional Perspective

Subsidy or grant in the region can be looked at from two perspectives. Firstly, subsidy from federal to regional government this basically takes a form of block grant giving some weights to identified variable. In this regard, the policy of fiscal equalization is indicated in the Proclamation No. 33/1992 in the form of subsidy to deal with vertical imbalance. The proclamation states that the purpose of transfer/Subsidy are “to promote social services and economic development of the national/regional government, to accelerate the development of the neglected region, to narrow down the gap in per-capital income between regions, to support projects that help to control negative externalities, to encourage foreign currency earning project of national interest (TGE,1992).

The federal- regional transfer or subsidy system in Ethiopia is relatively straight forward. The subsidy has two main components. The first component is block grant or unconditional grant which was released to regions on the basis of formula that considers different variables and attaches different weights to different criteria. Though the formal based inter-governmental transfers system was introduced in Ethiopia in 1994/95 but it has been changed frequently basically on a yearly basis till 2006/07 since its introduction (Tegegne, 2009).

**Table 4.4.1: Subsidy Assignment in Ethiopia and Variables**

Year	Variables and weight
1994/95	Population (30%) I- distance (10%) Regional tax raising effort (20%) Capital expenditure in 1992/93(15%) Area size (10%)
1995/96	Population (33%) I-distance (33%) State revenue to budget ratio (33%)
1997/98-1999/00	Population (60%) Development level index (25%) Revenue ratio to Budget (15%)
2000/01-02/03	Population (55%) Development level index (20%) Revenue raising effort(15%) ] poverty level index (10%)
2003/04	Population 65%) Development level index (20%) Revenue mobilization/sect oral performance (15%)
2004/05-2005/06	Population (60%) Development level index (25%) Revenue mobilization /sect oral performance 15%
2006-07	Population 65% Development level index 25% Revenue mobilization/ sect oral performance 10%

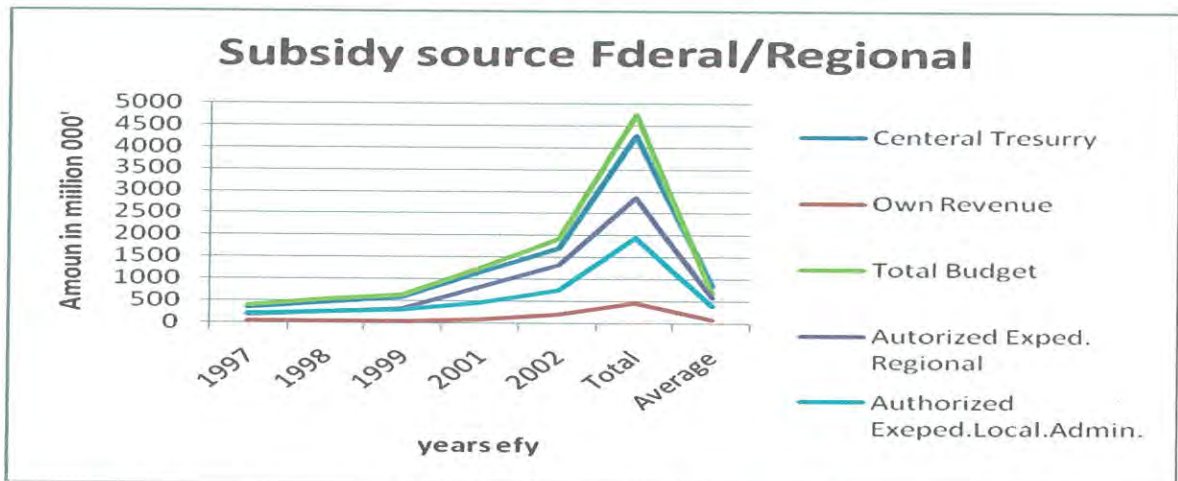
Source: Tegegne (2009)

According to Tegegne (2009), as can be seen from the table 4.4.1 not only have the criteria and weight changed in different times, it also seems that there is a higher consideration of equity as an objective in the formula that evolved over time. In this regard it suffices to examine the weight assigned to population which is never less than 30% and even goes to as high as 65% in the year 2006/07. In distance or level of development which is also given a weight ranging between 20% and 33% is another indicator of equity in grant formula. Revenue raising effort a measure of efficiency in the formula dropped from 33% in 1995/96 and 96/to 15% in 2003/04 and 2005/06 and 10% in 2006/07.

The above formula were found out be inadequate because of its inability to measure the need of the regions adequately, more over the weights assigned to each variable were determined subjectively that minimizes the objective of the formula in these context, new formula was developed and implemented in 2000 and 2001. The formula considers population, difference in relative in expenditure needs and performance incentives. The formula attempts to measure regional expenditure and revenue needs by computing them as deviations from national average and uses the same to estimate the subsidy needs of each region (Tegegne, 2009).

General purpose transfers are provided as general budget support with no strings attached. These Transfers are typically mandated by law, but occasionally they may be of an ad hoc or discretionary in nature. Such transfers are intended to preserve local autonomy and enhance inter jurisdictional equality. General purpose transfers are termed block transfers when they are used to provide broad area of support in a general area of sub-national expenditures (eg. Education) while allowing recipient discretion in allocating the funds among specific uses, Block grants are a vaguely defined concept. They fall in the gray area between general-purpose and specific purpose transfers, as they provided budget support with no string attached in a broad but specific area of sub-national expenditures (Robin *et al*, 2009).

Both table 4.4 and 4.5 presents the trend and patterns of transfers both from federal to regional and from region to woreda tiers of government for the year 1996/97 to 2001/02 EFY. The data is characterized by (A). The dependency rate ranges from 80% to 90% in absolute terms. B) The budget growth trend excluding external loan and assistance indicates 345.88 to 475.1 to 584 to 1154.2 to 1722.7 in 1997 and 2001 EFY respectively. On average federal government transferred 856.376 million birr to Somali region in which average planned own revenue expected from the region was 94.768 million birr. This implies both the regional and local government cannot function without the federal and regional subsidy respectively.



**Figure 4.4:** Subsidy Source and Variabels Trend Fedreal/Regional (see details on tabel provided at the end of this discussion, pp. 95)

However, there are typical issues to recognize explicitly the different types of transfer system are appropriate in different circumstance. Unconditional grants are best for income distribution purpose while conditional grants are a cheaper way of encouraging expenditures on particular types of target service. If designed properly, both types can help to encourage local resource mobilization and to ensure over time provision of a basic minimum of services in all local government regardless of fiscal capacity.

**Specific Grant:** the second component was conditional grants, or specific in which each region receive for different purpose and are meant to address some specific objectives (Tegegne, 2009). However, the disbursement of these specific funds has some specific and broad conditions attached to them that regional governments must satisfy to be eligible for the full amount of transfer. In this case we can take LIG (Local Investment Grant which attaches capacities of regions to use fund) (MOFED key respondent).

