What One Hand Giveth, the Other Hand Taketh Away

Ethiopia's post-1991 decentralisation reform under neo-patrimonialism

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Abstract

Unlike the previous heavily centralised neo-patrimonial Ethiopian regimes, the EPRDF (Ethiopian Peoples' Revolutionary Democratic Front) has introduced an ethnicity-based decentralised federal arrangement that aims at developing autonomous, accountable and responsive regional governments that have the power to develop and implement their own policies for providing public goods and services; raise and administer revenue; and finance expenditure from their own sources. Subsidies from the central government and borrowing from local financial markets supplement regions' financial resources. Different political parties are allowed to compete and participate at both central and regional government levels and regions are given full power to manage their public finance and human resource management systems. Such good intentions, which were reflected in the transitional government's actions during its early years, along with favourable political conditions that allowed the inclusion of ethnic political parties in the political process, marked the regime's move towards democratic decentralisation based on devolution.

However, on the basis of field research into the experience of three regional governments, Tigray, Amhara and Benshangul-Gumuz, this study reveals that regional expenditure and revenue assignment are guided by detailed policy directives and specific implementation instructions from the central political leadership. The regions have little autonomy in deciding their sectoral expenditure plans, determining their tax base and rates, managing their public finance and human resource administrative systems, setting policies that differ from those of the central government, and attending to their constituencies' needs and aspirations. During the past decade, regions' dependency on annual central government subsidies has continued unabated, their capacity to finance their expenditure from their own sources shows few changes, and their pattern of intersectoral expenditure allocation remains unchanged. Regional governments rarely borrow from the internal capital market to finance regional development projects. The EPRDF has also changed its actions from inclusive politics to exclusionary politics, controls all three branches of government, has packed the bureaucratic structure with its loyal political cadres and has recentralised the Ethiopian state. Thus, another, new, neo-patrimonial political system has emerged in Ethiopia.

In order to understand the derailment of Ethiopia's decentralisation reform, this study links the three elements of decentralisation and investigates the impact of the political and administrative power constellations in Ethiopia's decentralised arrangement of intergovernmental fiscal relations reform. On the basis of the empirical findings, the study argues that conventional decentralisation theories (the welfare economics model, intergovernmental relations school, institutional approach, new public management theory and theory of democratic decentralisation) cannot explain the implementation of decentralisation reforms under a neo-patrimonial regime. Then, drawing on the study's findings, it presents a theory to explain decentralisation under a neo-patrimonial regime. It discusses issues relating to the particular circumstances that led to decentralisation reforms in Ethiopia, and the emergence of another, new, neo-patrimonial regime, which led to derailment of the original decentralisation reform and redefinition of decentralisation to serve the purpose of reproducing the neo-patrimonial regime. The study reflects that neo-patrimonial regimes initiate decentralisation reforms with some generally accepted justifications, especially proclaiming that they want to undo the legacy of centralised administration. Nonetheless, the reforms are derailed because the regimes cannot throw off old-time-honoured habits of centralised and hegemonic rule. Far from achieving the results expected by the conventional decentralisation theories, under neo-patrimonialism, the formal decentralisation reform is neither revoked not actualised as designed, but is effectively used by the central political leadership to keep sub-national governments' administrative machinery afloat and sustain upward accountability, vertical and horizontal imbalances, and traditional clientelism.

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Abbreviations

AAPO	All Amhara People's Organisation
ADLI	Agricultural Development Led Industrialisation
AEUP	All Ethiopian Unity Party
ANDM	Amhara National Democratic Movement
BGPDUF	Benshangul-Gumuz Peoples' Democratic Unity Front
COEDF	Coalition of Ethiopian Democratic Forces
COPWE	Commission to Organise the Party of the Working People of Ethiopia
CUD	Coalition for Unity and Democracy
EDU	Ethiopian Democratic Union
EPDM	Ethiopian People's Democratic Movement
EPLF	Eritrean People's Liberation Front
EPRDF	Ethiopian Peoples' Revolutionary Democratic Front
EPRP	Ethiopian People's Revolutionary Party
ESDP	Education Sector Development Programme
ESRDF	Ethiopian Social Rehabilitation and Development Fund
EU	European Union
GDP	Gross Domestic Product
GTZ	German Technical Cooperation
HSDP	Health Sector Development Programme
IMF	International Monetary Fund
MEDaC	Ministry of Development and Cooperation
MEFF	Macroeconomic and Fiscal Framework
MEISON	All-Ethiopian Socialist Forces
MOFED	Ministry of Finance and Economic Development
MOPED	Ministry of Planning and Economic Development
MP	Member of Parliament
MTEF	Medium-Term Expenditure Framework
NDI	National Democratic Institute

NGO	Non-Governmental Organization
NPM	New Public Management
OLF	Oromo Liberation Front
OPDO	Oromo People's Democratic Organisation
PADETES	Participatory Demonstration and Training Extension System
PEP	Public Expenditure Programme
PIP	Public Investment Programme
PMAC	Provisional Military Administrative Council
PMO	Prime Minister's Office
SDP	Sector Development Programme
SEPDC	Southern Ethiopia Peoples' Democratic Coalition
SEPDM	Southern Ethiopian Peoples' Democratic Movement
SIDA	Swedish International Development Agency
SNNPRS	Southern Nations, Nationalities and Peoples Regional State
TPLF	Tigray Peoples' Liberation Movement
UNDP	United Nations Development Programme
USAID	United State Agency for International Development
VAT	Value Added Tax
WPE	Workers' Party of Ethiopia

1 Intergovernmental Fiscal Relations in Ethiopia: Terms of the Discussion

1.1 Introduction

During the last six decades, many African countries have experienced four phases of decentralisation reform. The first phase (from 1945 to the early 1960s) was during the late colonial period and introduced a system of local government with elected councils, local provision of social and infrastructure services and systems of local taxes and grants. In most of the countries, the short-lived reform measure was dismantled immediately after independence. The second phase (from the early 1960s to the late 1970s) was the initial post-colonial reform for rapid economic development through central planning and the single-party State. The type of decentralisation was administrative deconcentration coupled with authoritarian regimes.

The third phase (from the late 1970s to the late 1980s) was decentralisation pushed by structural adjustment programmes (SAPs). The reform devolved expenditure responsibilities to local governments, but without giving them the necessary financial and human resources. It had the objective of mitigating the economic crises in many African countries by cutting back central government expenditures. Like the earlier reform, the formal decentralised structures served as an extension of central government in the field (Enemuo, 2000: 185; Kasfir, 1983: 32; Mawhood, 1983: 23; Olowu and Wunsch, 2004: 29-40). The fourth phase (from the 1990s to the present) is a renewed orientation towards decentralisation policies in many African countries and emphasises the devolution of fiscal, administrative and political power from the centre to sub-national governments. An integral part of the latest phase of decentralisation is intergovernmental fiscal relations reform, which involves expenditure assignment, revenue assignment, intergovernmental fiscal transfers and sub-national borrowing (Brosio, 2000; Olowu, 2001; Olowu and Wunsch, *op. cit.*)

The literature on decentralisation in both developing and developed countries puts forward different decentralisation theories that suggest and justify intergovernmental fiscal relations reform on economic and/or political grounds. The welfare economics model, which proposes separate expenditure and revenue responsibilities among levels of government, presents the classic argument that decentralisation leads to better matching of resources with diverse preferences, competition between and autonomy of jurisdictions, and a closer nexus between expenditure decisions and the beneficiaries of that expenditure (Musgrave, 1959, 1989; Oates, 1972; Tiebout, 1956). The intergovernmental relations school, which suggests shared responsibilities and cooperation between levels of government, argues that decentralisation, especially localised provision of local public goods, enhances allocation efficiency and stimulates local economic development, better participation and greater accountability (Helmsing, 1991; Shah, 1999; Smoke, 1994). The institutional approach states that decentralisation places decision-making authority closer to the people, creates an incentive structure and minimises information and transaction costs. It asserts that success in decentralisation reforms depends on institutional arrangements (Azfar *et al.*, 1999; Litvack *et al.*, 1998; Tanzi, 2001). The new public management theory maintains that economic efficiency is primarily a function of market decentralisation, and suggests transfer of public services provision responsibilities to the market through contracts. It recommends a limited role for levels of government in economic activities and debureaucratising of the government apparatus (Bovaird *et al.*, 2001; Minogue, 1998; Wallis and Dollery, 2001). The theory of democratic decentralisation focuses on local political processes and argues that decentralisation can lead to local-level accountability of politicians and officials and active participation of the local community (Manor, 1999; Olowu and Wunsch, 2004).

As the next chapter elaborates, the above decentralisation theories make major assumptions and provide proposals and justifications for intergovernmental fiscal relations reform. However, despite the sound theoretical assumptions, which suggest that reforms lead to better matching of resources with diverse preferences; enhance lower tiers of government autonomy, accountability and responsiveness; maintain a closer tie between expenditure decision-making and the beneficiaries of that expenditure, and so on, intergovernmental fiscal relations reform in many parts of Africa have made little progress. The literature indicates that reforms have neither given sub-national governments real autonomy to decide levels of expenditure, revenue and borrowing, nor reduced their dependence on central government transfers (Bird, 2000; Brueckner, 2000; Prud'homme, 1995; Shah, 1998; Smoke, 2000; Tanzi, 2001; Winkler, 1994).

Recent literature on decentralisation particularly provides more evidence of the limited success of new decentralisation reforms. Wunsch (2001: 278), referring to recent devolution reforms in Africa, affirms that the centre retains its historic control over resources flowing to the periphery and that the situation has sustained patron-clientage and balance of power arrangements that maintain central control. Eaton (2001), analysing Argentina and the Philippines, points out that decisions to decentralise are neither fully reversed nor implemented as designed; instead, there are moves towards re-centralisation. Smoke (2003: 7) indicates the risk of path dependency by stating that 'many current efforts do look more like genuine devolutions than previous generations of more "centralised" African decentralisation, but the influence of earlier approaches and attitudes is still evident.' Olowu and Wunsch (2004) assert that implementation of new decentralisation reforms shows mixed results but state that, by and large, decentralisation has not provided lively local governing units in Africa. Helmsing (2005: 1) appreciates advancement of decentralisation in sub-Saharan Africa, but concludes that 'even if local governments would want to act in the local public interest, they would have few means and limited room for manoeuvre to do so.'

Given the disappointing outcomes, there is extensive ongoing debate on the desirability of intergovernmental fiscal relations reform and its management. There are two sides to the debate. The first questions the relevance and applicability of decentralisation theories, which lay foundations for assignment of functions and finance, in the context of developing countries. It warns about the potential fallacy of basing policy prescriptions for developing countries on a theory inspired by observation of fiscal affairs in highly developed countries, and points to the danger of mechanical application of traditional theories of public finance (Brueckner, 2000; Prud'homme, 1995; Smoke, 1994). The second perspective maintains that, if properly applied, conventional theories of decentralisation can help; it argues that failure in design and implementation of the reforms is due to weakness and/or absence of institutional arrangements. Some of the institutional elements include an enabling legal framework, an effective political system, strong local capacity, citizen participation, civil society organisations, and a country's/region's initial natural resource endowment, length of experience with decentralisation, accountability mechanisms, information system, and incentive structure (Azfar *et al.*, 1999; Litvack *et al.*, 1998; McLure, 1995; Parker, 1995; Tanzi, 2001).

This study shares the view that bottlenecks created by institutions govern or impact upon the design and implementation of intergovernmental fiscal relations reform. However, it differs from the studies that focus on institutional analysis in that it concentrates only on selected elements of the political and administrative institutional arrangements in a neo-patrimonial regime setting. This study suggests that as neo-patrimonialism is a system of personalised rule through patron-client relationships in the presence of modern bureaucracy and a modern political system, it is imperative to focus on political and administrative institutional arrangements when examining decentralisation reforms enacted by such regimes.

As in many African countries, reform of intergovernmental fiscal relations in Ethiopia is not meeting the goals of matching diverse needs with available resources and creating accountable, responsive and autonomous regional governments. During the past decades, notwithstanding the strong orientation towards more devolved forms of decentralisation as provided in the 1991 Transitional Charter and the 1995 Constitution, Ethiopia's experience shows increasing central control over revenue and expenditure assignments; continued high degree of regional governments' dependence on central government transfers; lack of diversity in patterns of expenditure allocation and revenue collection among regions; and absence of borrowing by regional governments.

This study analyses why Ethiopia's intergovernmental fiscal relations reform has derailed and focuses on institutional arrangements to unravel the factors affecting the design and implementation of the reform. It contributes to the ongoing debates on intergovernmental fiscal relations by analysing the applicability of the theories of decentralisation in Ethiopia and examining the validity of the proposition of this study – that is, that Ethiopia's political and administrative institutional arrangements govern the design and implementation of the decentralisation reforms.

This study has two peculiar features. First, unlike many studies on decentralisation in sub-Saharan Africa that independently analyse political, administrative or fiscal decentralisation, it attempts to link the three elements of decentralisation and investigates the impact of the political and administrative power constellations in Ethiopia's decentralised intergovernmental fiscal relations reform. Second, the process of analysing Ethiopia's decentralisation is also different to some extent. Initially, the study constructs a conceptual framework that sets selected concepts from administrative and political institutional arrangements as independent variables and the four elements of Ethiopian intergovernmental fiscal relations as dependent variables. Then, it uses the five conventional decentralisation theories to confront the Ethiopian decentralisation trends and practices. Contending that the conventional decentralisation theories are not capable of explaining Ethiopian empirical decentralisation trends, it demonstrates that the political and administrative institutional arrangements have undermined Ethiopia's decentralisation reform. Finally, the study pinpoints an alternative decentralisation theory based on the existence of a neo-patrimonial regime that explains the link between the fiscal, administrative and political dimensions of Ethiopia's post-1991 decentralisation reform.

1.2 Evolution of Ethiopian State – Historical Synopsis of Its Political Economy

Ethiopia has a complex socio-cultural political system encompassing diverse and historically autonomous ethnic groups. The 1984 Ethiopian Population and Housing Census reported around 91 ethnic groups (56 of which had populations of more that 20,000) falling into four major language categories: Cushitic (Hamitic), Omotic, Semitic and Nilo-Saharan. These diverse ethnic groups have undergone different forms of interaction (migration, conquest, assimilation). Historical accounts indicate that the Ethiopian state originated over three thousand years ago (Harbeson, 1988; Schwab, 1985). We can divide the evolution of the Ethiopian state into five periods.

Parcelised sovereignty

This period, running from the first century to the mid-nineteenth century AD, was marked by interaction between sovereign constituents. It witnessed four historical epochs. The first was the Kingdom of Axum, which flourished in northern Ethiopia from the first century to the seventh century and was decimated in 970 AD by hostile neighbouring groups. The core of the kingdom was the highlands of Tigray and its sphere of control stretched through Eritrea down to the Red Sea coast.[1] The period was distinguished by interaction between different ethnic groups as well as introduction of Christianity and the feudal mode of production in northern Ethiopia. The second epoch saw the emergence of the Zagwe and Abyssinian dynasties, or the highland Christian kingdom. Pushed south by Persians and Muslim Arabs, the remnants of the Axum kingdom formed the Zagwe dynasty. With its capital at Lasta (now in Amhara regional state), this dynasty ruled for around 135 years.[2] Amhara kings from Shoa, who came to power in 1270, dominated the Abyssinian dynasty for three centuries. During the fourteenth and fifteenth centuries, the dynasty subdued the independent Amhara and Tigray kingdoms and extended the Amhara sphere of influence over a wide area. Amharic became the official language and Orthodox Christianity the official religion in northern Ethiopia.

The third historical epoch was the Oromo expansion during the sixteenth century. This pivotal population movement in the country's history changed the culture, demography and political geography of Ethiopia. The Oromo spread out to the central, northern, eastern and western parts of Ethiopia; they entered directly into the mainstream of historical Abyssinian life and politics.[3] The fourth epoch was the Era of Princes (*Zemene Mesafint*), roughly from the mid-1770s to the mid-nineteenth century. During this time, centralised political leadership hardly existed and political power was in the hands of regional princes and nobles, who marshalled their forces and intensified their struggle for power. The period was marked by war between changing constellations of Amhara, Tigray and Oromo warlords in northern Ethiopia (Bahru, 1991; Keller, 1988; Levine, 1974).