These specific transfers are financed from World Bank, IDA, IFDA, etc. while conditional grants are financed out of general revenues, external loan and assistance as a source of financing. Currently taking objective of equalization as a main emphasis, emerging regions namely Somali, Afar, B/G and Gambella receive (1% transfer from total regional subsidy based on the ability to raise revenue as compared to relatively developed region (MoFED key informant). Specific transfers with various attachments which includes road fund, community projects like (PCDP) Pastoral Community Development Program, (LIG) local investment grant are transferred to regions basically targeting to fill basic service delivery needs and institutional strengthen.

Specific purpose or conditional transfers are intended to provide incentives for government to undertake specific program or activities. These grants may be regular or mandatory or discretionary or ad hoc. Conditional transfers typically specify the type of expenditure that can be financed (input-based conditionality). These may be capital expenditures, operating expenditure, or both. Conditional transfer may also require attainment of certain results in service delivery (output based conditionality).

Despite their usefulness as policy instrument to deal with national equity and efficiency objectives, conditional grants however have some potential draw backs; first, because the main intent of conditional grants are to influence the fiscal behavior of states, this in turn necessarily detract from one of objectives of decentralization, which is to make the states responsible and accountable for their decisions. In sum based on noted facts, transfers in both conditional and unconditional to be equalizing, at least requires taking the difference in need of both relatively developed and emerging regions so that they can achieve jointly fiscal efficiency and equity objective.

#### **4.3.2. Subsidy/Inter-Governmental Transfer from Local Administration Perspectives**

Subsidy from regional government to woredas follows according to proclamation 76/2001 of the Somali national regional State. Transfer to woredas mainly takes form of unconditional giving some weights to population, infrastructural coverage and revenue raising capacities of woredas. In these regard according to regional unit key informant there are also conditional grants from central governments, but the regional transfer take block grant to allow local government the opportunity to prioritize their expenditure between various needs.

The transfer from regional treasury to woredas bank account is administered on quarterly bases in equal proportion. According to regional unit key informant and own observation there is heavy interest attachments and manipulation by concerned officials at regional level to transfer the grant to woredas. The above point implies the unpredictability and complicated nature of budget transfer in the region. In most cases grant disbursement to woredas come too late to the extent that employees get their salary late for example employees in Jijiga (which is the capital city of the region) get their salary after 10 to 15 days on average and employees in the nearby woredas Babile (which is 72km from Jijiga) get their salary after two to three months.

In this context, the main reason according to regional unit key informant, are due to bureaucratic red-tape, budget misappropriation, complicated financial flow system and undeveloped financial institution in the region, the situation become worse when we came to remote woredas where grants are released four to three months. This provides explanations of the violations of inter governmental transfer principles and theoretical facts.

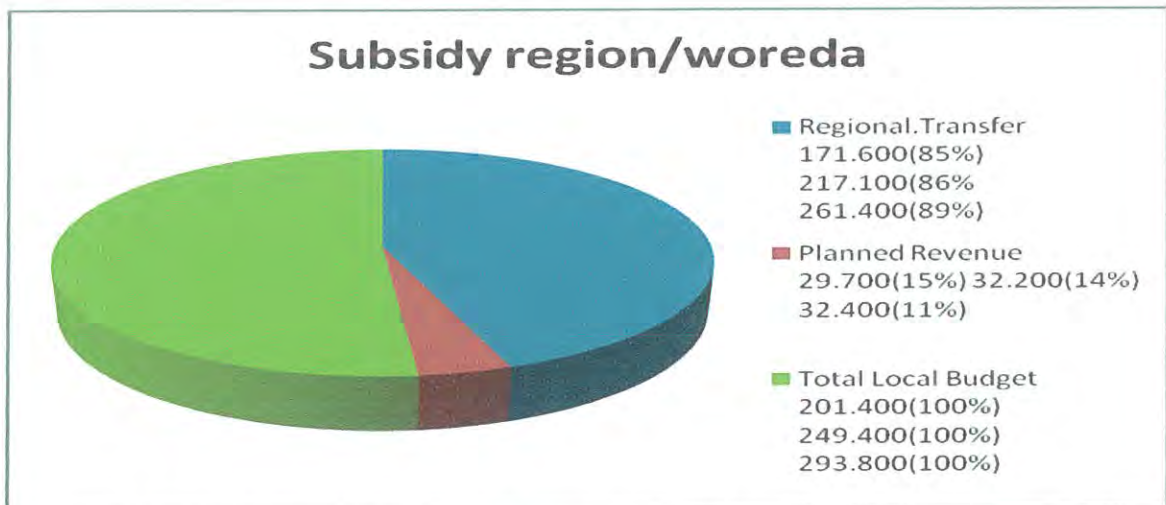
In this context we can suggest that at least, the grant mechanism should ensure predictability of sub-national government shares by publishing five-year projection of fund availability. The grant formula should specify ways of alleviating yearly fluctuations, such as by the use of moving average or floors and ceilings.

The division of budget between regional and local administration uses an arbitrary random assignment. (i.e., the cabinet and the head of the state sit together and decide arbitrarily, while the local government budget will be divided based on grant formula taking three parameters namely, population, level of development and revenue raising capacity. Furthermore, at this point the grant sharing mechanism at least lacks two principles. These are:

**Transparency:** both the formula and the allocations should be disseminated widely, in order to achieve as a broad a consensus as possible on objectives and operation of the program.

**Efficiency:** the grant design should be neutral with respect to sub-national governments' choices of resource allocation to different sectors or type of activity unless there is clear efficiency or equity rationale for conditional grants.

Based on data facts in table 4.6, it is clear that woredas can not do anything without the transfer (subsidy) from the regional government and the dependency rate ranges between 82% - 89% between in 1997 and 2001 EFY. On the other hand, the budget growth rate at woreda level in absolute term indicates 171.600 to 616.800 in between 1997 and 2001 EFY respectively. On average the regional government transferred 344.4 million birr to woredas in which planned revenue expected from woreda was 80.95 million birr.



**Figure 4.5:** Subsidy Source and Variabels from Region to Woreda (see details on page 95)

Input-based conditionality is often intrusive and unproductive, whereas out-put based conditionality can advance grantor's objectives while preserving local autonomy. Conditional transfers may incorporate matching provisions- requiring grant recipients to finance a specified percentage of expenditure using their own resources. Matching requirement can be either open-ended meaning that the granter matches whatever level of resources the recipient provides, or closed-ended, meaning that the granter matches recipient funds only up to specified limit (Robin *et al*, 2009).

Matching requirements encourage grater scrutiny and local ownership of grant-financed expenditures: close-ended matching is helpful in ensuring that the granter has some control over the costs of the transfer program. Matching requirements, however, represent a greater burden for recipient jurisdiction with limited fiscal capacity. In view of this, it may be desirable to set matching rates in reverse proportion to per capital fiscal capacity of the jurisdiction in order to allow poorer jurisdiction to participate in grant.

In sum, the following are major factors need to be considered in designing formulas to woreda governments (Robin *et al*, 2009).

- 1. Simplicity:** Grant allocation should be based on objectives factors over which individual units have little control. The formula should be easy to understand, in order not to reward grants man ship.

2. **Incentive:** The design should provide incentives for sound fiscal management and discourages inefficient practices. Specific transfers to finance sub-national government deficits should not be made.
3. **Reach:** All grant financed programs create winners and loser's consideration must be given to identifying beneficiaries and those who will be Adversely Affected to determine to over all usefulness and sustainability of the programs.
4. **Safe Guiding of Grantor's Objectives:** Grantor's objectives are best safe-guarded by having grant conditions specify the results to be achieved (out-put based grants) and by giving the recipient flexibility in the use of funds.
5. **Affordability:** the grant program must recognize donor's budget constraints. These suggest that matching programs should be closed ended.
6. **Singular Focus:** each grant program should focus on a single objective.
7. **Accountability for Results:** the grantor must be accountable for the design and operation of the program. The Recipient must be accountable to the grantor and its citizens for financial integrity and results that is, improvements in service delivery performance. Citizen's voice and exit options in grant design can help advance bottom up accountability objectives.

**Specific Grant:** specific purpose or conditional transfers are intended to provide incentives for government to undertake specific program or activities. These grants may be regular or mandatory or discretionary or ad hoc. Accordingly there are various projects and specific grants to each Emerging Region. Basically aiming to support Regional governments to meet the balanced development goal (MoFA key Informant) according to the key informant there are various types of specific grant released to each region. The 1<sup>st</sup> one is PCDP (pastoral community development project) secondly, LIG (local investment Grant) and supporting service delivery like education, health by UN Agent of federal ministry of health and education.

According to Somali region balanced development unit key informant, capacitating woredas, LIG started in the year 2003 in Somali region funded by World Bank. As a starting point it begins its activity in Harshin woreda with an Amount of 2.5 million birr. Again regarding human capacity strengthening the regions get's support to Jijiga University from federal government in order to train human resource need of the region. More over the region also have a support program in human resource training with Jimma University to train 4 PhD students each year.

Regarding Health sector support, the UN is supporting the region through the agent of ministry of health there are also many other specific grants which include food security, water and large irrigation schemes etc. However, according to the key informant "a lot have to be done in order to achieve a balanced development objective with relatively developed regions in the country. In sum, conditional transfers typically specify the type of expenditure that can be financed (input-based conditionality). These may be capital expenditures, operating expenditure, or both. Conditional transfer may also require attainment of certain results in service delivery (output based conditionality).

#### **4.4. Borrowing**

In a decentralization system of Ethiopia domestic borrowing by regional government has been under conditional based while foreign borrowing is prohibited. The constitutional framework based on Proclamation No. 33/1992 gives a power to regional government to use borrowing as one source of income under justifiable reason however according to key informant using "borrowing as additional source of finance in the region is non-existent that is there is no attempt made to use borrowing as additional source of finance".

According to Smoke (2001), local government in many developing countries get most of their capital budget from intergovernmental transfers but some decentralization governments typically states provinces and large cities are able to borrow; in some cases such as Brazil and Colombia, there is direct and significant access to commercial banks and the bond market. In other cases such as India and Poland access is limited. The real challenge for fiscal decentralization is to develop spectrum of options to finance capital investment from grants and subsidized loans for poorer local governments and non self-financing projects. Where decentralized levels of governments are relatively strong efforts to develop direct access to capital markets makes sense.

**Table 4.4 subsidy assignment pattern from federal to region ( IN MIILION 000')**

<b>Subsidy Source</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2001</b>	<b>2002 Total</b>		<b>Average</b>
Central Tresurry	345.88	475.1	584	1154.2	1722.7	4281.88	856.376
Own Revenue	50	54	60.8	100.64	208.4	473.84	94.768
<b>Total Budget</b>	<b>395.88</b>	<b>529.1</b>	<b>644.8</b>	<b>1254.84</b>	<b>1931.1</b>	<b>4755.72</b>	<b>675.476</b>
Authorized Exped. Regional	171.1	249.4	306.3	819.2	1326.9	2872.9	574.58
Authorized Exeped.Local.Admin.	201.4	249.4	293.8	456.3	745.7	1946.6	389.32

Source; Bofed and others own computation

NOTE, the value only takes central treasury source excludind external loan and assistance

**Tabel 4.5 subsidy assignment trend from region to woreda**

<b>Budg.And Plnd Reve.</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2001 Total</b>	<b>Average</b>	
Regional.Transfer	171.600(85%)	217.100(86%)	261.400(89%)	616.800(8	1722.2	344.4
Planned Revenue	29.700(15%)	32.200(14%)	32.400(11%)	128.800(1	154.9	30.95
<b>Total Local Budget</b>	<b>201.400(100%)</b>	<b>249.400(100%)</b>	<b>293.800(100%)</b>	<b>745.700(1</b>	<b>1994.5</b>	<b>398.9</b>

source, bofed and others own computation

NOTE, the value only takes central treasury source excludind external loan and assistance

## CHAPTER FIVE

### CONCLUSION AND IMPLICATIONS

#### 5.1. Conclusion

Although the conclusion of this study are based on analysis of extensive fiscal decentralization measures or indicators basically approaching the issue from, 1<sup>st</sup> general, federal and regional government as unit of analysis and furthermore, the precise relation between regional cases study was made taking the regional, bureaus and woreda level of governmental as unit of analysis and made generalization standing on the noted analysis of data facts. Taking the case/ Somali region as unit of analysis, explicit attempt was made to preserve the wholeness, unity and integrity of the case so that the generalization process is not mechanical.

In general the capital budget expenditure share of each sector from the total sectoral budget shows significant increments. As already noted the data are variable and the period are too short to allow us made a strong conclusion, however, the current institutional setting in the region are less likely to drive cooperation and integration at all levels, especially compared to relatively developed region in terms of technical expertise and capacity to transform the socio-economic development initiatives in the region. On the other hand prioritizing capital budget for development related project remains weak.