The political history of the old Ethiopian empire is marked by the absence of a centralised political structure from the first century to the mid-nineteenth century and the existence of endemic competition and military struggle between diverse patrimonial kingdoms. The empire had no effective boundary and no established centres of political and economic power. The political economy of the kingdoms was rooted in land and Ethiopia's feudal mode of production.[4]

From parcelized sovereignty to primeval centralised state

The second half of the nineteenth century witnessed the birth of a centralised Ethiopian state that overcame earlier regional differences. The reign of three emperors – Tewedros, Yohannes and Menelik – marked the creation of a unified Ethiopia through centralisation and territorial expansion.

Tewedros, who ruled from 1855 to 1868, was a self-made man of Amhara origin. He tried to create a unified Ethiopia by controlling the core regions of the old Ethiopian empire. He introduced some secular and centralising reforms,[5] but a British punitive expedition destroyed his chances of fully consolidating his rule and implementing his reform measures.[6] Yohannes IV, who reigned from 1872 to1889, was a descendant of the Tigray ruling family and had envisioned a united Christian Ethiopia. He forced the nobles from Yejju, Wello, Gojam, Keffa, Gonder and Shoa (in the present regions of Amhara, Tigray and part of Oromia) to recognise his suzerainty. His administrative policy was controlled regionalism, in which he accepted the full rights of the local nobles provided they recognised his suzerainty. His period was marked by extensive incursions by foreign aggressors and he died fighting them.

Menelik, who ruled from 1889 to 1913, was king of Shoa and a vassal during the reign of Yohannes. Of the three emperors, he did the most to create a centralised and unified Ethiopian state. The process of creating the modern Ethiopian state involved territorial expansion and centralisation. Menelik's territorial expansion started before he became emperor. In 1876 and 1877, he conquered the northern Abyssinian kings (Wello and Gojjam). Through conquest and diplomacy between 1890 and 1906, he controlled an increasing amount of territory in the southern and eastern parts (the Ogaden, Bale, Sidamo, Wellamo, Keffa, Illubabur and other sovereign polities) of the country.[7] Because of this conquest and expansion, Ethiopia acquired the geographical size it has today and dozens of ethnic groups with diverse languages and cultures came under the domain of one empire. Most of the boundaries were drawn through frontier agreements made with foreign powers.

Menelik's centralised administration started by dividing the country into administrative units governed by nobles and military chiefs, who were autonomous but subject to the Emperor's authority. The relationship between the administrative units and the central government was not uniform. Three categories of relationship can be identified on the basis of historical relationships and the form of resistance waged by communities during the expansion. Firstly, in the central and northern regions, especially Amhara and Tigray, regional nobles were autonomous; Menelik's involvement was minimal. Secondly, some regions in the south that submitted peacefully (Jimma, major parts of Wellega, including some groups in the present region of Benshangul-Gumuz, some parts of Gojjam and Awsa) were autonomous but were required to pay fixed annual tribute to the centre. Thirdly, other regions in the south that resisted the incorporation (Arsi, Keffa, Wellaita, part of Shoa, some parts of Wellega, Borena, Illubabure and Harrar) were placed under the jurisdiction of Menelik's most trusted war generals, who, as governors-general, were primarily responsible for tax collection and military control on behalf of the Emperor. These regions constituted the largest administrative divisions of the empire.

Menelik's success in incorporating new territories and his victory over the Italians (in the battle of Adwa, 1896) gave him the upper hand over internal contenders and foreign aggressors. He embarked on new national modernisation schemes. As a result, from 1907 to 1911, for the first time the country witnessed the establishment of small administrative units and a modern government with ministers, the foundation of the capital city (Addis Ababa), a system of tax payment to the central State, minting of currency, a banking system, construction of roads, factories, a railway, and the institution of modern education, among other modernisation projects. However, Menelik's expansion and centralisation continue to be a source of grievance among the ethnic elites of the south to the present day. Some analysts (for example, Merera, 2002) argue that his administrative and political practice underpinned the class and national question in the Ethiopian political system in the ensuing periods.

From primeval centralized state to modern centralised state

After the creation of a centralised Ethiopian state through territorial expansion by his predecessor, Emperor Haile Sellassie (Regent, 1917-30; Emperor, 1930-74) pushed the formation of a modern and centralised

Ethiopian state. He came to power through a palace struggle between the traditional political elites, which lasted for 17 years.[8] After his appointment as Regent, Haile Sellassie pursued administrative, military and financial policies designed to strengthen his central authority. The brief Italian occupation (1938-41) interrupted his rule. After his restoration in 1942, he introduced a new system of regional administration, expanded the bureaucracy and initiated political and economic reform measures to further centralise and modernise the Ethiopian state.

An administrative decree of 1942, which was the first regional administration reform, established a four-tier administrative system and divided the country into 14 major provinces, 103 sub-provinces, 505 districts and 949 sub-districts. The decree had both administrative and political impact. Administratively, it deconcentrated the central government and established a complex network of field agents representing the various ministries in the capital.[9] Politically, it deprived the traditional elites, who had previously served as provincial administrators, of their enormous discretionary power. In other words, administrative power was transferred from the traditional nobility to the central bureaucracy. However, the power to appoint and dismiss provincial administrators was vested in the Emperor, not in the newly created bureaucratic institutions. In some regions, especially in Tigray and Afar, the Emperor reappointed members of regional dynasties (Clapham, 1988: 202).[10] The second important, though ineffective, reform was the local self-administration order of 1966.[11] The reform measure did not go beyond an unsuccessful attempt to implement a pilot scheme in 17 sub-provinces. As Keller (1988) pointes out, 'the pilot scheme was a coordinated attempt of tactically recognising the regime's need for strengthened grass roots support by the Ministry of the Interior to get support from foreign donors.'

Emperor Haile Sellassie's major political reform was the enactment of two Constitutions and the creation of three branches of government. The first Constitution, in 1931 (cited in Keller, *op. cit.:* 71) recognised Ethiopia as a constitutional monarchy but confirmed the absolute authority of the Emperor. It stated: '[…] by virtue of his imperial blood, as well as by the anointing, which he has received, the person of the Emperor is sacred, his dignity is inviolable and his power indisputable […]. It also declared that 'in the Ethiopian Empire supreme power rests in the hands of the Emperor. He ensures the exercise thereof in conformity with the established law.' The Constitution formally provided for the establishment of a bicameral parliament, a Senate appointed from the nobility by the Emperor and a Chamber of Deputies elected on the basis of property qualifications. The nobility and local chiefs selected members of the Chamber from among their peers. In addition, the Constitution stated that 'no law approved by the parliament could go into effect until promulgated by the Emperor'. The role of the legislature was to give advice to the Emperor rather than to act as an autonomous institution charged with the responsibility of law-making.

The revised Constitution of 1955 introduced the ideal of a popularly elected representative institution and recognised three executive institutions (Council of Ministers, Crown Council and Prime Minster's Office). Formally, the legislative branch had more power, including the authority to propose laws and veto laws proposed by the Executive; to approve or reject all budgetary items including taxes and appropriations; to summon various ministries for questioning; and to initiate impeachment proceedings. The Chamber of Deputies was to be popularly elected every four years and the senators to be appointed by the Emperor. However, the Constitution did not authorise political parties; candidates had to run on the strength of their own personal appeal.

Despite the official pronouncements, both Constitutions imposed no formal restraint on the Emperor. Neither the Council of Ministers nor the Crown Council had direct policy-making authority. The Emperor had the power to make law through executive order without going through parliament, dissolve parliament if he felt it necessary and maintain close control over State courts. Clapham (1988) states that the Chamber of Deputies was far too weakly organised at both central and local levels; and it was divorced from the executive role of government. He also comments that the Senate served as 'a parking lot of semi-retired and out of favour notables, it was derisively known as the "Garage" (*ibid.*). Keller (1988:88) points out that the immediate effect of the Constitution was to enhance the Emperor's standing at home and abroad as a modernising autocrat.

Emperor Haile Sellassie encouraged the formation of more ministries and agencies, especially at the centre. As Harbeson (1988: 45) observes, the period witnessed a great expansion in the number of central government employees, from 75 in 1937 to nearly 20,000 in 1977, together with a 17-fold increase in the public budget. Nonetheless, the expansion and bureaucratisation of imperial government did not diminish the importance of the Emperor. Harbeson (1988) notes that 'the emperor reviewed the minute expenditure of his burgeoning bureaucracy and did not discourage the practice of his ministers, nominally empowered to act on their own, from waiting upon him for his instructions in the conduct of their business to reaffirm their loyalty and to curry favour with the emperor.' Keller (1988: 86) also points out that the Emperor could set up government departments and invest them with duties and responsibilities by executive order; he had the power to appoint and dismiss all government officials.

On the economic front, the Emperor envisaged transforming Ethiopia from an isolated, backward economy into a vital industrial economy (a modern industrial sector and commercialised agriculture) with a strong and active State structure. Following the policy of modernisation that was then widely advocated in many developing countries, the Emperor aimed to move the country to a position of economic takeoff through centralised long-term industrial planning and focus on selected growth centres. These modernisation policies improved infrastructure and some public services in the few urban centres: Addis Ababa (Shoa), Asmara (Eritrea) and Diredawa. However, Keller (1988: 127) notes that there was little progress between 1950 and 1974 in inducing economic takeoff. Rather, the government's development strategy resulted in sharpening of social contradictions. Capitalist classes emerged alongside the feudal classes and, in some cases, overlapped; inequalities abounded (*ibid.*).[12]

The economic crises and over-centralisation of the State resulted in class and ethnic contradictions. The newly created political and bureaucratic institutions were ineffective as they were under the Emperor's personal control in the neo-patrimonial regime. In the early 1970s, an Ethiopian student movement (comprising the new educated elite, especially university students at home and abroad as well as teachers) developed and demanded radical changes in the State structure, urging socio-economic reforms (land reform, regional self-determination, opening up of the political space and abolition of the exploiting classes). The question of nationality or politicised ethnicity also surfaced within the student movement.[13] Regional political elites started to resist central authority. Eritrea demanded independence; Somali asserted both territorial claims and the right to self-determination; the local nobles of Tigria, Bale (Oromo) and Gojam (Amhara) revolted against central government measures to undercut the nobility's political autonomy and control of land, maldistribution of political and administrative power, taxation, and religious inequality. Finally, the State lost its competence to provide leadership and direction, mobilise human and material resources for enhanced economic growth, mediate interclass contradictions, and handle ethnic and other political and economic demands.

From modern centralised state to revolutionary centralised state

In 1974, a variety of urban groups (civil servants, workers in the manufacturing sector, religious groups, teachers, students) launched a revolution against the Ethiopian state. There was no united leadership, policy and organisation within and among the groups and there were no properly organised political parties. This gave rise to the ascendancy of a military regime, the Dergue, as Ethiopia's political system.[14] Immediately after deposing the Haile Sellassie regime, the Dergue undertook radical economic reforms that terminated the landed aristocracy and the incipient capitalist classes. It nationalised major financial institutions, key industries and second houses in urban areas; and it enacted a sweeping land reform which provided usufruct rights to the peasantry.

The Dergue's first measures to restructure the political system were revocation of the 1955 Constitution, dissolution of the old parliament and transformation of itself into a Provisional Military Administrative Council. It issued its first revolutionary charter, known as the Ten-point Programme, in December 1974, combining the ideologies of nationalism and socialism. The Dergue declared Ethiopia a united country irrespective of the relative socio-economic differences among the ethnic groups, to be governed by the ideology of Ethiopian socialism (a vanguard political party and State ownership of the entire economy) and 'regional autonomy'.[15] Later, in April 1976, the Dergue modified the charter and issued it as the National Revolutionary Democratic Programme. The highlights of the revised programme were healing of the political divisions among the educated political elite, indoctrination of the people with Ethiopian socialism and establishment of a vanguard political party.

The period from 1976 to 1979 witnessed turmoil, chaos, massacres and detentions in urban Ethiopia. This was the result of a power struggle between three political groupings: the Dergue, which controlled the State, and two political groups that demanded a share in political power: the Ethiopian People's Revolutionary Party (EPRP) and All-Ethiopian Socialist Forces (MEISON).[16] EPRP demanded the immediate formation of a civilian government. MEISON opted to work with the Dergue and was entrusted with the responsibility of mass political education and laying of the groundwork for creating an organised political leadership. After some time, a brutal urban conflict erupted between the EPRP and the other two groups. The Dergue wiped out the EPRP in the cities in 1978. Later, contradictions emerged between the Dergue and MEISON. Finally, the Dergue arrested and executed members of MEISON and became the undisputed leader of Ethiopia. One estimate puts the number of intellectuals and students killed during the three-year period at 32,000 (Addis Alem, 2003). Ottaway and Ottaway (1978: 99) identify three reasons for the internecine warfare: civilians' alienation from power and the decision-making process and their determination to regain the initiative lost since mid-1974; the Ethiopian 'political culture' characterised by an incapacity to compromise and cooperate; and a factionalism typical of all revolutionary movements that develop when political power is contested.

In 1979, having wiped out the educated elite and pacified the urban centres, the Dergue established the Commission to Organise the Party of the Working People of Ethiopia (COPWE) and mass organisations.[17] The Commission operated as a vanguard party and its coverage extended out from the national centre to the 14 regions, the sub-regional level, *kebele* or villages, and the cell level. The membership of the cells comprised individuals from the various mass organisations. Mengistu Hailemarriam – nicknamed the 'Big Man'– in addition to his post as chair of the Provisional Military Administrative Council (PMAC), was appointed chair of COPWE, thus heading both the government and the party. He appointed regional chief administrators as regional COPWE representatives in all parts of the country except Eritrea. From 1981, formal announcements of government policies on important economic and social matters (like economic planning and the collectivisation of agriculture) began to be issued through COPWE rather than the PMAC. They were then discussed and implemented by subordinate states and COPWE organisations.

In 1984, with participation of and encouragement from the USSR, COPWE changed its name to the Workers' Party of Ethiopia (WPE), built on the Soviet model (Clapham, 1988: 75). WPE declared its internal working mechanism to be democratic centralism and maintained COPWE's political structure, membership and party leadership. Clapham (*op. cit.*: 83) notes that the WPE central committee was a linear successor to the standing committee of the PMAC and the executive committee of COPWE. The establishment of COPWE/WPE sealed the party's supremacy over the State administration.

During the first three years of Dergue rule, the civil service administration was not subjected to overall reform or a systematic purge, perhaps due to the lack of alternative personnel with sufficient education or the absence of socialist-minded cadres to form and staff a new administration. After 1978, however, the presence of military personnel in the bureaucracy expanded to such an extent that not only members of the Dergue but also trusted military personnel served in such roles. The Dergue also recruited fresh college graduates into the civil service and provided political education for many senior civil servants and political appointees.[18] Leadership roles in the public institutions were awarded as rewards to loyal supporters and to buy off potential adversaries in the military (Keller, 1988). After the creation of WPE, all government ministers became central committee members. All the measures led to politicising of the top echelons of the various ministries and public agencies. However, throughout the period of the Dergue, the bureaucracy was unable to influence the policies it had to carry out. Centralised control was strongest in the industrial sector because the government appointed managers of its own choice to run the 200 nationalised agricultural and industrial enterprises.

In regional and local administration, the Dergue maintained the centralised system set up in 1942. Immediately after taking power, it removed the old governors or imperial representatives and appointed new regional administrators. From 1975 to 1977, the Dergue appointed individuals who originated from the regions but were not necessarily truly local figures. Clapham (1988) notes that the experiment of trying to marry centralism with localism by appointing administrators to their own home areas ended abruptly in 1977. After 1978, the Dergue appointed soldiers as chief administrators in every region, and Eritrea and Tigray came under direct military administration. There were, however, changes in the lower levels of administration due to the land reform programme.[19] The Dergue established peasant associations to manage the land reform programme and carry out other local tasks.[20] However, as Lefort (1981:124) points out, 'the institutionalisation of the peasant association was more to serve the state, allowing it to reach into the daily life of the countryside, than to make it possible for the peasant communities even gradually to take over the levers of administration.'