The second observation clearly follows the first, which is the overall infrastructural and regional development index comparison, the data compares in all cases both with relatively developed and emerging regions, which finally shows the region registered (0.29819) which means the least compared at each index. Third the decentralized form of government structure in the region follows four tiers of government levels, which are, regional, zonal, woreda and kebele tier of government despite the improvement introduced to decentralize power, the region still suffers from lack of transparent public sector, limited financial institution (e.g. 5 banks), capacity both institutional and work force expertise, lack of political will to decentralize power due to prestige loss are the critical one. More specifically the conclusion of the study is as follows:

**Firstly**, the study, attempted to assess the enabling environment created to lay down a firmer foundation on which efficient and effective decentralization could be established. However, DLDP in the Somali region lacks almost all theoretical principles and conditions that are necessary to create a firmer foundation on which the program to provide a change to welfare improvement of a society. First, a number of explicit and implicit assumptions underlying public finance theory in general and fiscal decentralization in particular are violated.

The greatest challenge in the region is the structure and characteristics of decentralized institution which are so diverse across zones, woredas and Kebeles. The overwhelming majorities of woredas are centralized/ decentralized in which local governments is the creation of regional governments.

At regional level, sectoral offices take the lion share of own revenue sources which implies woredas tax bases are to be narrow to meet the budgetary requirements devolved to them. This provides an explanation of weak revenue raising effort of local government tied to limited capacity both in work force expertise and institutional one. In these context, most of woreda lack capacity, mainly due to too much concentration of capable professional and expertise at regional capital city with an intent to search for better service delivery.

The current institutional setting in the region remains stagnant and not well coordinated, which is characterized by weak formal institutions, capacity deficiency in its entire dimension. In these context local officials seems enjoying a higher degree of discretionary spending power due to lack of proper surveillance mechanism, such as auditing or other tools for accountability, the problem however requires a massive and through survey and investigation in the region. Furthermore, diverse fiscal performance across sectoral /bureau, woreda and zones indicates that there is underlying difference in economy size, institutional strength, geographical distribution of resources which invariably create heavy mismatch between expenditure responsibility and varied revenue generating capacity of woredas.

Consistent with the combination of high dependency on transfer and increased consumption for recurrent expenditure indicates that, there is low capital expenditure decentralization to lower tiers of government which indicates consumption in cost of infrastructure and institutional bottleneck.

From a national perspective the divergent revenue and expenditure share between regional and central government, suggests that there is clear pattern of revenue decentralization though the central government takes the lion share. With regard to expenditure share, the data provides an explanation for the fact that both regions and central governments are experiencing a long term trend towards higher spending in expenditure side though the pattern between recurrent and capital and by functional distribution did not show a clear pattern of increment or decreased trend.

In this context (1) capital expenditure shows still the center taking the lion share with notable changes which rose and fell (2) recurrent expenditure shows a more decentralized pattern with a trend (37% in 1993/94 to 76% in 2002 EFY) (3) there is varied fiscal performance across regions over time, that is, relatively developed regions are able to finance capital expenditure in surplus whereas emerging regions showing heavy dependency on the center only financing (10% to 20%) of expenditure responsibility assigned to them from own source of revenue (see expenditure share in light of own revenue section for detail).

## 5.2. Implications

This final section attempts to provide some thoughts on the implication of the findings both at national and regional level of analysis. However it should be remember that unfortunately, this short over view with limited time does not provide grounds for every aspect of consideration and it seems it's suggestive. Moreover, there are two main ways that a case study can produce generalized results, both depend on the way data are analyzed, these are by conceptualizing and developing preposition. In both cases the findings from a case study can be put forward as being potentially applicable to other cases. In these contexts some of thoughts may in fact show the situation in emerging regions.

Despite the small n-analysis, we can argue the extent that fiscal decentralization is more conducive to efficient service delivery is true. In this regard it is possible to deduce two related ideas which will help us to compare the arguments accordingly. **Firstly**, it happens, in some cases to face underpinned (corrupt practices), if there is no any internal jurisdictional computation, accountability and with fiscal incentives to rise own revenue. **Secondly**, fiscal responsibility is especially valid to the extent that states or regions must finance their expenditure out of their own source revenues at least at margin, so that they discourage corrupt practices. Building on the above noted arguments, we can deduce that, woreda to woreda; zone to zone competition is needed and can respond to efficiency enhancing and better to emphasize to decentralize the revenue sources and strengthening capacity which invariably enhance the fiscal responsibility.

At national level, close analysis of regional government capacity and dynamic way of expanding and mobilizing their potential resources is needed. In this regard adjustment need to emphasize or should spend more time thinking about both political and institutional building that underpin the emerging and sustainability of transparent public sector, rather than formal budget and static institutional rules that themselves are prone to evasion.

The research suggest that in order for theoretical cross-pollination to the real practice to be significant<sup>10</sup>, dynamic comparison need to be nested taking each specific regional state characteristics and exploring the complex interaction among both relatively developed and emerging regions, which include decentralization practices, institutional capabilities, economic size and demographic factors which may indicate for strong and concrete empirical investigation

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<sup>10</sup> On these points , see Wiebels, 2005 in which general views are discussed

and to devise workable mechanisms. As it was evident to quantify the different types of fiscal decentralization system is not an easy task, fiscal decentralization topic would require going beyond the simple formulation of a compressive indicator to measure diverse nature of fiscal decentralization while, also incorporating institutional factors and socio-economic development of regions. The following point will make the issue clear linking to theoretical arguments.

In this regard for example the literature in the area presents two complementing arguments, Nuria (2008, P.30) greater tax autonomy can lead, depending on the geographical distribution of economic activity and tax bases to larger horizontal fiscal disparities across regions, second, richer jurisdiction can have the ability to finance their expenditure need with little effort, while poorer regions may have to exert much greater tax effort with their residents to provide for their expenditure needs.

Especially where local or regional circumstance like institutional capability, weak economic size, and political circumstance are lacking, it could be appropriate if resource would be better spent on fostering political and institutional strengthening rather than reforming formal rules, which themselves, are subject to evasion.

Close analysis and attention need to be given to the structure of incentive built into inter governmental fiscal system, emphasizing capacity and political condition and at least provide strong motives and significant own revenue rising capacity operating in competitive political, economical and social environment among regional governments. This means, the subsidy or transfer system need to critically consider revenue raising capacities and expenditure need to basically ensure that different zones have the potential for financing comparable level of service at comparable tax rate. In this context the term "potential" is used because as it was evidence in the analysis section, zones and woredas shows a varied fiscal status and need not be compelled to behave uniformly. In this context to create conducive environment to private investment which invariably foster resource mobilization, increased accountability, access to revenue source should be matched as closely as possible to revenue need and expenditure responsibility.

At regional level, first a need to strengthen the institutional arrangement at grass root level should precede the actual devolution of services. The logic is that in the absence of capacity both human and own revenue rising (financial) it may be impossible to fully benefited from gains of decentralization. In this regard there is a need to identify the nature, capacity and the existing working system at each tier of government. Furthermore, the role and responsibilities of key stakeholders and relation of different tiers of government need to be clearly defined and nested

on systems, procedures, guidelines and reporting framework created or to be created before the commencement of the program.

More specifically, to empower woredas through the provision of technical as well as work force expertise both at federal and regional level may strength the institutional capability at local level. This requires institutional clarity and transparency to avoid coordination failures that lead to inefficient spending by local government that can aggravate macro-economic imbalance, instability and severe corrupt practices. To avoid such undesirable outcome there is a need for incentives and capacity building on top of institutional checks and balances to ensure prudence in sub national fiscal management.

The study already highlighted the presence of weak revenue base and generating capacity. In this context, introduction of new tariff rates may respond to the stagnant tax base valuation, however detail study need to be nested on the previous tax rates and studied critically considering major factors like, raising living cost, private investment crowding effect, and other potential considerations. Furthermore, both sectoral/woreda revenue sources should have a tax base that is relatively evenly distributed across jurisdiction. This helps to minimize fiscal disparities among woredas and reduces the burden put on equalization grants to allow a more uniform quantity and quality of services.

One of unforeseen by product of varied fiscal status among woredas and zones in the region is the problem of tax evasion, collection problems, valuation problems, poor tax administration and poor identification of wide revenue yielding bases, in this regard, the research suggests, increasing transparency in tax collection, strengthen data recording and retrieval systems, attracting qualified employees through incentive, working towards awareness creation in part of tax payers, increasing the objectivity of tax assessment and valuation procedures by extensive training in collaboration with the federal government may respond in gap identification and create a firmer foundation and maximize potential benefits of fiscal decentralization. Furthermore, improved valuation without improved collection could not bring about significant gains in yields critically some key collection led reforms may include: (Smoke 2001)<sup>11</sup>

- Legal provisions that broadly define liability
- Steps to make it easier for tax payer's to meet their obligations, such us more convenient payment points and simpler payment procedures.

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<sup>11</sup> For critical discussion of the point , See Smoke, 2001, " decentralization in developing country"

- Measures to enhance enforcement, such as stiff penalties for non-payment

Moreover, four particular problematic concerns remains on the revenue side discussed by Smoke (2001) appear compatible with the finding above and give some insight. These are: **1<sup>st</sup>** assigned revenues are almost never adequate to meet local expenditure requirements. This means the central governments transfer program are inevitably required. **Second** local government often use too many unproductive revenue sources that barely cover the cost of the collecting them. **Third** the same lack of attention to implementation in relation to service centralization also plays the revenue side. **Fourth** individual local revenue sources suffer from some serious design problems such as static basis overly complex structures and ineffective collection mechanisms.

In sum, to date little research has explored the empirical reference with regard to choices of revenue assignment, optimal tax autonomy, exploring the dynamic difference across each regional jurisdiction for similarity and difference in revenue raising, expenditure need and thematic area like the link between decentralization and economic growth (positive or negative link), gender, resource endowment, is an implication for focused regional case study to better understand each individual region could in fact be the way forward.

In conclusion, what matters most is that the institutional design of fiscal system needs to be critically strengthened rather than simply the reallocation of public resource to appropriate levels of government which will ultimately determine success or failure. Just as fiscal decentralization can be variously defined, so, too are there various approaches to implementing policies based on principles of fiscal decentralizations. To sum up the challenge is to devise an appropriately structured system that mandates and provides incentives for responsible local government fiscal behavior and enables the creation of a climate conducive to private investment and to develop the skills of local government employees to meet the requirements of the system and the abilities of central government officials to assist local governments in the process of their evolution to greater autonomy.<sup>12</sup>

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<sup>12</sup> Definition of Autonomy is close to various classic definitions of federalism. Riker (1964) defines states as "federal" if: (1) they have (at least) two levels of government, and (2) each level has "at least one area of action in which it is autonomous." The latter requirement must be formally guaranteed.

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Somali Region Bureau of Capacity Building (2008). Public sector capacity building, district level decentralization reports on existing situation of selected service, Nile Consulting Group Plc.

Somali Regional State *Annual performance Report 2010*, compiled by BoFED.

The Somali Regional State revised constitution (2002)

Transitional Government of Ethiopia (TGE) (1992). A proclamation to provide for the establishment of National/Regional self Government, Negarit Gazetta, 51<sup>st</sup> year, No.7 Addis Ababa Ethiopia

## Some Useful Internet Resources

- <http://www1.worldbank.org/publicsector/decentralization>
- <http://www1.worldbank.org/publicsector/LearningProgram/Decentralization.html>
- <http://isp-aysps.gsu.edu/papers/index.html>
- <http://www.brookings.edu/topics/federalism.aspx?page=3>
- <http://ww.elsevier.com/locate/econbase>
- <http://www.elsevier.com/locate/jue/journal> of urban economics

## Appendices

### Annex 1: Focus Group Discussion and Interview Preparation

*Understanding fiscal Decentralization and its implementations in Emerging Region: The case of Somali National Regional State.*

Dear Estimated higher level managers, cabinet members, planners of both the Federal Government and Somali Regional State the purpose of this interview and Focus Group Discussion is to understand how the implementation of fiscal decentralization is going on, problems encountered and what aspects of change and continuity in decentralization progress in the region and to recommend appropriate policy in place. Thus you are kindly requested to give full and genuine response which helps the researcher to come up with sound and relevant findings that in turn helps the region and the literature gap in the area.

The researcher would like to assure you that the entire data gathered will be used only for academic purpose and it's strictly confidential.

Thus, the genuine of the study depends on your full and accurate response in which you are kindly requested to respond objectively and frankly to those questions that go along with your duties and experience in the area.

**Note:** Writing your name is not required

- *When the question is open-ended please fill the answer with the language that best suit you.*

*Thank you in Advance!*

## **Theme 1: Revenue and Expenditure Assignments/Borrowing**

### **/Regional and Woreda Level Key Informants/**

The purpose of theme one will be to examine the performance of revenue generation, patterns and trends in expenditure assignment in light of own revenue and transfer assigned to region and woredas. Using key informant as a source the following major points will be examined.

1. Do local governments have access to sufficient aggregate resource to meet their basic responsibility?
  - Means to finance the activities they are required to finance
  - Causes of revenue deficiency
  - Measures taken to overcome the problem
2. What is the status of local own-source revenue?
  - Sources of revenue available?
  - Causes of difficulty in collection?
  - Are the bases of local and regional sources clearly defined?
  - Are the local source well structured and administered?
  - Do they result in acceptable revenue yield?
  - Generally problems encountered and measures taken
3. The expenditure responsibilities assigned to regions/local?
  - Does the region own revenue source adequately finance the expenditures
  - What expenditure responsibility to the region/woreda
  - Problems encountered and mechanisms adopted.
4. Does local government have any access through the public or private sectors to loans or capital investment?
  - Access to credit
  - Extent of borrowing
  - Difficulties in using the privilege
5. Generally decentralization progress in the region and fiscal decentralization compared to well-developed region in the country.