Since coming to power, the Dergue faced different forms of resistance grounded in ethnic nationalism. The first armed resistance was from the landed aristocracy in both the south (Bale and Harrarge) and north (Tigray, Amhara and Afar) of the country. Disgruntled by the land reform and loss of regional power, this group manipulated ethno-nationalism to revolt against the Dergue. The resistance from Amhara was short-lived, but the others transformed into liberation fronts. The second formidable resistance, which resulted in the demise of the Dergue, was from the newly educated elite which considered the main problem in Ethiopia to be national oppression. As noted above, politicised ethnicity started during the last days of the Haile Sellassie regime, but it proliferated after the Dergue seized absolute control of power. In 1974, the Oromo educated groups formed the Oromo Liberation Front, and in 1975 the Tigray intellectuals formed the Tigray People's Liberation Front. After 1975, the membership of the Eritrean People's Liberation Front, which had been formed in 1970, increased. Formed in reaction to the Dergue's adamant refusal to share State power and grant regional autonomy, the nationalist movements used ethnicity as a potent force to mobilise against the Dergue and started justifying their struggle by referring back to the pre-imperial era when their areas had been free.[21] According to Halliday and Molyneux (1981: 195), 'whilst each followed the nationalist proclivity of harking back to the past distinctness with correspondingly "historical" boundaries, they were in fact more inchoate movements, responding to the 1974 revolution by predicting self-determination for much more loosely defined geographical areas.'

The Dergue was neither inclined nor competent to address the demands of the ethno-nationalist movements in any way except by militarily crushing the opposition. The 1974 Ten-Point Programme, the 1976 National Democratic Revolutionary Programme and the 1987 Constitution had affirmed Ethiopia as a unitary state and recognised regional self-government and autonomy. In the Constitution, the restructuring of Ethiopia's regional administration created five 'autonomous regions' – Eritrea, Tigray, Dire Dawa, Assab and the Ogaden – and 24 'administrative regions'. Each level of administration was entitled to an elected regional assembly and shared power with the central government authority. However, regional autonomy was incompatible with the Dergue's

State/party structure and mode of political operation, which relied on dictatorial and hegemonic rule, and it could not be used to address the ethno-nationalist demands.

From revolutionary centralised State to democratic centralised federal State

After a long and protracted war and the end of the cold war, the Dergue regime was deposed in May 1991 and the Ethiopian State came under the control of the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF). Having created the Ethiopian People's Democratic Movement (EPDM) in 1980 and the Oromo Peoples' Democratic Organisation (OPDO) in 1989, the Tigray Peoples' Liberation Movement (TPLF) organised the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) in 1989 as a multi-ethnic party.

The TPLF/EPRDF's biggest political achievement was its dismantling of the brutal military dictatorship. It declared a change from the Dergue's command economy to a market economy. In addition to recognising the 1948 UN Declaration on Universal Human Rights, the EPRDF adopted the Transitional Period Charter of Ethiopia in July 1991, which recognised 'the right of nationalities to self-determination up to and including secession' and created a regional administrative structure based on linguistic and ethnic criteria. The 1995 Constitution also declared Ethiopia a federal state and included many features of a democratic political system. Although this was short-lived, the initial gesture to open the political space to include some rival political groups, especially the Oromo Liberation Front (OLF), in the Transitional Government Council was an important political development.

The EPRDF's proposal for a federal structure and self-determination had its roots in the inception of the TPLF. In the mid-1970s, one part of the radical Ethiopian student movement, inspired by the Leninist approach to the question of nationality, initially accepted the principle of self-determination. The Tigrayan students, who were part of the movement and at present hold leadership positions in both the TPLF and EPRDF, upheld Tigrayan nationalism and self-determination. Nonetheless, from the beginning, TPLF leaders did not articulate the principle of self-determination clearly. Aalen (2002a: 39) notes that in 1976 TPLF's party manifesto declared its goal as being to establish an independent republic of Tigray, but in 1982 the TPLF, in its submission to the United

Nations General Assembly regarding its struggle, declared it wanted Tigray to be part of a multinational Ethiopia based on equality. Young (1998) also notes the change in TPLF's goal from a 'narrow nationalist' agenda of creating an independent state of Tigray to 'a program seeking cultural and political autonomy of Tigray within a democratised Ethiopia'.

After taking power in 1991, the TPLF leadership provided political justifications for federalism and self-determination. These included addressing the issue of nationality and recognition of the Ethiopian ethic groups as culturally distinctive entities with little interaction between them. For instance, in 1994, the present Prime Minister and chair of both TPLF and EPRDF, who was also the President during the transitional period stated: 'The cause of the war all over the country was the issue of nationalities. Any solution that did not address them did not address the issue of peace and war. […] People were fighting for the right to use their language, to use their culture, to administer themselves. So without guaranteeing these rights it was not possible to stop the war, or prevent another coming up' (Aalen, *op. cit.*). On the distinctive nature of the ethnic groups, he stated that 'the Tigreans had Axum, but what could that mean to the Gurage? The Agew had Lalibela, but what could that mean to the Oromo? The Gonders had castles, but what could it mean to the Wolayita?' (Levine, 1992).

Whilst the need for a decentralised federal arrangement is accepted by many Ethiopians, the principle of ethnic self-determination up to and including secession has been controversial in Ethiopian politics. There are three main arguments in the debate (Paulos, 1994):

(i) The EPRDF leadership group unanimously accept ethnic federalism and principle of self-determination as a means of maintaining Ethiopian unity and averting disintegration of the country.

(ii) The urban intellectual group (mainly the political elite of the Amhara, minority ethnic groups and some members of the Oromo and Tigray political elite) challenge the idea. They argue that the introduction of ethnic federalism and the right to secession fail to consider the historical interaction between various ethnic groups in the country, the brutal domination of all ethnic groups through hegemonic rules by the previous regimes, the impossibility of assigning a defined territory to the 91 ethnic groups, the difficulty of giving ethnic labels to people living in the cities or the cultural 'melting pots', and to individuals with mixed ethnic genealogical identities or ethnic anomalies. The urban intellectual group argue that ethnic federalism has the potential to create ethnic balkanisation and eventually ethnic war.

(iii) The third elite group, some of whom (Oromo, Afar and Somali) were part of the student movement and accepted the principle, doubt the TPLF's commitment to implementing the principle of self-determination. They argue that the TPLF views self-determination as only a right on paper, to be defended verbally as a democratic right but to be rejected when it is actually demanded. They believe that the TPLF has formally accepted ethnic self-determination because it can be used to perpetuate its divide-and-rule system of government.

The process of enacting Ethiopia's ethnic federalist structure did not involve the notion of a federal pact in which the various political forces in the country would voluntarily agree to power-sharing and devolution of power. The Transitional Charter that formalised the federal arrangement was a carbon copy of the 10 March 1990 TPLF/EPRDF Proposal for a Peaceful Transition in Ethiopia, which had been developed by the TPLF and its two satellite parties without consultation with other political contenders. The Oromo Liberation Front (OLF) and the Eritrean People's Liberation Front (EPLF) were the first to accept the EPRDF's proposal on self-determination up to secession. Both had common interests in securing the principle – the OLF with the anticipation of a referendum to create an independent Oromo state, and the EPLF because Eritrea was de facto independent from Ethiopia before formal endorsement of the Charter. Thus, the discussion of the draft Charter at the Transitional Conference (1-5 July 1990) and its adoption in the 1995 Constitution did not genuinely accommodate the concerns of the different regions, ethnic groups and other constituencies. Aalen (2002a: 41) notes that 'the Transitional Conference, which gathered several ethnic parties and representatives, was a "one party dynamic" and a mere result of an agenda predetermined by the EPRDF and partly by OLF, rather than a pact between all the organisations that participated in the conference.' Dominated by the EPRDF, the constitutional process also confirmed federalism and self-determination (*ibid.*).

The TPLF/EPRDF enacted ethnic-based federalism on the basis of the TPLF's political justifications, without a wider representation of different groups in the decision-making process and without research into the social, economic, administrative and institutional capacities of the different regions. International donors, who insisted on the establishment of democratic and decentralised forms of government as a precondition for aid, reinforced the adoption of the federal structure. Accordingly, the EPRDF formally declared its development strategy as being to promote participatory, balanced and equitable economic and social progress in all regions by devolving decision-making power and reallocating resources.

In 1991, the EPRDF divided the country into 12 self-governing ethno-linguistic regional states and two special administrative areas. After the EPRDF reorganised the regional states into nine regions by clustering 45 ethnic groups that had been grouped under three regions under one regional government, the 1995 federal Constitution recognised nine regional states and two autonomous administrative regions. The State structure comprises a five-tier administration system: federal, regional, zonal, district (*woreda)*, village (*kebele)*. Of these, the last three are not recognised by the federal Constitution.

Structured along ethnic lines, the regional states vary enormously in population, land area, ethnic diversity and resource base. The EPRDF categorised some of the regions (Afar, Benshangul-Gumuz, Gambella and Somali) as 'emerging' and others (Amhara, Oromia, Tigray, SNNPRS and Harari) as 'developed'. The emerging regions have undeveloped capital cities, poor levels of social and economic infrastructure (electricity, telephone service, transportation, water, schools, hospitals, market facilities, and the like), less-skilled labour, a weak commercial sector, and other features of underdevelopment. Table 1.1 (p. 20) summarises the regional diversity.

Both federal and regional state governments have constitutionally specified sovereignty over defined territories with separate legislative, judiciary and executive organs. The executive arms of government at both levels have a similar structure. The federal government has a Council of Ministers (comprising the Prime Minister, Deputy Prime Minister and ministers) and each region has a Regional executive body (comprising the President and bureau heads). All regions have bureaus that mirror the ministries at federal level.

The 1995 federal Constitution defines the expenditure responsibilities of the levels of government. The central government formulates and implements the country's overall socio-economic development

Table 1.1
Regional profile of Ethiopia

Region	Population (million)	Area (000 kms^2)	Crude density	No. of ethnic groups	Urban population (%)	No. of *woredas*
Tigray	3.90	60.2	64.8	3	17.5	35
Afar	1.27	77.00	16.5	1	8.4	28
Amhara	17.21	188.80	91.2	4	10.7	130
Oromia	23.70	360.00	65.8	1	12.3	176
Somali	3.90	215.900	18.1	1	15.8	47
B-Gumuz	0.57	46.80	12.2	5	9.2	13
SNNP	13.29	112.00	118.7	45	8.0	76
Gambella	0.22	26.10	8.4	3	17.6	8
Harari	0.17	0.31	584.4	1	61.0	19
Addis	2.65	0.54	490.7	-	100	28
Dire Dawa	0.34	1.60	212..5	-	72.8	23
Total	*67.22*	*1089.1*	*61.7*	*64*	*15.3*	*556*

Note: The number of ethnic groups in Addis Ababa and Dire Dawa is not given because they are cities.
Sources: Ministry of Health (2001/2) for population and urbanisation; Mehret (2002) for land area and number of woredas; Federal Proclamation no. 7/1992 for ethnic groups.

plans/programmes and sets national standards and basic policy criteria. National tasks (defence, foreign affairs, financial and monetary policy, foreign investment, air and sea transport, trunk roads, postal and telecommunication undertakings) are the responsibility of the central government. The regional states have formal power to enact state constitutions; formulate and implement their respective socio-economic development policies, strategies and plans; establish a state administration that best advances self-government; and independently bear all financial expenditures necessary to carry out their responsibilities.

The Constitution defines the assignment of revenue powers between the two levels of government. The federal government has the power to administer and collect taxes from foreign trade, personal income, profit, sales, national lotteries and prizes from other games of chance, as well as to generate income from air, train and marine transport, rental of houses and properties, licence fees and service charges. The regional governments, within their respective jurisdictions, have power to administer and collect taxes on personal income, rural land use, agricultural income, profit, sales and inland water transportation. They can also generate income from rental of property, licence fees, service charges, and royalties from small-scale mining. Both levels of government share proceeds from taxes on profit, personal income and sales from jointly owned enterprises as well as royalties from large-scale mining, petroleum and gas operations.

Intergovernmental fiscal transfers, in the form of 'unconditional or block grants', are transmitted from central to regional governments. The objectives of transfers are to promote balanced regional economic development and to control or compensate for spillovers. Actual fiscal transfers started in 1993/4 on an ad hoc basis, but the formula-based grant system has been in place since 1994/5. Different factors in the formula (mainly population, level of development and revenue generation) have been in use with changing weights at different times. The determination of transfer pools and formulas has been the sole responsibility of the central government. In addition, Ethiopia's legal framework gives regional governments the right to borrow from domestic sources, although the federal government exclusively determines the conditions and terms considered acceptable for the loans.

On the basis of the above discussion, this study contends that Emperor Haile Sellassie and the Dergue regime share the features of neo-patrimonialism. In other words, the state systems formally reflect features of a bureaucratic-legal State structure while being actually characterised by personalised domination via clientelistic networks and loyalties. Bratton and Van de Walle (1994) provide a suitable conceptual dimension of neo-patrimonialism for this analysis: Haile Sellassie established a neo-patrimonial regime that adopted modern bureaucracy but operated under the personal dictatorship of the Emperor, while the Dergue constructed a neo-patrimonial regime characterised by military oligarchy. In both cases, the formal introduction of bureaucratic and political institutions was ineffective; in Haile Sellassie's case because of his personal dictatorship and in the Dergue's case because of military dictatorship. Both were characterised by, *inter alia*, exclusionary politics or banning of political parties from competition for power, inability of the institutions of the formal bureaucratic and political structure to check the absolute powers of the Emperor and the Dergue, and the incapacity of the regimes to deal with the country's socio-political and economic problems.

During its first year in power, the TPLF, which dominates the EPRDF, showed political inclusiveness by involving some rival political groups in the political process, allowing multi-party politics and introducing a system of three branches of the government to maintain checks and balances and manage the state. It also introduced a decentralised ethnic federal structure and a market-based economy. However, due to various interrelated factors, especially the regimes incapacity to break-away from the previous Ethiopian regimes conception of hegemonic and centralized governance, the EPRDF changed to a policy of exclusionary politics, controlled the three branches of government, appointed its loyal political cadres to positions in the bureaucratic structure and recentralised the Ethiopian State. The three dimensions of neo-patrimonialism set out by Bratton and Van de Walle (1994) (personal dictatorship, plebiscitary one-party system and competitive one-party system) explain the EPRDF's rule in the past decade, as will be discussed further in Chapters 6 and 8.

The three regimes that have been in power during the last five decades have introduced decentralisation reforms. As in many African countries, the first reform measure, by Haile Sellassie, was deconcentration, which did not create viable local government. The Dergue regime, though it failed, introduced decentralisation reform mainly to resolve the ethnic tensions in the country. The present government has formally introduced a sweeping decentralisation reform that devolves political, financial and administrative power to ethnicity-based regional states. This study focuses on the latest reform measure, which was launched in 1991.

1.3 Failed Expectations in Ethiopia's Intergovernmental Fiscal Relations Reform: Setting the Research Problem

Regional governments in Ethiopia are formally assigned expenditure responsibilities and control over specified revenue bases and rates, along with the privilege of sharing with the central government revenue collected from several defined sources. Grants/subsidies from the central government and borrowing from local financial markets supplement the available financial resources. The thrust is to empower regional governments to develop and implement their own policies for providing public goods and services; raise and administer revenue; and finance expenditure from their own sources. In short, the expectation is to allocate resources efficiently; to develop autonomous, accountable and responsive regional governments; and to let regional governments have a bigger share in revenue and social sector expenditures as compared with the central government.

A closer look at intergovernmental fiscal relations over the last decade shows that reforms have lagged far behind expectations. This is evidenced by the following realities:

- sustained poor revenue generation by regional governments or inability to finance a greater share of their expenditure from own sources;
- high regional dependency on central government fiscal transfers, and on central policy and administrative directives on expenditure and revenue assignments;
- increased central control over overall public expenditure and revenue generation;
- growing trends of central control over social sector public expenditures, from which regional governments are expected to have or to shoulder higher shares;
- little participation by regional governments in determining transfer pools and transfer formulas for annual central government transfers;
- complete absence of borrowing from local financial markets by regional governments.

The above realities are not congruent with the country's formal pronouncements on decentralisation, which declare regional governments' autonomy, accountability and responsiveness to their constituencies. The sustained higher central government share in public expenditures and revenue generation reflects the diminished role of regional governments. The following three measures clarify the above realities.

Extent of regional dependency on the centre

Table 1.2, based on seven years of data, displays the percentage of regional governments' dependency. It shows the weak capacity of regional governments to finance expenditures from their own sources. Dividing a region's own revenue by its total expenditure and subtracting the result from 100 per cent provides the percentage of regional dependency on

Table 1.2

Regional governments' dependency, 1993/4 – 1999/00 (%)

Region	**1993/4**	**1994/5**	**1995/6**	**1996/7**	**1997/8**	**1998/9**	**1999/00**	**AV**	**STD**	**CV**
Tigray	81.3	80.4	71.11	73.10	74.4	79.0	71.8	76.50	4.2	5.49
Afar	91.2	86.7	90.30	78.58	95.4	96.2	95.8	89.80	6.5	7.24
Amhara	81.2	82.5	81.42	79.69	81.0	81.0	79.3	81.10	0.9	1.11
Oromia	70.8	72.6	70.35	71.72	71.2	72.2	65.0	71.50	0.8	1.12
Somali	40.0	57.5	75.55	80.22	90.1	93.3	87.7	72.80	20.5	28.16
B-Gumuz	93.5	92.8	94.16	93.70	95.3	95.1	89.4	94.10	1,0	1.06
SNNP	80.7	81.3	78.49	77.48	79.4	81.7	76.8	79.80	1.7	2.13
Gambella	91.3	89.1	94.15	91.04	94.9	94.9	92.6	92.60	2.4	2.59
Harari	66.3	84.2	81.09	84.72	90.2	89.1	87.1	82.60	8.7	10.53
Total average	*77.4*	*80.8*	*81.80*	*81.10*	*85.8*	*86.9*	*82.8*	*82.37*	*3.2*	*3.89*
Average, emerging regions	76.5	82.1	87.10	85.70	93.2	93.7	90.5	86.97	6.2	7.14
Average, developed regions	*78.5*	*79.2*	*75.30*	*75.50*	*76.5*	*78.5*	*73.2*	*76.67*	*2.2*	*2.84*

Notes: AV = average; STD = standard deviation; CV = coefficient of variation.
Source: Author's calculations from Ministry of Finance and Economic Development Annual Financial Report, various years.

the centre. The percentage decreases as regional governments cover more of their expenditure from their own revenue and become less dependent on subsidies from the central government.

Table 1.2 shows that during the seven years covered, there was no noticeable improvement in the level of dependency of regions. The total average dependency grew from 77.4 per cent in 1993/4 to 82.2 per cent in 1999/00. The standard deviation and co-efficient of variation for each region show little variation and indicate sustained dependency of all regions across time. Somali had the least dependency of all the regions at the beginning of the period, but it tended to increase over the years. The reason for this may be political instability in the area during the earlier period and absence of well-established regional government, which would deter proper utilisation of the central subsidy. The last two rows in Table 1.2 compare the average dependency of emerging and developed regions. Whilst all regions were dependent on central government transfers, the emerging regions were increasingly dependent on transfers. The table also shows that the dependency ratio has not been declining systematically in either category. The World Bank, too indicates that, in all cases, regions' expenditure responsibilities far outstripped their own revenues, requiring heavy dependence on federal fiscal transfers (World Bank, 2000a).

Share in expenditure and revenue

The second measure is central and regional governments' share in expenditure and revenue. It shows an imbalance in economic and political power between the central and regional governments. Table 1.3 and Figure 1.1 present the percentage shares of central and regional governments in expenditure and revenue.

Table 1.3, which presents aggregate figures and does not discriminate between sectors, indicates that the federal government has the lion's share of overall public expenditure and revenue. It shows that the central government controls more than 80 per cent of aggregate revenue and more than 60 per cent of expenditure. The value of the standard deviation is small, showing no improvement in the expenditure and revenue shares during the seven-year period. Rather, the figures for the last two years indicate an increase in the central government's expenditure share.

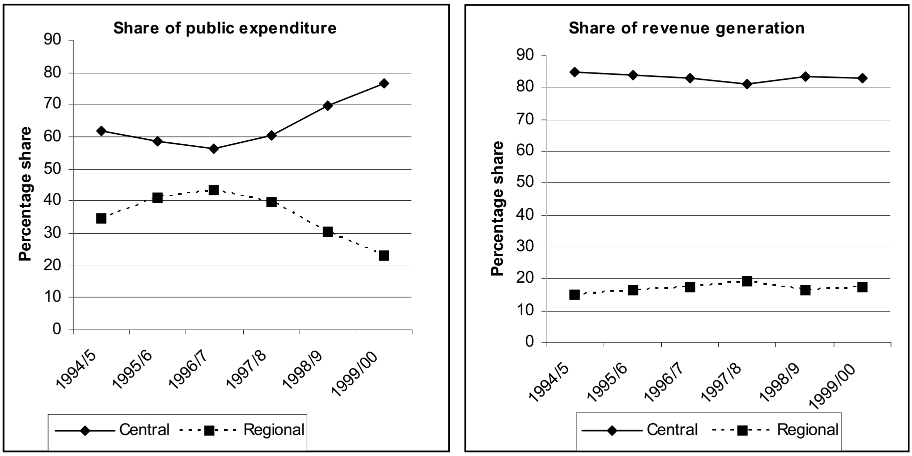
Table 1.3

Federal and regional governments' share in expenditure and revenue, 1994/5 -1999/00 (%)

	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	AV	STD	CV
Expenditure									
Central	61.70	58.80	56.50	60.40	69.50	76.70	64.2	7.02	0.109
Regional	34.40	41.20	43.50	39.60	30.50	23.30	35.3	6.94	0.196
Revenue									
Central	85.01	83.79	82.78	80.98	83.55	82.86	83.0	1.26	0.015
Regional	14.99	16.21	17.22	19.02	16.45	17.14	17.0	1.26	0.074

Notes: AV = average; STD = standard deviation; CV = coefficient of variation.
Source: Author's calculations from Ministry of Finance and Economic Development Annual Financial Report, various years.

Fig. 1.1
Federal and regional governments' share in expenditure and revenue



Source: Author's calculations from Ministry of Finance and Economic Development Annual Financial Report, various years.

Figure 1.1 shows the changes more clearly. The curves for shares in public expenditure show initial moves to decentralise expenditures, but later the trend becomes one of recentralising expenditures. The curves for shares in revenue demonstrate the weak power of regional governments and the absence of significant improvement in regions' revenue collection.

Share in expenditure on social service delivery

The third measure is the share of central and regional governments in expenditure on social service delivery. Formally, the responsibility for education expenditures is split between the federal government (tertiary education and overall policy matters) and regional governments (pre-primary, primary, secondary, adult, teacher training and some junior colleges). Accordingly, regional governments are expected to be responsible for a higher expenditure share. However, as Table 1.4 shows, regional governments' share in public expenditure on education has been decreasing while that of the central government has been growing.

The regional share decreased from 78 per cent in 1996/7 to 67 per cent in 2003/4; during the same period, the central government's share increased from 22 per cent to 33 per cent. Using 1996/7 as the base year and comparing it to 2003/4, the share of central government capital expenditure in education increased by 57 per cent and the share of regional governments decreased by 50 per cent. This indicates that regional governments' decision-making power on capital projects is diminishing. The World Bank indicates that the changing division of actual spending is biased heavily towards the federal level (World Bank, 2004).

Table 1.4
Federal and regional governments' share in budgeted education expenditure, 1996/7 – 2003/4 (million Birr)

	1996/7	1999/00	2000/1	20001/2	2002/3	2003/4
Federal						
Recurrent	147 (14%)	273 (20%)	220 (15%)	395 (21%)	501 (21%)	587 (22%)
Capital	198 (37%)	189 (33%)	181 (20%)	324 (33%)	538 (50%)	762 (58%)
Total	*345 (22%)*	*462 (24%)*	*401 (17%)*	*719 (26%)*	*1039 (30%)*	*1349 (33%)*
Regional						
Recurrent	869 (86%)	1096 (80%)	1266 (85%)	1447 (79%)	1936 (79%)	1936 (79%)
Capital	333 (63%)	385 (67%)	716 (80%)	652 (67%)	543 (50%)	547 (42%)
Total	*1202 (78%)*	*1481 (76%)*	*1982 (83%)*	*2099 (74%)*	*2479 (70%)*	*2772 (67%)*

Source: World Bank (2004).

Regional governments have been developing five-year development plans on the basis of directives and guidelines issued by the central government. As the World Bank points out, federal policies and standards specify regional strategies and the power of the regional governments to adapt policies and expenditure patterns to local circumstances is minimal (World Bank, 2000b: 27). UNDP (2002: 4) identifies some of the decentralisation problems in Ethiopia as being 'unclear separation of power between the legislature and the Executive, limited nature of people's political participation, lack of adequate political accountability and transparency, and lack of necessary civic education to foster citizens' awareness and knowledge'. It also notes that 'inadequate financial, material, personnel and other resources in the regional states are common problems impeding the decentralisation effort' (*ibid*.: 23). The administrative system, that is, public finance, human resources and support and coordination, is unable to improve efficiency in allocation of resources or to prioritise expenditure through planning, budgeting and revenue mobilisation.

The literature suggests that intergovernmental fiscal relations have the virtue of promoting efficient resource allocation, constraining and limiting the power of central government, matching resources with citizens' demands, and enhancing autonomy and accountability of sub-national governments. Taking into account the ethno-federal arrangement in Ethiopia and the variations in socio-political and economic situations of the regional governments, the intent of the Ethiopian intergovernmental fiscal relations policy is justifiable. Whilst the formal rules share some of the theoretical assumptions of intergovernmental fiscal relations, the experience of the last decade is of increased central government control over revenue and expenditure assignment; sustained heavy dependency of regions on central subsidies, guidelines and instructions; and absence of regional borrowing from local financial markets. Generally, the intention of creating self-reliant, accountable and autonomous regional governments capable of assuming financial burdens for effective expenditure assignments has not been realised.

In the Ethiopian case we need to understand the real causes of the derailment of intergovernmental fiscal relations reform and the reasons for the sustained control of the central government over regional governments. We also need to examine the relevance of decentralisation theories as applied to Ethiopia and to provide an alternative conceptual framework that analyses the extent to which Ethiopia's neo-patrimonial political and administrative institutional arrangements shape the reform of intergovernmental fiscal relations.

1.4 Research Objectives

Several studies on intergovernmental relations in some African countries, especially Olowu and Wunch (2004) and *Public Administration* (vol. 23, 2003), offer a good account of decentralisation successes and failures in developing countries. Some studies analyse differences between normative and de facto models of decentralisation that emerge due to influences of macro- and micro- political and economic environments, central bureaucratic capture, local elite capture, capacity constraints and other interrelated socio-political and economic factors. Other studies on fiscal decentralisation, especially by the IMF and World Bank, take aggregated national data on expenditure and revenue shares between central and regional governments, voter turnout and other quantitative indicators to provide comparative analyses of the degree of success in decentralisation. However, studies on decentralisation in Africa are limited and less comprehensive. For instance, Smoke (2003) indicates that the qualitative studies merely concentrate on problematic cases of decentralisation or wax enthusiastic about its benefits on the basis of anecdotal instances to prescribe guidelines on design, sequencing and implementation. On the other hand, the quantitative studies fall short of unearthing the level of autonomy and accountability of sub-national governments (*ibid.*).

No countrywide study of greater depth has been carried out to analyse and unravel the political and administrative factors impeding the effectiveness of intergovernmental fiscal relations reform, especially in Ethiopia. The available studies and conference papers do not provide a deeper analysis to link the political and administrative issues with the design and implementation of intergovernmental fiscal relations.[22] For instance, studies on fiscal decentralisation in Ethiopia (Eshetu, 1994; World Bank, 2000, 2004) discuss the issues of vertical and horizontal imbalance without linking it with the political and administrative institutional arrangements. Others consider only the role of political institutional arrangement on decentralisation but fail to link it with fiscal issues. Aalen (2006) examines the extent to which the EPRDF's centralised party structure maintains a firm grip on political affairs and undermines the devolution of power to ethnic groups in the country. Similarly, Alem (2003: 28) argues that in Ethiopia '…there is a mismatch between the liberal-democratic political-pluralist elements of the Constitution and the political praxis of the dominant party; it is wedded to the *modus operandi* of democratic centralism, inhibiting effective decentralisation and democratization'. A recent study (Merera, 2006) provides comprehensive accounts of the political aspects of decentralisation. Merera recommends national consensus on the modalities of democratic governance for successful democratic decentralisation in Ethiopia. Assefa (2006: 158) also contends that 'the gap between constitutionally proclaimed principles of federalism and political process is a serious concern' in Ethiopia's federal arrangement. World Bank (2003) also measures progress of Ethiopia's decentralisation along with that of 29 other African countries, using the number of elected sub-national tiers, existence of direct elections for local governments, turnout and fairness of elections and other indicators to measure progress in African decentralisation. However, it links the actual political and administrative power constellation under decentralisation with intergovernmental fiscal relations.

This study argues that, in the context of the present Ethiopian ethno-federalism, given the relative variation in socio-political and economic conditions of the regional states, the introduction of the intergovernmental fiscal relations reform, which was intended to create autonomous regional governments with devolved political, fiscal and administrative powers, was appropriate. However, it contends that the EPRDF has derailed the intergovernmental fiscal relations reform and effectively controlled the regional states through the political and administrative institutional arrangements in a neo-patrimonial regime setting. Accordingly, this study addresses the following two major objectives while taking Ethiopia's experience in intergovernmental fiscal relations reform during the past decade into account:

(i) to identify and analyse factors in the political and administrative institutional arrangements in a neo-patrimonial regime, which sustain central dominance on expenditure and revenue assignments and regional governments' uniform dependence on central government subsidy, policy guidelines and administrative instructions;
(ii) to examine the relevance of conventional decentralisation theories as applied in Ethiopia and suggest an alternative neo-patrimonialism based theory of decentralisation that explains Ethiopia's intergovernmental fiscal relations reform.

1.5 Conceptual Framework and Research Concepts

Unlike theoretical argument that warns about the dangers of applying conventional decentralisation theories in developing countries, this study views theories as generally having the potential to help locate problems and provide guidelines and justifications for the design, sequencing and implementation of decentralisation reforms. Nonetheless, it argues that, since many of the theories are prescriptive, they have little potential to help explain the causes of the derailment of decentralisation reforms under neo-patrimonialism. Accepting the argument that bottlenecks created by institutions govern the design and implementation of intergovernmental fiscal relations reform, this study investigates selected political and administrative institutional arrangements more deeply to explain the derailment of decentralisation reform in Ethiopia. Accordingly, the conceptual framework that examines Ethiopia's intergovernmental fiscal relations is orientated towards institutional analysis and focuses on institutions that shape decentralisation reforms in neo-patrimonial regimes.

The literature provides complex definitions of institutions, typologies of institutions, relationships between institutions and interests, and ideas of neo-institutionalism in various social science fields (economics, organisation theory, sociology, political science, public choice, history and psychology). DiMaggio and Powell (1991: 1) point out that 'institutionalism purportedly represents a distinctive approach to the study of social, economic and political phenomena; yet it is often easier to gain agreement about what it is *not* than about what it *is*.' For instance, neo-institutionalism in political economy focuses exclusively on economic or political rules of the game, that is, frameworks of rules, procedures and arrangements, or prescriptions about what actions are required, prohibited and permitted; but sociologists find institutions everywhere, from handshakes to marriage to strategic-planning departments (*ibid.*). Lane (2000: 217) also identifies differences among theorists, some of whom take institutions to be property rights, conventions and types of contracts, while others consider them to be firms, markets and relational contracting. North (1990)'s definition is also different, as it regards institutions as rules of the game (formal and informal) and distinguishes between institutions and the strategies (organisations) that players in the game employ.

Theories of neo-institutionalism provide a framework to answer basic questions on how institutional arrangements shape, mediate and channel social choices. The theories share a common assumption, which is scepticism towards atomistic accounts of social processes. In other words, they doubt the validity of rational-actor or functionalist frameworks that interpret collective political and economic behaviour as aggregate consequences of individual behaviour. Rather, all neo-institutionalism theories converge on one conviction, that 'institutional arrangements and social processes matter' (DiMaggio and Powell, 1991; Friedland and Alford, 1991).