## **Theme 2: Shared Taxes and Inter-Governmental Transfer**

### **/Regional and Woreda Level Key Informants/**

The purpose of theme two will be to examine patterns of transfer to regional government. Using key informant region to woreda transfer will be examined using the following guide lines.

- Who designs the grant formula? Criteria used
  - Impact of the variables included?
  - The role of the region in determining the grant?
  - What aspects need to be considered compared to the other well developed regions?
  - Measure taken to assist less developed region especially in narrowing the inter-regional fiscal capacity?
  - Any guide line which helps in financial transfer to woreda?
1. Are the grant objectives precisely specified?
  2. Is there adequate revenue to discharge responsibilities?
  3. Is there any mechanism that should show the grant predictability?
  4. Does the grant formula state any ways of alleviating yearly fluctuations?
  5. Does the grant specify the choices of resource allocation to different sources or type of activity?
  6. Does the formula used easy to understand?
  - d. What especial consideration for less developed woreda
  7. Does the design put any incentive for sound fiscal management and discourage inefficient practices.
  8. Is the grant condition specifying the result to be achieved?
  9. Is there ways to check the recipient accountability for financial integrity and result that is improvement in service delivery performance?
  10. Which types of grants are block grants or specific grants? Do the criteria used differ?

### **Theme 3: Planning, Budgeting and Community Participation in the Region**

The following general interview and focus group discussion are prepared to see some of important supporting activities in strengthen decentralization in general and the fiscal decentralization in particular in the region.

1. How many levels of administration are used for planning and budgeting? What is budget process in the region?
  - e. Should the No of levels reflect the overall structure of public sector as laid out in the constitution?
  - f. Coordination across levels?
2. How is decentralized planning process coordinated and integrated with higher levels? What is planning process in the region?
  - Heavily dependency on the center/access to detail information on the centered.
  - Does each responsibility of each level of governmental clearly plan articulated because different of government will plan similar activities.
  - Decentralized planning adequately linked to the budgeting process
3. Planning and budgeting in the region? What is Performance in budgeting process?
  - A. Accountability for effective and efficient use of budget in the woreda?
  - B. Budget preparation time and budget appropriation.
  - C. The role and power of woreda in budget appropriation
  - D. Pattern of budget spending/ budget control system
  - E. Sect oral allocation of budget.
  - F. Adequacy of budget transfer to region.
  - G. Execution or efficiency of the local government for planned service delivery.
4. Capacity and community participation in the Region?
  - Is there any involvement of community in the process of planning and budgeting/dose the system designed encourage community participation.
  - The reason for low community participation.
  - Capacity of local government/financial capacity
5. Finally, in order decentralization in general and fiscal decentralization in particular to be effective what problems are critical as emerging region and what policy option do you recommend?

**Theme 4:** The following information are intended to be collected from secondary sources such as MoFED, BoFED, Regional constitution, Regional planning documents, Articles, magazines, etc.

1. When did decentralization starts? When did DLDP starts?
2. The local level of Government Consists of \_\_\_\_\_ tiers of government.
3. How many woreda and municipality in the Region?
4. Allocation of responsibilities to tiers of government.
  - The state have a responsibility of to \_\_\_\_\_ area
  - The woreda have a responsibility to \_\_\_\_\_ area
  - The zones have a responsibility to \_\_\_\_\_ area.
  - The kebele have a responsibility to \_\_\_\_\_ area.
5. Legal frame work that is structures, powers and duties and responsibilities
6. Capacity of the local government
  - Financial capacity
  - Qualifications, educational level, and gender composition.
  - Profession level of council members of regional, zonal and woreda level government.
7. Sectoral allocation of budget and compared to well developed region.
  - Education       Water
  - Health             Road
  - Agriculture
8. Overall socio-economic and demographic profile of Somali Region
  - Socio-economic infrastructure in the region
  - Population characteristics and spatial distribution
  - Transport and communication
  - Energy and financial institutions
  - Natural resource in the region
  - Municipal decentralization
  - Clean drinking water coverage

## **Theme 5: Interview with key Information at Federal Level**

1. Federal-Regional relationship
  - federal assistance to region especially as Emerging region
  - Issue of horizontal imbalance among regions, especially in capacity of collecting adequate revenue to meet expenditure assigned to them
  - problems encountered, measures taken /to be taken
2. Grant formula designing process
  - Who designs the grant formula? Criteria used
  - Role of regions in the design of the grant
  - Criteria used and weights assigned to variables
3. Decentralized planning and budgeting
  - Coordination across levels
  - Issues of capacity in planning and budgeting, especial assistance given to them.
  - Problems encountered
4. Generally in order Decentralization to be effective what critical aspects are important to be considered both at federal and in the region?

## Annex 2. Revenue Assignment in Ethiopia

Central	Regional Government	Central and Regional Government
Duties, taxes and other charges levied on the importation and exportation of goods.	Personal income tax collected from employees of the regional government and employees other than those covered under sub article 2 and 4 of this article	Profit tax, personal income tax and sales tax collected from enterprises jointly owned by the central and government and regional originations
Personal income tax collected of the central government organizations	Rural land use fee	Profit tax, dividend tax and sales tax collected from organization
Profit tax, personal income tax and sales tax collected from enterprises owned by the central government	Agricultural income tax collected from farmers not in corporate in an organization	Profit tax royalty (sic) and rent of land collection from large scale mining and any petroleum and as operation
Taxes collected from national lotteries and other chances winning prizes	Profits and sales tax collected from individual traders,	
Taxes collected on income from, air train and marine transport activities	Tax collected from rent of house and properties owned by the regional Government	
Taxes collected from rent of houses and properties owned by the central government	Profit tax, personal income tax and sales tax collected from enterprises owned by the regional governments	
Charges and fees on license and services issued or rendered by the central Government	Profit tax, personal income tax and sales tax collected from enterprise owned by the regional Governments	
	Without prejudice to sub-article 4© of this article, income tax, royalty (sic) and rent of land collected from mining activities,	