Many studies employ and appreciate institutional analysis. The World Bank's study of Africa's management affirms that poor economic and political achievement in sub-Saharan Africa is largely due to lack of institutions along with a lack of the necessary legitimacy, accountability, stability, enforceability and incentives; and to patrimonial distortions in the management of the state (Dia, 1993, 1996). Dia argues that 'lack of social, political and economic development in post-independence sub-Saharan Africa is largely attributable to crises of institutions' (*ibid.*). Olson (1991), analysing administrative reforms in the West, contends that institutional and historical contexts within which reforms take place influence the content and implementation of comprehensive administrative reform programmes. Also, studies on decentralisation in developing countries have started to emphasise the absence and/or weakness of institutions as the main reason for the failure of decentralisation reforms (Litvack *et. al.*, 1998). North (1990)'s argument about the link between institutions and economic performance is widely accepted. Lane (2000) appreciates institutional analysis as highly relevant to understanding policy processes in countries that have traditionally relied on top-down implementation and planning models. Others (for example, Fozzard, 2001; Lowndes 1996) also suggest that focusing on institutional arrangements is central to analysing and understanding issues in public administration.

North (1990: 3) defines institutions as the rules of the game in a society or, more formally, humanly devised constraints that shape human interaction. They structure incentives in human exchange, whether political, social or economic. Many writers in the field of public administration and public management accept this definition. For instance, Lowndes (1996) defines institutions as part of the broad social fabric and the medium through which day-to-day decisions and actions are taken. These can be expressed in organisational forms but also relate to processes (the way things are done) and involve formal rules and laws, but they also have elements of informal norms and customs. Lane (2000) views institutions as rules or norms resulting in formal or informal rights and obligations, which facilitate exchange by allowing people to form stable and fair expectations about the actions of others. Some studies on decentralisation (for example, Azfar *et al.*, 1999 and Litvack *et. al.*, 1998) have employed parallel definitions.

This study, too, regards institutions as formal and informal rules and procedures that shape the outcomes of decentralisation reform programmes. It argues that institutional elements for decentralisation are rooted in the political and administrative systems of a given country. This is because decentralisation reforms are mainly political decisions, and political and administrative systems determine their success. In the light of this definition and following Olson (1991), this study analyses political and administrative arrangements as institutions because they are seen as a bundle of rules that define distribution of power among central and regional actors, provide incentives and impose sanctions, shape agents' relationships and behaviour, change relationships between various levels of government, and provide a set of standard operating procedures and structures that define and defend values, norms and interests.

Institutional analysis has many advantages that are useful in explaining successes or failures of decentralisation reforms. Some of them are (Lane 2000; Olson, 1991):

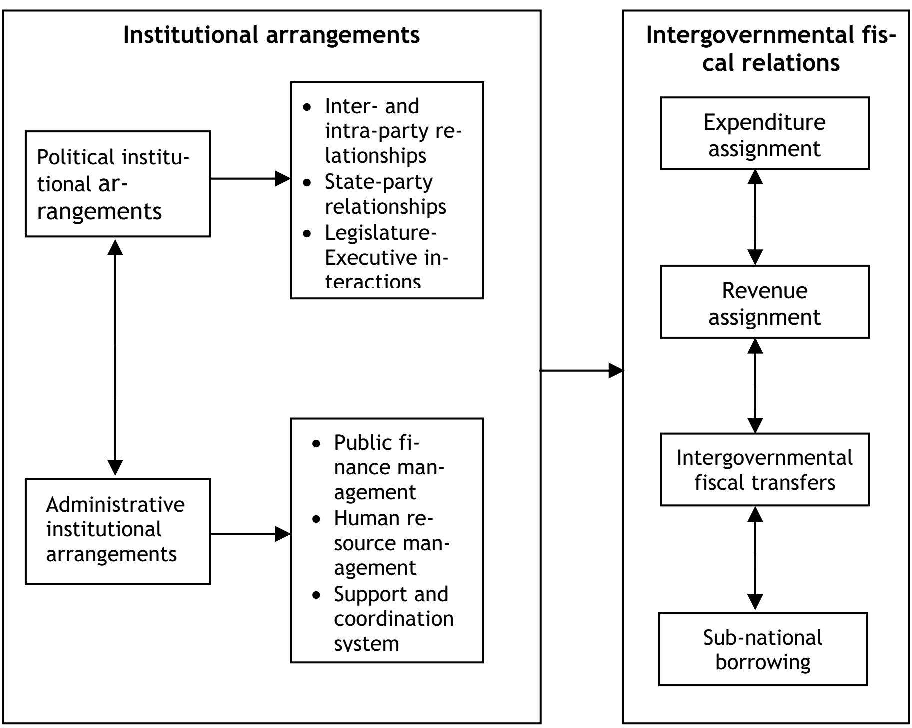
- Institutional analysis asserts that without adequate institutional arrangements comprehensive administrative reforms are more likely to be turned into a 'garbage can' process and to be derailed and defeated.
- It argues the risk of path dependency or the process through which earlier institutions shape/condition the development of new ones.
- It states that institutional arrangements can only be just if they can be freely agreed by equally well-placed parties.
- It warns that duplication of institutional models without considering the capabilities of governments and citizens and their value to those they are supposed to serve can waste scarce resources.

The above understanding of institutions and institutional analysis as well as the earlier discussion on the research problem led the author of this study to construct an alternative conceptual framework for analysing Ethiopia's intergovernmental fiscal relations reform. The framework is based on the realisation that, in order to understand and explain intergovernmental fiscal relations reform in countries like Ethiopia, which have a strong tradition of neo-patrimonalism or personalised power and patron-client relationship, there is a need to analyse the de facto political and administrative institutional arrangements. Accordingly, the study questions the application of conventional decentralisation theories because there is a misfit between the assumptions of the theories and the political and administrative institutional arrangements in a neo-patrimonial regime setting.

In fact, as indicated above and elaborated in Chapters 2, 6 and 7, the theories suggest the need for adequate political institutions for successful decentralisation. For instance, the proponents of the welfare economics model and new public management theory take for granted the existence of adequate political institutional arrangements (Oates, 1972; Musgrave, 1989). Some exponents of the intergovernmental fiscal relations school contend that the problem lies in the absence of political choice mechanisms in developing countries (Prud'homme, 1995; Smoke, 2000; Winkler, 1994). Writers that follow the institutional approach and the theory of democratic decentralisation suggest the need for adequate political institutional arrangements for decentralisation (Litvack *et al.*, 1998; Olowu and Wunsch, 2004). The theories agree on the need for elections as a mechanism for revealing expenditure and tax preferences and for holding political and bureaucratic officials accountable. They emphasise the importance of civil society, multi-party politics and popular participation for effective decentralisation. The theories also bring out the need for administrative institutional arrangements. For instance, the intergovernmental relations school describes and prescribes different administrative modalities such as integrated approaches of human resource and public finance management systems. The welfare economics model and new public management theory take for granted the existence of decentralised administrative arrangements in countries that follow decentralised federal or unitary political systems.

This study contends that the elements in political institutional arrangements that are commonly suggested by the conventional decentralisation theories, cannot explain the outcomes of decentralisation under neo-patrimonial regimes. Under such regimes there are periodic elections, in some cases with high voter turnout. In reality, such elections are not used to reveal voter preference and hold public officials accountable; rather, they are façades to maintain the dominance of one party and its leaders. In addition, multi-party politics is a pretence in such circumstances, civil societies are not actively engaged in the political process and popular participation is undermined. Under such regimes, there are administrative institutional arrangements but they are not effective in managing societal preferences and available resources in a coordinated manner, nor do they allow autonomy to sub-national governments. In short, this study argues that, while the political and administrative factors suggested by the conventional decentralisation theories are important, they cannot fully explain how decentralisation reforms are derailed through political and administrative institutional arrangements in a neo-patrimonial regime. It suggests the need for considering specific institutional variables that govern the design and implementation of decentralisation reforms.

Fig. 1.2
Conceptual framework of study



Since the elements of institutions that govern and have impact on decentralisation reforms are varied and complex, the conceptual framework of this study focuses on selected concepts or variables within the political and administrative institutional arrangements. Figure 1.2 depicts the conceptual framework of this study.

The conceptual framework envisions a relationship between the independent variables (political and administrative institutional arrangements) and dependent variables (the four elements of intergovernmental fiscal relations). It suggests that in countries like Ethiopia, which have a tradition of neo-patrimonialist regimes, the design and implementation of expenditure assignment, revenue assignment, intergovernmental fiscal transfers and sub-national borrowing are shaped by political and administrative institutional arrangements.

This study identifies three important research concepts relating to political institutional arrangements:

- *Intra- and inter-party relationships* involve political party systems or institutional mechanisms that guide relationships between central and regional ruling political parties, especially in shaping autonomy and accountability of regional parties in expenditure prioritising, mobilisation of resources and participation in setting national policies. They include inter-party relationships or the processes by which opposition parties provide alternative voice mechanisms for people to express their demands and aspirations. They reflect whether rules in the political party system are conducive to different political groupings constraining the power of the ruling party to centralise intergovernmental fiscal relations.
- *State-party relationships* refer to arrangements that shape interaction between the State and the ruling political party. They reflect the autonomy of the State as different from the party in power. They involve different rules and procedures, especially on elections or the mechanisms through which different actors assume power in the party, State and bureaucratic apparatus. The arrangements consider representation of different political parties in the State apparatus and the roles played by them in expenditure planning as well as resource mobilisation and allocation.
- *Legislature-Executive relationships* cover rules governing the power relationship between legislative and executive branches of government; agenda setting and legislative oversight (cross-examinations and hearings); and Executive reporting (Executive complying with the wishes of the elected representatives). The arrangements determine, among other things, allocation and distribution of resources (national budgeting or economic policy-making); the centre-region political relationship; and Executive accountability and responsiveness.

The general consideration of political institutional arrangements fits well with arguments by Wunsch (2001) on Africa and Eaton (2001) on Argentina and the Philippines, who demonstrate the impact of political processes on implementation of decentralisation policies. Eaton especially (citing Manor, 1999; Samoff, 1990; and Schonwalder, 1997) emphasises the consensus that political factors shape responses to decentralisation reforms. The World Bank also sees political processes as playing a crucial role in socio-economic development: '…underlying the litany of Africa's development problems is a crisis of governance' (World Bank, 1989).

The administrative institutional arrangements entail different functions, institutional structures and processes that shape and guide the design and implementation of decentralisation reforms. This study identifies three main concepts that have direct linkage with intergovernmental fiscal relations:

- *Public financial management* includes rules and standard procedures in expenditure planning, budgeting, revenue administration and intergovernmental fiscal transfer administration. It mainly consists of medium-term forecasting of public expenditure and revenue; preparation, execution and control of annual fiscal outlays and income; taxpayer registration, collection, accounting and enforcement; and notification, disbursement and auditing of subsidies. These arrangements serve to enable planning and management of diverse activities, efficient allocation of resources, response to demands of citizens and groups, and assessment of past performance. Their role in intergovernmental fiscal relations is critical.
- *Human resource management* concerns the rules governing the human resource system (recruitment, selection, placement, performance appraisal, training, promotion and reward system, communication, and job design) and the arrangements that shape incentives and constraints for adequate performance of personnel at all levels of government. They determine competency and efficiency of sub-national governments in identifying and analysing local problems, planning appropriate responses and mobilising resources.
- The *system of coordination and support* involves arrangements in horizontal and vertical coordination of tasks between and within levels of government, which are important in clarifying expenditure and revenue assignments. The arrangements also include different fora to dis-

cuss and obtain consensus among different actors involved in intergovernmental fiscal relations. Support mechanisms involve processes of upgrading administrative and technical capacity of local governments through training, introduction of new management techniques and temporary deployment of technical staff.

As with the general understanding of political institutional arrangements, some writers appreciate the impact of administrative institutional arrangements on decentralisation reforms (Bird, 2000; Schiavo-Compo and Sundaram, 2001). According to Tanzi (2001), 'the real science and art of designing and implementing better intergovernmental fiscal systems inevitably lies in the hands of those who must apply the principles'. Azfar *et al.* (1999) point out that how decentralisation policies are implemented and whether they are implemented as designed depends on the rules that govern the behaviour of civil servants. They argue that such administrative institutional arrangements can improve incentives by reducing information asymmetries and the potential for moral hazard, abuse and corruption. Kiggundu (1989) suggests that in countries that are trying to bring about economic, social and political development, the need for administration is obvious and the constraints so imposed become more apparent and frustrating.

The above brief description concerns the independent variables. This study contends that the above six elements are not given due consideration by many studies that employ conventional decentralisation theories. The dependent variables are the four dimensions of the Ethiopian intergovernmental fiscal relations: expenditure assignment, revenue assignment, fiscal transfer and sub-national borrowing.

1.6 Research Questions, Research Sites, Data Collection and Analysis

1.6.1 Research questions

This study accepts that, unlike the previous Ethiopian regimes, the EPRDF has introduced a decentralised form of government with the intention of creating regional governments that have devolved political, economic and fiscal powers. It has also launched other political and administrative reforms, including a multi-party political party system, regular elections, three branches of government, human right conventions, and a market economy. Nonetheless, the reform measures have not achieved the expected results because the EPRDF moved from inclusive politics to exclusionary politics, controlled the three branches of government, appointed its loyal political cadres to positions in the bureaucratic structure and recentralised the Ethiopian state. The EPRDF has thus acquired the features of a neo-patrimonial regime, which explains the derailment of the Ethiopian decentralisation experiment. As explained above in the conceptual framework, six elements in the political and administrative institutional arrangements in a neo-patrimonial regime setting explain the central government's dominance in expenditure and revenue assignments over regional governments, lack of regional diversity in the pattern of expenditure prioritising and revenue collection/administration, heavy dependence of regions on central subsidies, and absence of borrowing by regional states. On the basis of this understanding, the study investigates the following major and specific research questions.

The major research question is: Why and how does the central ruling party derail decentralisation reform through the political and administrative institutional arrangements in a neo-patrimonial regime setting and sustain its dominance over expenditure assignment, revenue assignment, fiscal transfers and borrowing; and reduce regional diversity on expenditure policies and programmes, patterns of revenue collection and dependence on central government subsidies?

The specific research questions are:

- How does the central ruling party, through intra-party and inter-party relationships, State-party relationships and legislature-Executive relationships, derail the decentralisation reform and diminish regional governments' power of expenditure and revenue assignment, fiscal transfers and borrowing?
- In what ways do public financial management, human resource management, and support and coordination systems explain the increased central government control as well as diminished role and lack of diversity among regional governments in intergovernmental fiscal relations?
- Are the conventional decentralisation theories compatible with the political and administrative institutional arrangements in a neo-

patrimonial regime setting? Can these theories explain intergovernmental fiscal relations reform as it has evolved in Ethiopia?

- What insights can the alternative conceptual framework and the case analysis provide into how decentralisation reform is derailed, and what are the functionalities of decentralisation in a neo-patrimonial regime setting?

1.6.2 Research sites

As the study investigates the impact of political and administrative institutional arrangements on intergovernmental fiscal relations in Ethiopia, the focus of analysis is the relationship between federal and regional governments. The vertical relationship between regions and lowest levels of government is not considered. This is because the lowest tiers of government, that is, zones, *woredas* and *kebeles*, are not actively involved in expenditure assignment and revenue assignment; rather, they act as implementing agents of regional governments. Nonetheless, the study will highlight some features of the second wave of decentralisation reform, which officially started in 2002 with the aim of implementing the assignment of revenue and expenditure at the *woreda* level of administration. Actually, the new wave started in 2004 and the *woredas* are now implementing expenditure and revenue assignments formally given in the 1995 regional constitutions. As regions are independently structured with limited interactions, this study does not address regional horizontal relationships.

Of the nine regional states in Ethiopia, Amhara, Benshangul-Gumuz and Tigray have been selected as case studies. These three regional governments have varied socio-economic and political settings. They differ in area, population, urbanisation, crude density and ethnic diversity. Amhara, followed by Tigray, has the largest population, land area, crude density and number of *woredas*. Urbanisation is highest in Tigray, followed by Amhara. Benshangul-Gumuz has the highest ethnic diversity (see Table 1.1). Benshangul-Gumuz has the poorest-developed economic infrastructure such as telephone service, postal service, electricity, access roads, potable water and TV.

Whilst the agricultural sector is the mainstay of the economy in all three regions, there are differences in farming systems, land fertility and rural poverty. Tigray and Amhara have a smallholder livestock-cereal subsistence farming system. Both regions have sedentary agricultural populations who use archaic ox-plough farming techniques. The agricultural density (persons per hectare of land) in Tigray and Amhara is 5.9 and 5.0 respectively. Benshangul-Gumuz, with an agricultural density of 3.8, has fertile rangeland but its people are semi-pastoralists who follow hoe-farming agricultural techniques. Land degradation and poverty are higher in Amhara and Tigray as than in Benshangul-Gumuz (Ethiopian Economic Association 1999/2000, 2001/2; Dercon, 1997).

The percentage distribution of manufacturing enterprises also varies in the three regions. In 1998/9 Tigray and Amhara had 3.6 per cent and 6.7 per cent respectively and the share of Benshangul was insignificant. The Ethiopian Economic Association Report (2000/1: 126) indicates that Tigray significantly increased its share of both value added and employment in the manufacturing sector five-fold between 1995/6 and 1998/9, which is mainly explained by the activities of the party-owned manufacturing and service organisations operating in the region. Benshangul has no manufacturing enterprises because it is historically disadvantaged, politically marginalised and incapable of attracting investment to establish a manufacturing sector. Up to July 1998, Tigray, Amhara and Benshangul-Gumuz had 10.55 per cent, 7.55 per cent and 0.84 per cent respectively of the total private investment projects approved nationally (Ethiopian Economic Association, 1999/2000: 45).

The three regions have a different political history. During the last century, the political elite of the Amhara and Tigray regions swapped senior and junior positions in the controlling organs of State power and resources. Since 1991, however, the Tigray political elite have dominated the central State. The political elite in Benshangul-Gumuz have no effective power in either ruling their own region or participating effectively in sharing power at the centre. In fact, the region was only established in its present shape in 1991.

The three regions were selected using various criteria. Regions were first stratified according to percentage of regional dependency (see Table 1.2). Although the differences are not robust, they were sufficient to select representative case study regions. Accordingly, three categories were identified: 90-100 per cent, 80-90 per cent, and 70-80 per cent. Benshangul (94.1 per cent) represents the extremely dependent regions, Amhara (81.1 per cent) represents the averagely dependent regions, Tigray (76.5 per cent) represents the relatively least dependent regions. Political and administrative considerations as well as EPRDF's administrative classification of the nine regional states in Ethiopia as developed and/or emerging regions were also factors in the selection. Accordingly, Tigray was selected because of its political prominence since the current central ruling party is predominantly from this region. Amhara was chosen because it is one of the relatively developed regions and has fairly well-skilled administrative personnel. Benshangul-Gumz was included to represent the emerging regions, which are politically, economically and administratively disadvantaged. Thus, the three case study regions are representative of Ethiopia's regional states.

1.6.3 Data collection and analysis

Data were collected from different agencies of both central and regional governments. These include agencies involved in expenditure and revenue planning, and in budgeting, policy-making and administration of the agriculture, health and education sectors. The three sectors were selected because the main responsibilities of the regional governments are directed towards providing education, health and agricultural services. In other words, the three regional governments' constitutions of 1995 (article 41.4) require regions to allocate ever-increasing resources to providing public health, education and other social services. The three regions also follow a similar national strategy (agriculture-led industrialisation strategy), which demands the primacy of peasant agricultural development throughout the country. Moreover, the three regions spend more than half of their annual expenditure on the three sectors.

The selected central agencies included the Ministry of Finance and Economic Development, Ministry of Federal Affairs, Ministry of Education, Ministry of Health, Ministry of Agriculture, Ministry of Revenue, House of Peoples' Representatives, House of Federation, National Election Board and political party offices. At the regional level, the agencies included Bureaus of Finance and Economic Development, Capacity Building, Civil Service, Education, Agriculture, and Health, as well as the regional offices of Parliament and the Office of the Regional Government.

Empirical data were collected through unstructured interviews and from unofficial and official documents as well as secondary data sources. Interviews were conducted with members of parliament, political and bureaucratic officials, and experts in the ministries and bureaus at central as well as regional levels. Convenience sampling, which is selection of informants based on easy availability and/or accessibility, was employed. Face-to-face interviews were conducted with 161 informants. Whilst this method has the disadvantage of excluding some unknown portion of the population, it is valuable for gathering information on rules, procedures and actual practices from those involved in the process. As the research topic is politically sensitive, informants insisted that their names and reports be kept confidential.

Table 1.5
Number of people interviewed for study, by category

Regions	Political party officials	Members of Parliament	Top bureaucratic officials	Experts and department heads
Federal level	5	5	5	20
Amhara	4	5	8	28
B-Gumuz	5	4	8	25
Tigray	3	2	7	27

The unstructured interview questionnaires were organised to obtain descriptions of the rules and procedures in policy-making and implementation relating to provision of public goods and services, revenue collection and administration, intergovernmental fiscal transfers, sub-national borrowing, the party system, elections, legislature-Executive interaction, planning and budgeting, human resource administration, central interventions and regional responses, and other aspects of intergovernmental fiscal relations.

To triangulate and supplement the interviews, and to balance the consequences of the interview method employed, qualitative data were collected from various reliable sources. The main sources were the minutes of the Transitional Government Council (1991/2-94/5), House of Peoples' Representatives and House of Federation (1995/6-2003/4); the three five-year Development, Peace and Democracy Programmes of central and regional governments (1995–2003); sector development programmes on health and education; annual planning and accomplishment reports of federal ministries and regional bureaus (agriculture, health and education); unofficial conference minutes of the regional and central ruling parties; party programmes; various proclamations; and other relevant documents.

Quantitative data were collected to ascertain the strength of the qualitative information. Data on annual budgeted and actual expenditure, revenue and subsidies were gathered mainly from the federal and regional agencies of finance and economic development and World Bank annual public expenditure reports. Human resource data were collected from the Federal Civil Service Commission.

The fieldwork to gather primary data was conducted in two phases. The first was in 2002, when preliminary data on intergovernmental fiscal relations in Benshangul-Gumuz and Amhara regional states were gathered over two months. The information was used to fine-tune the research propositions and questions. In the second phase, fieldwork was conducted for 14 months in 2003 and 2004 at the federal and regional government levels.

Qualitative and quantitative approaches were used to analyse the data. First, content analysis was used to generate and analyse data from the documents and interviews. According to Verschuren and Doorewaard (1999: 133) there are two stages in content analysis: preparing the data using exact or rough categorisation, and analysing the data though either qualitative or quantitative methods. In this research, rough categorisation and qualitative analysis were used. The interview results and information from documents were recorded on paper using open categories or a list of points of interest for the research theme. Then, the analysis was done by extracting relevant information from the records.

Quantitative analysis was employed to verify the qualitative findings by generating second-order numbers (averages, standard deviations and coefficient of variations) and indices (Spearman rank correlation coefficient, Peterson homogeneity index, t-test, and per capita measures) to analyse dis(similarities) of regional governments in expenditure prioritising and central dominance over the regional governments.

1.7 Organisation of Study

The study comprises eight chapters. Chapter 2 examines the assumptions and proposals of five theories of decentralisation on the four elements of intergovernmental fiscal relations: expenditure assignment, revenue assignment, intergovernmental fiscal transfers and sub-national borrowing.

Chapters 3, 4 and 5 analyse Ethiopia's practice in expenditure assignment, revenue assignment, intergovernmental transfer and sub-national borrowing during the last decade. Each empirical chapter reflects the application of the theoretical assumptions and propositions. On the basis of the alternative conceptual framework, Chapters 6 and 7 discuss how Ethiopia's political and administrative institutional arrangements, in a neo-patrimonial regime setting, shape the design and implementation of the intergovernmental fiscal relations reform. Chapter 8 synthesises the earlier chapters and suggests an alternative neo-patrimonial regime based theory of decentralisation by elaborating three issues: why decentralisation reforms are initiated, why they are derailed, and what are the functionalities of decentralisation to neo-patrimonial regimes. Finally, Chapter 9 provides the research findings and conclusions.

Notes

[1] Keller (1988) points out that the Axumite kingdom was a patrimonial conquest empire held together by force, particularistic loyalty and trade, rather than a highly centralised, bureaucratic administrative state.

[2] Levine (1974) notes that the period was quiet politically. Trimingham (1952) remarks that the dynastic rulers could hardly call themselves 'kings of kings of Ethiopia', for the sphere of their influence was circumscribed.

[3] From the sixteenth to the nineteenth centuries, the Oromo, advancing from the south along the Rift valley lakes, occupied part of the Harare plateau, subjugated most of Shoa, expanded as far as Lasta and penetrated the Sidama (Hadiyya, Wellamo, Sidamo, Enarea and Keffa) and Agew people, occupied the heart of the Christian Amhara-Tigrae regions in the north, moved into the Gibe region and occupied the entire south-western portion of the plateau (Markakis, 1974). Keller (1988: 20) notes that 'there was a good deal of intermarrying between the Amhara and people of Oromo origin and this eventually resulted in the emergence of nobility and even emperors who were not of purely Abyssinian stock.'

[4] The feudal mode of production was not a replica of Western feudalism. The difference was that, in some cases, land rights were vested in the highland peasants themselves, although they still owed tribute and service to their lords. The similarity lay in the fief or piece of land owned by the lord and worked for him by a pool of peasants (Keller, 1988).

[5] Tewedros' key secular and centralising reform attempts were: establishing a regular paid and professional army and bureaucracy loyal to him; forbidding his soldiers to victimise peasants in captured areas; and reducing the power of the Orthodox Church by ending priestly corruption and curtailing its tax exemption. He did not eliminate the local dynasties; in some areas he confirmed their regional base and in others he appointed governors whom he considered to be pliant members of the dynasty (Bahru, 1991; Keller, 1988).

[6] Tewedros had asked the British for arms to help him expand his empire. Insulted at receiving no reply to his letter, he took British consular officials hostage. This eventually led to the military expedition that defeated his forces.

[7] The major reasons for Menelik's territorial expansion included not only his ambition to create a larger Ethiopia, but also the tradition of territorial expansion by his predecessors, the desire to control the sources of lucrative long-distance trade, the need to forestall the race for territory by the colonial powers, his ability to raise a large army and his easy access to firearms (Markakis, 1974).

[8] In 1908 Menelik officially proclaimed his grandson, Lij Eyassu, his heir. However, the Shoan nobility did not like Eyassu as he was allied with the nobles of Gojjam, Tigre, southern Oromo and Muslim groups. He was also accused of betraying the Christian throne. Eyassu was deposed in a palace coup and replaced by Menelik's daughter. Haile Sellassie, who was not a direct heir to the throne but had royal lineage, was appointed Regent and heir to the throne (Markakis, 1974).

[9] The provincial administrators were responsible for implementation of directives issued by cabinet ministers, especially the Ministry of the Interior. All civil servants were appointed and paid from the centre (Keller, 1988)

[10] Clapham (1988) observes that, like the colonial governments in Africa, the imperial regime found it necessary and expedient to govern at least some of its provinces through dynasties that enjoyed some local authority.

[11] The order formally provided for elected district councils, participation of the people in local government and provision of services by local administrators (Keller, 1988).

[12] This outcome was similar to that in many developing countries where modernisation policies produced little more than roads, schools and hospitals in a few urban areas, and reinforced income disparities and inequality of access to life opportunities. The policies made the poor even poorer and led progressively to a more authoritarian regimes (Dwivedi and Nef, 1982)

[13] Kiflu Taddesse (1993) notes of this development: 'it was during this period that, probably to the surprise of many, some Addis Ababa born and reared

Tigringa speakers and Oromos started speaking in their first language on the university campus and elsewhere. Oromo ethnic identity was galvanised by the formation of the Mecha and Tuluma Association. Similar feelings were aroused among Tigray students who believed that their poverty stricken province was condemned to eternal stagnation by its exclusion in the Amhara dominated State bureaucracy.'

[14] The Dergue comprised 126 soldiers below the rank of lieutenant-colonel and non-commissioned officers drawn from the armed force and the police, under a single, undisputed leader, Mengistu Hailemarriam.

[15] The programme contained a vaguely phrased statement that 'every regional administration and every village shall manage its own resources and be self sufficient.'

[16] MEISON and EPRP were formed in 1968 and 1972, respectively, as clandestine political parties and played a considerable role in overthrowing the Haile Sellassie regime. However, they failed to build a common front even though they shared the same ideology and objective. Both groups viewed Ethiopia's problems as being primarily based on class and secondarily as national oppression.

[17] The mass organisations include the Revolutionary Ethiopia Youth Association, Revolutionary Ethiopia Women Association, All-Ethiopian Peasants Association, Urban Dwellers Association, and All–Ethiopian Trade Union.

[18] Political education was provided at the ideological school in Addis Ababa and at institutions in Eastern Europe and China.

[19] As Clapham (1988) notes, the land reform caused local administration virtually to collapse overnight because it wiped out the network of unpaid local landlords and their clients on whom the government had relied in the past below the *woreda* level. No one else could fill the vacuum. The Ministry of the Interior did its best to appoint new administrators, both at the *awraja* (provincial) and *woreda* levels, as it replaced all 102 *awraja* administrators and 313 of the 556 administrators at the *woreda* level.

[20] The peasant associations followed the bureaucratic chain from the centre to the local level; their duties included distributing land, implementing central government land-use directives, establishing judicial tribunals and marketing and credit cooperatives, and constructing schools, clinics and similar institutions under the guidance of the central government.

[21] Berhanu Nega and Teshale Tibebu (1989) note that it was during this time that the Eritreans referred to an independent Eritrea in the fourteenth and fifteenth centuries; the Oromo talked about the great Oromo nation before Menelik; and the Tigreans proudly recalled Axum.

[22] Luelseged Ageze (2000) 'Fiscal Decentralisation and Development in Ethiopia: A Preliminary Assessment (Inter African Group, April 26-29); and Wasse Azashe (2001) 'Fiscal Decentralisation Policy: The Ethiopian Experience' (Ethiopian Economic Association 11th annual conference, November).

2 Decentralisation: A Theoretical Exploration

2.1 Introduction

Decentralisation is commonly understood as the distribution of decision-making power and responsibilities from the centre to levels of government and the private sector. However, decentralisation is a complex and multidimensional concept[1] and there is disagreement as to the availability of theories to explain it. Wunsch (1991: 15) look in vain for specific theories that clearly provide guidelines on the when, why and how of decentralisation whilst others affirm that theories are available. This study identifies two broad theories on decentralisation.

The first provides two frameworks, the 'legal model' and 'public sector tasks model' (Cohen and Peterson, 1999: 19-23). The former elaborates legal models of government relations. It makes a distinction between unitary systems and non-centralised federal-based systems and describes the legal characteristics of federal and state governments.[2] The public sector tasks model emphasises the various forms of distribution of government power to different actors and organisations in society and classifies decentralisation into six frameworks:

(i) historical origin (French, English, Soviet, traditional types);
(ii) hierarchy and functions (territorial and functional decentralisation);
(iii) problem under scrutiny and the values of the investigators;[3]
(iv) pattern of administrative structures and functions (local-level government system, partnership system, dual system and integrated administration system);
(v) political authority and autonomy (emphasis on devolution);
(vi) objectives of decentralisation (political, spatial, market and administrative).

The second theory on decentralisation provides three broad models: 'voluntarist', 'welfarist', and 'post-welfare' (Bennett, 1994: 15-19). The voluntarist model considers decentralisation as being similar to earlier collective service provision through charitable organisations in the Western world. The welfarist model takes decentralisation as a situation where lower levels of government accept administrative responsibilities for service delivery and the central government assumes formal legal responsibility over activities of lower levels of government, controls buoyant tax sources and provides grants to lower levels of government. The post-welfare model regards decentralisation as market-based decentralisation or assignment of service delivery responsibilities to the private sector.

In short, the first theory clarifies the forms of decentralisation and the second provides three models of decentralisation based on its historical development in the Western world. This chapter elaborates five theoretical approaches on intergovernmental fiscal relations that are partially based on ideas provided by the two major theories. These approaches are: the welfare economics model, intergovernmental relations school, institutional approach, new public management theory, and theory of democratic decentralisation. The welfare economics model shares some of the issues raised by Cohen and Peterson's legal model and Bennett's welfarist model. New public management theory is similar to Bennett's post-welfare model. Cohen and Peterson's public sector tasks model reflects the forms of decentralisation. Whilst these two theories provide an understanding on different aspects of decentralisation, they do not provide a complete discussion of the emerging approaches used to inform the design and implementation of intergovernmental fiscal relations reform in developing countries.