### **Annex 3. Powers and Functions of the State**

1. All powers and function, except these the constitution of Ethiopian federal democratic republic expressly gives to the federal government or concurrently gives to the federal and states governments. Shall be vested in the state.
2. Consistent with sub-article 1 of this article, the state shall.
  - b. Formulate and execute the set policy, strategy and plan with respect to economic and social development.
  - c. Issue and implant the stat's constitution and other laws.
  - d. Administer land and other natural resources in accordance with the law issued by the federal government.
  - e. Establish a state administration that best advance self-rule. Build and democratic order prevailing the supremacy of the laws, protect and defend the fede4ral and this constitution.
  - f. Based up on the national standards of educational training, and experience qualification, enact and implant law concerning the administration and conditions of work of the stats is Civil servants.
  - g. Establish and administer the states policy fore, maintain peace and security of the state.
  - h. Without prejudice to article 28 of the constitution of the federal democratic republic of Ethiopian given administer of pardon based on law.
  - i. Levy taxes and collect duties on revenue sources granted to the state, and prepare, approve and administer the state budget.
  - j. Levy and collect income taxes on civil servants and employees of organizations.
  - k. Levy and collect agricultural income tax
  - l. Determine and collect payment from the use of land
  - m. Levy and collect taxes on income of houses and other properties owned by private person, tax and collets rents on the income of houses and properties owned by private person, tax and collect rents on the income of houses and properties owned by the state.
  - n. Levy and collect income profit, sales and excise taxes on enterprise owned by the state.
  - o. Jointly with the federal government
    - i. Share in accordance with the law, profit tax, personal income tax, sales and excise taxes on enterprise jointly established.
    - ii. Share in accordance with the law, taxes on profits and dividends of share holders.
    - iii. Share in accordance with the law, taxes on income derived from large scale mining and all petroleum and gas operations and royalties on such operation.
  - p. Determine and collect payment on licenses and services given by the state administrative organ.
  - q. Fix and collect royalties for use of forest resources.
  - r. Declare state wide state of emergency when ever any natural disaster or on epidemic occur

## **Annex 4: Some of Consulted Key Informant at Regional and Federal Level**

### **I. Key informant Bureau of Finance and Economic Development**

1. Umar Haji (BOFED Bureau Head)
2. Muktar Mohamed (BOFED Deputy Head)
3. Mhaad Daud (UN volunteers Regional Development Planning and Regional president advisor)
4. Solomo G/medhin (BOFED Government expenditure Disbursement Head)
5. Ahmed Mahmudh (Development plan coordination office Head)

### **II. Key Informant from Revenue Authority Bureau**

1. Ahmed Deeq (Revenue Authority Bureau Head)
2. Ismail Ibrahim Said (Revenue sub-process owner )
3. Sultan Mohamed (ICT process owner)
4. Berlim Mohamed (Tax registration officer)

### **III. Key Informant Form Capacity Building Bureau**

1. Abdikadir Mohamed Farah (CBB Bureau Head)
2. Mohamed Umer (CBB Deputy Bureau Head)
3. Hassen Mohamed (Program development and core process owner)

### **IV. Key Informant at Federal Level**

1. Bertukan Mohamed (MEDAC fiscal transfer Officer)
2. Ato Shanqo Desallenge (Ministry of Federal Affairs Balanced Development Directorate For Emerging Regions)
3. Ato Sewenet Chekol (Ministry of Federal Affairs Higher Advisor for Balanced Development Directorate for Somali Region)

**Annex 5: Distribution of revenue by classification and levels of government central/regional ( IN MILLION 000')**

<b>General Government</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002 Total</b>	<b>Average</b>	<b>%Share Average</b>	
Tax Revenue	10906	12398	14158	17353	23800	28998	43315	<b>150928</b>	21561.14	-
Direct Tax(domestic)	3431	3930	4461	5167	7014	9858	14903	<b>48764</b>	6966.286	-
Indirect Tax	2200	2721	3111	3997	5092	7325	10727	<b>35173</b>	5024.714	-
Non Tax	3010	3184	5371	4444	5993	11176	10546	<b>43724</b>	6246.286	-
<b>Total Revenue</b>	<b>13917</b>	<b>15582</b>	<b>19530</b>	<b>21796</b>	<b>29793</b>	<b>40174</b>	<b>53861</b>	<b>194653</b>	27807.57	-
<b>Federal Government</b>										
Tax Revenue	8741.7	9711.8	11303.7	14119.5	19709	23215	35310.2	<b>122110.9</b>	17444.41	0.88
Direct Tax(domestic)	1632.1	1792.1	2182.8	2775.2	3789.5	5436.5	8801.1	<b>26409.3</b>	3772.757	0.54
Indirect Tax	1833.8	2173.4	2533.9	3155.7	4226.5	5946.4	8824.3	<b>28694</b>	4099.143	0.82
Non Tax	2086.9	2299.5	3829.2	3293.2	4597.7	8707.8	8718.7	<b>33533</b>	4790.429	0.77
<b>Total Revenue</b>	<b>10828.6</b>	<b>12011.3</b>	<b>15132.9</b>	<b>17412.7</b>	<b>24306.7</b>	<b>31922.8</b>	<b>44028.9</b>	<b>155643.9</b>	22234.84	<b>0.58</b>
<b>Regional Government</b>										
Tax Revenue	2164.7	2686.1	2854.9	3234.1	4091.7	5792.5	8007.9	<b>28831.9</b>	4560.167	0.22
Direct Tax(domestic)	1798.4	2138	2278.1	2392.7	3225.8	4431.8	6104.8	<b>22369.6</b>	3195.657	0.46
Indirect Tax	366.3	548.1	576.8	841.4	865.8	1360.7	1903.1	<b>6462.2</b>	923.1714	0.18
Non Tax	923.5	884.8	1542.3	1150.6	1395.6	2468.3	1827.3	<b>10192.4</b>	1456.057	0.23
<b>Total Revenue</b>	<b>3088.3</b>	<b>3570.9</b>	<b>4397.2</b>	<b>4384.7</b>	<b>5487.3</b>	<b>8260.8</b>	<b>9835.1</b>	<b>39024.3</b>	5574.9	<b>0.42</b>

source. Mofed general government revenue quarterly performance and others own computation

**Annex 6;** Distribution of expenditure share by function and levels of government central/ regional ( MIN MILLION 000')