While reviewing the literature on decentralisation in both the developed and developing world, this chapter identifies five decentralisation approaches. It examines the basic assumptions and arguments of each approach as they relate to the four elements of intergovernmental fiscal relations: Why and how are expenditure responsibilities for public service provision divided among levels of government? How are revenue sources assigned to different levels of government? What justifies the need for intergovernmental fiscal transfers and how are they designed and implemented? Why is sub-national borrowing needed and how is it designed and implemented? The theoretical discussions will serve as a foundation for analysing the intergovernmental fiscal relations reform in Ethiopia.

2.2 Defining Decentralisation

Deciding on a precise and acceptable conceptual definition and classification of decentralisation is fraught with problems.[4] These include methodological problems related to language,[5] measurability, and difficulty of differentiating between degrees of decentralisation within a single country at a given time (Fesler, 1965: 537); different usage of the term in different contexts (Conyers, 1984: 187); methodological confusions due to invention of new terms and inconsistent use of established terms (Cohen and Peterson, 1996); and complexity of the issue of decentralisation, which has many forms and several dimensions (Litvack *et al.*,1998; Olowu, 2001).

This study relies on the more representative academic usage of the term and takes into account the definitions and classifications provided by Bennett (1994) and Rondinelli (1981, 1999). Bennett (1994: 11) identifies two types of decentralisation: intergovernmental decentralisation, which involves transfer of authority, responsibilities and resources to different levels of government, and market-based decentralisation, which involves transfer of responsibilities from governments to the market, quasi-market and non-governmental organisations.

Rondinelli (1981: 137) defines decentralisation as

> …the transfer or delegation of legal and political authority to plan, make decisions and manage public functions from the central government and its agencies to field organizations of those agencies, subordinate units of government, semi-autonomous public corporations, area-wide or regional development authorities; functional authorities, autonomous local governments, or non-governmental organizations.

Rondinelli lists two main forms of decentralisation: functional and territorial; and three types of decentralisation: deconcentration, delegation and devolution. While his earlier-quoted definition did not include privatisation or economic decentralisation, later Rondinelli (1999: 2) defined decentralisation as the transfer of authority and responsibility for public functions from the central government to subordinate or quasi-independent government organisations and the private sector. He takes decentralisation to include political, administrative, fiscal, and market decentralisation.

On the basis of the above definitions and classifications, we end up with four types of decentralisation, namely deconcentration, devolution, delegation and privatisation. Deconcentration is transferring administrative functions to subordinate sub-national units; delegation is transferring complex tasks and responsibilities to semi-independent authorities; devolution is a transfer of power to sub-national political entities answerable to their electorates; and privatisation is a shift of responsibility for functions from the public sector to the private sector. This typology correlates with the widely used breakdowns followed by several authors (Cohen and Peterson, 1999; Gasper, 1991; Helmsing, 1991; Litvack *et al.*, 1998; Olowu, 2001; Schiavo-Compo and Sundaram, 2001; Uphoff, 1986).

This study focuses on devolution for several reasons. First, the empirical case study, which analyses Ethiopian intergovernmental fiscal relations, officially involves this type of decentralisation. Second, devolution is the most extensive type of decentralisation and its study enables us to understand the administrative, political, financial, market and territorial aspects of decentralisation. Finally, from a methodological standpoint, examining one aspect of decentralisation simplifies the theoretical and empirical analysis. Thus, this study views decentralisation as devolution or the transfer of political, administrative and financial authority and responsibilities to sub-national governments, which have legally delimited geographic and functional domains. The empirical work and theoretical discussion will use this definition. The next sections elaborate the five theoretical approaches.

2.3 Welfare Economics Model

As the label suggests, the welfare economics model for decentralisation has its roots in welfare economics, a field of study that analyses how an economic system attains equitable distribution of income and efficient allocation of resources (Oates 1972: xii). The model offers a broader insight into two interrelated issues: the roles of the government in a market economy and the division of economic functions among levels of government.

The roles of the government in a market economy, as pointed by Musgrave (1989), include enhancing the role of the market to provide what consumers want most and in the cheapest way (efficient resource use); providing the legal structure needed for contractual agreements and exchanges; providing goods whose production and consumption character have externalities or can lead to market failure; adjusting distribution of income in a socially desirable way; and achieving high employment, price level stability and socially desired economic growth.

These roles are summarised as the three economic roles of the public sector: stabilisation, distribution and allocation.

Stabilisation involves attaining macro-economic objectives – high employment and an acceptable degree of price stability, foreign account position and rate of economic growth. Attaining such objectives requires, among other things, regulating the level of aggregate demand in an economy, which in turn determines levels of employment and prices. In some cases, the level of aggregate demand may be insufficient, causing unemployment; in other cases it may be excessive, resulting in inflation. These macro-economic problems are not self-correcting and their resolution cannot be left to the market. Rather, they require government intervention in two main areas: monetary policy (expanding and restricting the money supply in the economy) and fiscal policy (regulating the level of aggregate demand by manipulating public expenditure, taxes and the deficit).

Distribution involves adjusting distribution of income and wealth in conformity with what society considers to be 'fair' or 'just'. Distribution of income among individuals in a given society depends on factor endowments and the market prices of the factors. If left to the market, distribution may result in substantial degree of inequality in a society. The public sector, however, can achieve a relatively fair degree of distribution of income and wealth through policy instruments such as tax-transfer schemes, progressive taxation of high incomes, subsidies to low-income households, and so on.

Allocation entails efficient provision of goods and services and this function is shared between the public sector and the market. Goods are categorised under a continuum of pure public goods and pure private goods, based on the consumption characteristics of rivalry (rival or non-rival) and excludability (whether it is feasible or non-feasible to exclude some consumers). The market provides private goods (which are rival and whose characteristics make exclusion of some consumers feasible). The public sector supplies public goods (which may be non-rival and with characteristics that make exclusion of some consumers unfeasible; or rival and with characteristics that make exclusion unfeasible; or non-rival and with characteristics that make exclusion feasible). The welfare economics model argues that the market is inefficient in providing public goods because it is impossible to give an exclusive title to the property exchanged and/or costly to exclude any one consumer from partaking in the benefits. The public sector, however, provides public goods efficiently by using voting as a means of preference revelation (using 'voting by ballot' in place of 'voting by dollar bid') and financing via the taxation system and subsidies.

Using the above argument, Oates (1972) contends that in the absence of public sector intervention, the level of aggregate spending in the private sector will not induce full employment with stable prices. Instead, it will tend to be characterised by periods of waste caused by idle resources or inefficiencies, inequalities generated by excessive spending, and price inflation. In addition, distribution of income generated in a competitive market system will not result in the most desirable pattern of income distribution, and provision of public goods and services will not result in efficient allocation of resource use due to externalities, decreasing-cost industries and market imperfections.

The main issue in government decentralisation is the division of the three economic functions of the public sector between levels of government. Musgrave (1989: 455) and Oates (1972) are in favour of the following division.

Stabilisation is the responsibility of the central government. This is because lower levels of governments are ineffective in dealing with macroeconomic problems (unemployment or inflation) as they have less access to fiscal and monetary policies and are unable to manage periodic budgetary deficits or surpluses through borrowing and control of the money supply (Musgrave, 1989). Oates (1972) supports this, noting that the central government has a greater capability to maintain high levels of employment with stable prices. He argues that, as cyclical movements in aggregate economic activity are largely national in scope, it is appropriate to treat counter-cyclical policies on a nationwide scale, too.

Distribution is also the task of the central government. Desirable distribution of income, among other things, requires the transfer of certain amounts of income through taxation from the wealthy to the poor. If lower levels of government assume this function, Oates (1972) argues, there is a high possibility that they may adopt a strong negative income-tax programme for attaining equal distribution of income. This might create a strong incentive for the wealthy to move to areas controlled by other local governments and for the poor to migrate to areas where they benefit most. Oates (1972) views such actions by local governments as inducing economic inefficiency, especially locational inefficiencies, as economic units will be forced to migrate to other locations. Musgrave (1989) also notes that decentralisation reduces the capacity of local governments to undertake redistribution policies.

Allocation is the responsibility of all tiers of government. Oates (1972) points out that some of the goods and services might be of such a character that they confer significant benefits on everyone in the country. In such cases, provision by the central government better approximates the efficient level of output. Similarly, Musgrave (1989: 454) states, 'economic analysis suggests that provision for social goods proceeds through a multi-jurisdictional setting, with national goods provided centrally and local goods provided on a decentralised basis'.

The above conceptual structure of the three roles of government and the division of these roles among levels of government are the basis of the following cardinal arguments of the welfare economics model regarding the four elements of decentralisation.

2.3.1 Expenditure assignment

The welfare economics model assigns expenditure responsibilities to various levels of government on the basis of the principle of 'spatial limitation of benefit incidence'. Musgrave (1989: 446) explains this principle: 'Since benefit incidences of various social goods is subject to spatial limitation, each service should be decided upon and paid for within the confines of the jurisdiction in which the benefits accrue.'

Musgrave (1989) goes on to elaborate that, according to this principle, which is also understood as allocation efficiency, local governments provide goods consumed and paid within their jurisdiction and avoid provision of public goods with spillover effects. The central government is responsible for public goods and services with nationwide benefit incidence or with a high degree of non-excludability (for example, national defence, foreign relations). Regional governments provide services with regional benefit incidence (for example, highways). Local units are responsible for services with local benefits (for example, streetlights).

Using similar arguments, Oates (1972) proposes that in order to attain economic efficiency, the centre should assume primary responsibility for providing public goods that significantly affect the welfare of individuals in all jurisdictions, and local governments should provide public goods preferred by members of the locality. His argument is based on economics of scale (production efficiency), which augments the benefit incidence principle (allocation efficiency) argument.

Accordingly, Oates puts his decentralisation theorem as follows:

> For a public good – the consumption of which is defined over geographical subsets of the total population, and for which the costs of providing each level of output of the good in each jurisdiction are the same for the central or the respective local governments – it will always be more efficient (or at least as efficient) for local governments to provide the Pareto-efficient levels of output for their respective jurisdictions than for the central government to provide any specified and uniform level of output across all jurisdictions. (*ibid.*: 35)

Oates further argues that the most desirable division of responsibility among levels of government is 'a state in which each good is provided by a level of government that encompasses precisely the subset of the population whose level of welfare is influenced by the output of the goods' (*ibid.*: 52). Nonetheless, he indicates that there are complex problems in assigning expenditure responsibilities among levels of government. These problems include variability in the size of the group that jointly consumes the good, inter-jurisdictional externalities, the decision-making cost of public action, and the costs of congestion resulting from mobility of consumers. He encapsulates the problems as 'imperfect correspondence in the provision of public goods' and recommends sticking to the principles of allocation and production efficiency and using, among other things, intergovernmental grants to deal with imperfect correspondence.

Tiebout (1956: 418) hypothesises that if each local government provides a distinct package of taxes and public goods, individuals will be able to work out the balance of taxes they must pay against public services they receive to choose the communities in which they wish to live. For him, decentralisation leads to competition between lower levels of government, as it creates many diverse jurisdictions and provides members of communities with opportunities for 'voting with feet' or choosing among communities that provide a fiscal package well suited to their preferences. He argues that local provision is efficient where the benefits are local and central provision is efficient where the benefits are nationwide. Decentralisation creates small decision units or communities that have full autonomy in public good provision to maximise their benefits and minimise their costs.

2.3.2 Revenue assignment

In revenue assignment, the welfare economics model follows the general framework of the three economic roles of the public sector described earlier. The model distinguishes between benefit taxes (mainly used for carrying out the allocation functions) and ability-to-pay taxes or non-benefit taxes (primarily used for stabilisation and distributive functions). Benefit taxes are assigned to all levels of government and non-benefit taxes to the central government. Nonetheless, as Oates (1972) argues, non-benefit taxes can serve to carry out the allocation functions, as benefit pricing typically characterises the provision of only a few public goods in most societies. Lower levels of government may also utilise ability-to-pay taxes, even though the general principle is to place increased reliance on benefit taxes as one proceeds from the central to lower levels of government (*ibid.*).

Like the assignment of expenditure responsibilities, the division of revenue sources among levels of government is based on the benefit principle. Musgrave (1998) explains, 'the logic of arranging fiscal structures in line with benefit regions is to enable people to "buy" and enjoy such levels and mixes of public services as suit their preferences'. Accordingly, the central government uses an area-wide (national) tax to finance area-wide services since all people (independent of location) benefit and hence should contribute; lower levels of government use local (regional) taxes to finance services provided to local communities. Musgrave cautions that the benefit principle should not interfere with trade or the location of production within the national region. If two jurisdictions trade with each other, both income and products should be taxed by the jurisdiction where production occurs or the service is provided. Similarly, Tiebout (1956) proposes that local governments should rely on benefit taxes that correspond with the provision of local public goods. Residents of each benefit region or jurisdiction should pay for the services which that jurisdiction provides. Oates (1972) also supports the application of the benefit rule to revenue assignment to reduce economic inefficiencies that arise from inter-jurisdictional mobility of economic units (households and business enterprises). He argues that mobility provides an avenue to escape from local taxation with the resulting inefficiencies in resource use and frustration of distributional objectives. Thus, higher levels of government should employ mobile taxes or non-benefit taxes to the extent that they are needed.

Oates (1972: 131-40) and Musgrave (1998: 470-1) suggest the following revenue assignments between the two levels of government.[6]

- Progressive/proportional personal, corporate income taxes and sales taxes are non-benefit taxes, which should be under the central government. This is because income taxes impose higher tax on high-income economic units and less tax on poorer residents. They provide an incentive for high-income economic units to move to other localities with less burdensome tax packages and for poorer residents to move to localities that provide public goods for a relatively low tax price. This induces locational inefficiencies. Similarly, tax units with relatively high levels of expenditure pay higher sales tax and possibly travel outside the community to purchase less-taxed goods and services. This also causes a burden in terms of time and money. Thus, assigning non-benefit taxes to sub-national governments induces locational inefficiencies and an excess burden; it creates distortions in factor and commodity flows as a result of low-tax competition by lower-level governments to attract resources into their jurisdictions. The model suggests that such inefficiency can be resolved through uniform administration of such taxes by the central government.
- Taxation on transfers by bequest or gifts (wealth, inheritance and estate taxes), and taxation on natural resources are assigned to the centre. The sources of such taxes are not usually distributed equally among sub-national governments and individuals in a society. Thus, assigning both taxes to the central government, the model argues, helps to realise 'fair' and 'just' distribution of national wealth and resources.
- Taxes with immobile bases (real estate tax), taxes easy to administer (payroll tax), and benefit charges are assigned to lower-level governments. Property tax is less likely to induce mobility because it is impossible for owners to escape the tax by moving to another community. The model suggests that as progressive and higher rates of property tax lead to superior public services, people are willing to pay higher rents and live in a community with improved services. More-

over, benefit charges are important local revenue sources because the benefits of public services go directly to those who pay for them.

The above discussion shows that differences in mobility of taxed units have implications for revenue assignment. Mobile and immobile taxes are assigned to the central and sub-national governments, respectively. The model, however, does not propose that sub-national governments should totally avoid taxation of highly mobile economic units. Oates (1999: 1125) recommends that local governments should tax mobile economic units with benefit levies. Similarly, Musgrave (1989: 471) proposes modalities such as levying a surcharge by lower-level governments and shared taxes among levels of government.

Oates (1972) sets out additional issues regarding the taxation system in a decentralised setting. First, the tax system should be neutral or should not directly alter the terms on which individuals choose among alternative economic activities. Second, it should encourage correct decisions on potential expenditure programmes, and the tax-expenditure system should make clear to each individual the benefits and costs of each programme. Third, it should have an equitable pattern of incidence or should entail both horizontal equity (people in similar circumstances be treated similarly) and vertical equity (different treatment of non-equals). Fourth, there should be tax harmonisation among levels of government for highly mobile tax bases. This does not mean, however, harmonisation of taxes that cannot induce mobility of economic units when they face the same types of taxes levied over a larger jurisdiction. Tax harmonisation should also not imply that all levels of government levy the same taxes with identical rate structures, because that would endanger the link between benefits and costs. Fifth, a decentralised tax system should entail low administration and compliance costs, so that neither tax collectors nor taxpayers incur significant costs.

2.3.3 Intergovernmental fiscal transfers

The welfare economics model justifies intergovernmental transfers on the basis of the argument for giving the central government responsibility for the distribution function. It recognises that the assignment of revenue and expenditure among levels of government cannot always result in efficient resource use. Oates (1972: 52) labels the problem 'imperfect correspondence in the provision of public goods' and suggests intergovernmental grants and revenue sharing to correct the problem.