<b>General Government</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>Total</b>	<b>Average</b>	<b>average%share</b>
Ecnomic Development	3127.5	6364.2	8210.5	9823	14062.5	16623.3	20605	<b>78816</b>	<b>11259.4</b>	
Social Development	1655.5	1682.6	2167.1	3092.2	3343	4451.9	7221.5	<b>23613.8</b>	<b>3373.4</b>	
General Developmwent	617.2	318.5	407.8	917.2	871.4	1637.4	2120.2	<b>6889.7</b>	<b>984.243</b>	
<b>Total Capital Expenditure</b>	<b>5400.2</b>	<b>8365.3</b>	<b>10785.4</b>	<b>13832.4</b>	<b>18276.9</b>	<b>22712.6</b>	<b>29946.7</b>	<b>109319.5</b>	<b>15617.1</b>	
General service	2596	2896	3513	4068	5675	7261	8762	<b>34771</b>	<b>4967.29</b>	
Ecnomic service	1361	1726	2109	2201	3111	3829	3979	<b>18316</b>	<b>2616.57</b>	
Social service	3253	3839	4996	6198	8662	10249	12355	<b>49552</b>	<b>7078.86</b>	
<b>Total Recurent Expend.</b>	<b>7210</b>	<b>8461</b>	<b>10618</b>	<b>12467</b>	<b>17448</b>	<b>21339</b>	<b>25096</b>	<b>102639</b>	<b>14662.7</b>	
<b>Total Expenditure</b>	<b>12610.2</b>	<b>16826.3</b>	<b>21403.4</b>	<b>26299.4</b>	<b>35724.9</b>	<b>44051.6</b>	<b>55042.7</b>	<b>211958.5</b>	<b>30279.8</b>	
<b>Federal Government</b>										
Ecnomic Development	2057.1	4477.6	6048	7207.8	9724.4	11027.9	15318.9	<b>55861.7</b>	<b>7980.24</b>	0.73
Social Development	1295.8	1274.2	1573.5	2451.9	280.7	2901.6	5323.1	<b>15100.8</b>	<b>2157.26</b>	0.88
General Developmwent	129.1	112.3	166.9	504.7	318.7	262.6	350.2	<b>1844.5</b>	<b>263.5</b>	0.26
<b>Total Capital Expenditure</b>	<b>3482</b>	<b>5864.1</b>	<b>7788.4</b>	<b>10164.4</b>	<b>10323.8</b>	<b>14192.1</b>	<b>20992.2</b>	<b>72807</b>	<b>10401</b>	0.7
General service	873.6	1014.4	1123.5	1243	1487.7	1704.3	2589.3	<b>10035.8</b>	<b>1433.69</b>	0.36
Ecnomic service	377.9	275	316.1	372.9	578.3	774.9	812.1	<b>3507.2</b>	<b>501.029</b>	0.2
Social service	625	695.3	886.1	1171.1	1696	2181.1	2885.1	<b>10139.7</b>	<b>1448.53</b>	0.2
<b>Total Recurent Expend.</b>	<b>1876.5</b>	<b>1984.7</b>	<b>2325.7</b>	<b>2787</b>	<b>3762</b>	<b>4660.3</b>	<b>6286.5</b>	<b>23682.7</b>	<b>3383.24</b>	0.24
<b>Total Expenditure</b>	<b>5358.5</b>	<b>7848.8</b>	<b>10114.1</b>	<b>12951.4</b>	<b>14085.8</b>	<b>18852.4</b>	<b>27278.7</b>	<b>96489.7</b>	<b>13784.2</b>	<b>0.47</b>
<b>Regional Goverment</b>										
Ecnomic Development	1070.4	186.6	2162.5	2615.2	4338.1	5595.4	5286.1	<b>21254.3</b>	<b>3036.33</b>	0.27
Social Development	359.7	408.4	593.6	640.3	962.3	1550.3	1998.4	<b>6513</b>	<b>769.489</b>	0.22
General Developmwent	488.1	206.2	240.9	412.5	552.7	1374.8	1770	<b>5045.2</b>	<b>720.743</b>	0.74

<b>Total Capital Expenditure</b>	<b>1918.2</b>	<b>801.2</b>	<b>2997</b>	<b>3668</b>	<b>5853.1</b>	<b>8520.5</b>	<b>9054.5</b>	<b>32812.5</b>	<b>4687.5</b>	<b>0.3</b>
General service	1722.2	1881.9	2389.4	2824.7	4187.5	5557	6173	<b>24735.7</b>	<b>3144.5</b>	0.64
Ecnomic service	983.1	1434.7	1782.4	1827.9	2532.5	3053.9	3167.2	<b>14781.7</b>	<b>2111.67</b>	0.8
Social service	2628	3143.8	4109.8	5027	6966.4	8068.3	9470.1	<b>39413.4</b>	<b>5630.49</b>	0.8
<b>Total Recurent Expend.</b>	<b>5333.3</b>	<b>6460.4</b>	<b>8281.6</b>	<b>9679.6</b>	<b>13686.4</b>	<b>16679.2</b>	<b>18810.3</b>	<b>78930.8</b>	<b>11275.8</b>	<b>0.76</b>
<b>Total Expenditure</b>	<b>7251.5</b>	<b>7261.6</b>	<b>11278.6</b>	<b>13347.6</b>	<b>19539.5</b>	<b>25199.7</b>	<b>27864.8</b>	<b>111743.3</b>	<b>15963.3</b>	<b>0.53</b>

source: Mofed general government expenditure quarterly performance and others own computation

Note: The figure exclides defence, external loan and assistance(Only domestic performance)

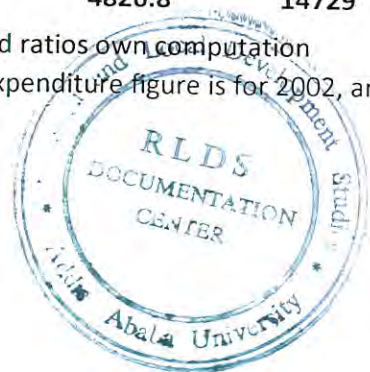
Annex 7; Expenditure share in light of own revenue by function for individual regions ( IN MILLION 000')

Regions	Cappita.Exped.	Recc.Exped.	Total Exped.	Own Revenue	Rev.Exped.Ratio	Rev.capit.Ratio	Rev.recre.Ratio
Tigrai	172.4	1153.7	1326.1	605.06	0.45	-	0.52
Afar	183.5	456.4	639.9	68.71	0.1	0.37	0.15
Amhara	860	3600.3	4520.3	950.11	0.21	-	0.26
Oromiya	1316.3	5090.2	6406.5	1086	0.16	-	0.21
Somali	641.2	1024.7	1665.8	208	0.06	0.15	0.09
Benishangul.Gu	70.7	306.4	377.1	41.47	0.1	0.58	0.13
SNNP	996.8	2932.9	3929.6	670.58	0.17	0.67	0.22
Gambela	39.5	274.8	314.2	33.71	0.1	0.85	0.12
Harari	87.3	87	174.3	42	0.24	0.48	0.48
Diredawa	75.8	126.2	201.9			-	-
<b>Total</b>	<b>4826.8</b>	<b>14729</b>	<b>19555.8</b>	<b>3497.64</b>	<b>0.17</b>	<b>0.74</b>	<b>0.23</b>

Source; mofed and ratios own computation

Note; while the expenditure figure is for 2002, and own revenue data is only for the year 2001 efy

and the value - indicates surp



## DECLARATION

I, the undersigned, declare that this thesis entitled “Fiscal Decentralization in Somali National Regional State”, is my original work and has not been presented for a degree in any other university or organization, and that all sources of materials used for the thesis have been duly acknowledged.

### **Declared by:**

Name: Demelash Neda Mheretu

Signature: 

Place: Addis Ababa University

Date: July 2011

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

### **Approved by:**

Name: Professor Tegegne Gebre-Egziabher

Signature: 

Date: July 2011