Musgrave (1989) lists three main purposes of intergovernmental transfers. The first is to correct differences in fiscal capacity or per capita income among lower levels of government through matching grants. This is done to equalise the terms on which local governments provide all public services and to enable them to provide national merit goods (for example, child support programmes) or certain items that reflect national policies (for example, low-income support programmes). The second aim of intergovernmental transfers is to equalise the terms of provision for particular public services. This could be either to ensure a minimum service level (for example, the level of education locally) through matching grants or to ensure uniform service levels across member jurisdictions (a uniform level of school services) through selective matching grants. The third purpose of intergovernmental transfers is to correct externalities or benefit spillovers (for example, educational services in a particular school district may generate general benefit because of migration). In order to internalise such externalities the central government provides matching grants.

Oates (1972) also provides a similar rationale for the use of grants.[7] Unconditional grants can be used to maintain horizontal equity in terms of fiscal capacity. Lump-sum conditional grants can be given to ensure an adequate level of basic public services, including, for example, education and health. Finally, grants can be used to provide incentives for expanded activity with significant external benefits. Following the Pigovian unit subsidy, he argues for open-ended matching grants to correct externalities. The Pigovian unit subsidy assumes that the economic unit generating spillover benefits should receive a subsidy for the spillover benefits it creates (Oates, 1972: 66).[8]

The welfare economics model also suggests revenue sharing among levels of government. Thus, the central government administers and collects the taxes and transfers funds to lower levels of government. Musgrave (1989) observes that such an arrangement enables lower-level governments to draw on revenue sources and that it results in an equitable and efficient overall tax system. Oates (1999: 1128) also proposes that, as local or state tax systems are typically more regressive than central taxation, the centre should take over the administration and collection of some taxes to correct inefficiencies due to the regressive nature of subnational taxation.

Both Musgrave and Oates caution that grants should not interfere with the decision-making power or autonomy of lower levels government. The justification is that local governments know the preferences of the individuals who make up their constituencies. Even central government matching grants, which affect the terms on which local jurisdictions can supply public services, are required to give autonomy to local governments to determine the output of public services.

2.3.4 Sub-national borrowing

In the welfare economics model, sub-national borrowing also follows the justification for giving the central government responsibility for the stabilisation function. Oates and Musgrave observe that central government debt financing is a primary means of controlling the level of aggregate demand and implementing nationwide counter-cyclical policies. Sub-national governments borrow only for large investment programmes requiring long-term bond financing. Such financing maintains the benefit principle as it offers a means through which payment for capital projects is spread over a longer period and coincides with the stream of future benefit. However, sub-national governments cannot directly borrow from the financial market, especially to finance annual budget deficits. This is because, unlike the central government, sub-national governments have no control over the money market. Restriction on such borrowing also helps to minimise the risk of moral hazard; that is, imprudent action by lenders and sub-national governments that creates unplanned fiscal liabilities for the central government.

In short, the welfare economics model proposes separate responsibilities in expenditure and revenue assignment among levels of government and for correcting the mismatch among levels of government through intergovernmental transfers. The model considers such decentralised arrangements as having important virtues, some of which are identified by Oates (1972) as: attaining economic efficiency by providing a range of outputs of certain public goods that corresponds more closely to the different tastes of groups of consumers; increasing innovation over time by providing competitive pressures to induce local governments to adopt the most efficient production techniques; and providing an institutional setting that promotes better public decision-making by compelling a more explicit recognition of the cost of public programmes.

The model assumes that government decisions will typically promote the welfare of residents of the relevant jurisdiction; public officials who consistently ignore the preference of their electorates usually find themselves out of a job (Oates, 1972). Musgrave (1989) notes that, through a political process, especially voting by ballot, preferences are revealed or the government is told what social goods should be provided and furnished by members of the community with the fiscal resources needed to pay for them. In other words, voting is a mandatory aspect of the budget decision. The assumption is that individuals, knowing that they must comply with the majority decision, will find it in their interest to vote for preferred expenditure and revenue packages so as to produce an outcome closer to their own desires. Tiebout (1956) notes also that 'voting with feet' gives an individual the full right to choose his work place and live up to his preferences.

The above explanation clarifies the welfare economics model proposals and assumptions relating to the four elements of intergovernmental fiscal relations. The model is based on the benefit rule (allocation efficiency) and economics of scale (production efficiency) for expenditure and revenue assignment among levels of government. Intergovernmental transfers are mechanisms to address horizontal equity and externalities. Sub-national borrowing follows the rules of stabilisation and the benefit principle and has the objective of financing long-term capital projects. As noted by Mackintosh and Roy (1999: 1), this model justifies decentralisation on economic efficiency grounds and the World Bank and other multilateral donors spearhead its use in many developing countries.

2.4 Intergovernmental Relations School

The intergovernmental relations school acknowledges wide and varied interactions between supranational, national, regional and local governments (vertical relationships) as well as between governments within any one sphere (horizontal relationships). The school assumes that the relationships between levels of government are like a 'marble cake', where there is a complex intermixing of powers and responsibilities among levels of government. Zimmerman (1990: 45) views the relationships as a 'mutuality model, with each plane relying on one or both of the other planes for the performance of certain functions or functional components.' This contradicts the welfare economics model's implicit assumption of the 'layer cake model of decentralisation' or 'dual polity', which views different levels of government as occupying separate and identifiable domains of power and responsibility, with little opportunity or need for interaction (Helmsing, 2000: 5; Opeskin, 2001: 129; Wright, 1990: 61).

The factors that led to this rethinking on relationships between levels of government are complex and varied. Analysing the experience of OECD countries, Helmsing (1996: 23-31) explains the main developments, three of which are presented here:

- Changes in the respective roles of local and central governments, which are reflected by local governments' increased role in delivering a major part of social services suited to local demands and playing an active role in local economic development.[9] The heavy involvement of the central government in purely local decision-making, especially through the grant system, is also questioned as it undermines local governments' potential for own initiatives, self-reliance and self-help. In the United State of America, Zimmerman (1990: 48) pinpoints changes in intergovernmental relations since 1974, including mainly an end to federal general revenue sharing for state and local governments, decreased reliance on federal categorical grant-in-aid, greater reliance on block grants and federal deregulation of certain industries (Wright, 1990).
- Changes in type and extent of relationships between central and local governments, which are marked by a shift from centre-local separate responsibilities to centre-local shared responsibilities and a shift from central instructions and control to centre-local voluntary and cooperative arrangements.
- Globalisation – a new 'borderless' world economy and information revolutions – forces countries to strive for economic development through a multi-level approach by the government with the active involvement of the private sector. Its impact on decentralisation is enormous. Some of the effects are: central governments being constrained from pursuing traditional control and regulation, especially with regard to external trade, telecommunications and financial transactions; enhancement of the importance of local governments as providers of infrastructure-related services and appropriate channels to attract foreign direct investment; and increase in people's awareness of the need for localisation of public decision-making to safeguard their economy better (Shah, 1998). In a similar vein, ana-

lysing the United State of America, Fry (1990: 118) notes that 'the proliferation of sub-national government ties beyond America's borders (in terms of trade) is complicating intergovernmental relations'.

Exponents of the intergovernmental relations school question the welfare economics model's assumptions. The school has doubts about the welfare economics model's independent treatment of the three economic roles of the pubic sector as well as its assignment of stabilisation and distribution functions to the central government. First, the school doubts the capacity of the centre to achieve equity objectives and argues that in some circumstances local governments achieve distributional goals more effectively than central governments. Second, the school questions the central government's competence to carry out the stabilisation function by limiting sub-national borrowing. It argues that centralisation of borrowing powers may not necessarily increase the ability of the central government to control sub-national liabilities. Thirdly, it acknowledges complex interactions between the three economic roles of government, especially between allocation and distribution functions (Helmsing, 1991, 1996; Prud'homme, 1995; Shah, 1994).

Exponents of the school recognise that decentralised levels of government can play a more important stabilisation and distribution role in industrialised economies. Smoke (1994, 2001), however, argues that in developing countries it is appropriate to assign stabilisation and distribution functions to the central government. The reasons are severe macroeconomic fluctuations (due to unpredicted climatic variations and external dependency for basic production inputs) and the limited role of local governments in influencing macroeconomic situations (because of their small share of total government spending and limited resource base). For these reasons, he suggests that lower levels of government cannot effectively perform stabilisation and redistribution functions. He also argues that the issue of mobility of economic units cannot be a concern in rejecting or accepting the assignment of distribution functions to the central government in developing countries as there are only few wealthy people looking out for a preferred mix of expenditure and tax in other jurisdictions (*ibid.*). An increased central government role in the allocation function is also justified because of the underdeveloped private sector. Smoke (2001) argues that in some cases public sector interventions may be justified in developing countries for services that are normally provided by the private sector in industrialised countries.

In the light of the above explanation, the next sections highlight the intergovernmental relations school's treatment of the four elements of decentralisation.

2.4.1 Expenditure assignment

The intergovernmental relations school maintains that expenditure assignment is used not only to attain more efficient provision of public goods, but also to enlarge possibilities for local participation in development, foster internal and external accountability, and enhance innovation and flexibility in service delivery. Its exponents regard the principle of subsidiarity as an important criterion in expenditure assignment. Public policy and implementation should be assigned to the lowest level of government with a capacity to achieve its objectives. In other words, taxation, spending and regulatory functions should be exercised by the lowest possible level of government unless a convincing case can be made to assign these functions to higher levels of government (Schiavo-Compo and Sundaram 2001).

Exponents of the school question the direct application of the welfare economics model to assignment of expenditure functions in many developing countries. Winkler (1994), analysing Latin America, argues that the absence of information on the spatial distribution of benefits and taxes as well as on costs of services to determine economies of scale may partly negate the efficiency advantage of a decentralised system. Similarly, Smoke (1994, 2001), in the context of sub-Saharan African countries, questions the main assumptions of the welfare economics model, including: the relevance of individual preferences as the principal basis for defining demand, the potential role of mobility in generating an inefficient spatial pattern of service provision, and the applicability of conventional models of public choice (voting by ballot) to reveal preferences. He also points to the confusion on homogeneity/heterogeneity of preferences among jurisdictions: 'Widespread poverty, for example, may make preferences more homogeneous across local jurisdictions, justifying greater centralisation of some functions. This could be offset, however, by substantial spatial diversity in local environments and economic bases, and/or by the existence of widely dispersed and poorly linked settlements, both of which might suggest the need for greater decentralisation.'

Similarly, Prud'homme (1995) strongly criticises the main assumptions of the welfare economics model as applied to developing countries, especially the argument on allocative and production efficiency. He asserts that the argument about differences in taste and preferences among jurisdictions does not hold true and the potential welfare gains associated with a better match of supply and demand are not large; taxpayers/voters of each jurisdiction cannot express their preferences in their votes; locally elected officials would not satisfy revealed preferences; the relationship between elected officials and the bureaucracy is tarnished by difficulties relating to the principal-agent problem; and there is no substantial evidence to show local provision is more cost-effective than national provision.

The intergovernmental relations school puts forward its own proposals on expenditure assignment among levels of government. The first proposal is an emphasis on economics of scope as an additional criterion in expenditure assignment. This is justified because the assumption of the welfare economics approach that there is a match between the benefit principle (allocation efficiency) and economics of scale (production efficiency) does not always hold true. As Helmsing (1991: 100) puts it:

> The most efficient (least-cost) scale of producing/providing a public good or service may not coincide with its spatial incidence. Thus, even if water distribution is cheaper when provided locally, water supply (treatment and storage) may be more efficiently done regionally or nationally.

Shah (1999: 21) elaborates economics of scope as 'the appropriate bundling of public service to improve efficiency through information and coordination economies and enhanced accountability through voters' participation and cost recovery'. This is in line with the notion of shared responsibility among different levels of government. It is also known as unbundling of services or joint provision of services (Prud'homme, 1995: 218). On the basis of this, some question the validity of the welfare economics model, which regards assignment of expenditure 'as a matrix of level of government by type of service' (*ibid.*).

The second proposal of the intergovernmental school is the recognition that additional levels of government have to be involved in provision of public goods. Bennet's hierarchy of public goods (cited in Helmsing, 1996) provides five levels: neighbourhood, local, regional, national and international. Shah (1998) presents four levels: supranational, federal, provincial, and local or municipal. The supranational level is included to take into account the influence of globalisation. The recognition of the lowest levels is influenced by the growing importance of counties, municipalities, townships or neighbourhoods in public service provision. The welfare economics model proposals on expenditure assignment do not fully consider these two levels of government; nor do they give the lowest levels of government constitutional protection.[10]

On the basis of the above, the exponents of the intergovernmental school suggest a different pattern of expenditure assignment. Whilst some provide general provisions and factors to be considered in determining expenditure assignment (for example, Smoke, 1994, 2001), others make specific recommendations. Prud'homme (1995) proposes different arrangements on assignment of expenditure, based on differential treatment of geographical areas, sectors and functions as well as joint provision of services. On the basis of geographical factors, he considers decentralisation to be appropriate for heavily populated countries, countries with a large geographical area and highly developed economies. Placing public goods and services under three categories – 'externablity', 'chargability' and 'technicity'– he argues that decentralisation would be appropriate for public services with smaller spillover effects or externalities, which could be easily financed by charges as opposed to taxes, and which have lower technical and managerial expertise requirements. On the basis of functional classification of services, he proposes decentralised assignment of functions by identifying complex local public service tasks, which include planning, operating, regulating, organising, maintaining, monitoring and auditing. With regard to joint provision of services, he argues for the involvement of two or three levels of government in public service provision.

The widely cited assignment of functions (for example, Schiavo-Compo and Sundaram 2001) is a framework developed by Shah (1999: 38), who considers it a newer federalism perspective on the assignment of responsibilities. In the framework, a particular public service task is first divided among three major functions, namely policy, standards and oversight; provision/administration; and production/distribution. These specific functions are then assigned to one or more levels of government. For instance, the state and local governments are assigned the above three functions in education, health and social welfare, while the centre is only involved with one of the functions (policy and oversight). Supranational governments take on the task of developing policies on external trade and interregional conflict resolution. Similarly, policy and standard-setting are for the centre, but provision and production are shared among national, state and local governments.[11] In addition, like the welfare economics model, Shah proposes that the centre have full responsibility for the two pure public goods, national defence and foreign affairs.

Winkler (1994) also provides a model for expenditure assignment, which will allocate responsibilities within each sector's activity between central and local governments. According to his model, the central government has very important roles to play through the sector ministries. These include provision of financing to ensure fulfilment of national policy objectives and to correct inter-jurisdictional spillovers at sub-national level; setting of minimum national norms and standards for decentralised service delivery, financial management and governance at the sub-national level; production and dissemination of the public information required for accountability mechanisms to function effectively; and supervision and provision of technical assistance to sub-national governments to ensure efficient operation in compliance with national guidelines. Sub-national governments are also given different policy-making and implementation powers for each sector and sub-sector of the economy. For instance, the model provides more that 10 tasks on delivery of primary education and primary health and defines the roles of central and local governments.[12]

The models provided by Shah, Winkler and Prud'homme have a common feature, which is shared responsibility for specific tasks relating to a particular function or joint responsibility for functional components among levels of government.

2.4.2 Revenue assignment

Like the welfare economics model, the intergovernmental relation school proposes using efficiency and equity criteria in revenue assignment. For instance, Smoke (1994) notes that the welfare economics model proposals for assignment of revenues to local governments are appropriate. Following the same principle, the school places taxes for mobile economic units (serving stabilisation and distribution functions) under the central government to avoid inefficiency in resource allocation.[13] It also assigns taxes from immobile sources as well as service and user charges to lower-level governments to create a close link between revenue generated and public service provided (Helmsing, 1991: 104).

Some of the exponents of the school, however, differ on the specific assignment of revenue sources. Shah (1998: 40) proposes shared responsibility in tax assignment but within the above general framework. As with expenditure assignment, he develops a new federalism framework for assignment of revenue that provides shared and joint responsibilities for the specific function of taxation, which includes determination of the base, fixing of rates, collection and administration. The functions are assigned to supranational agencies, federal, state and local governments respectively. For instance, regional governments share responsibility with the central government for rate setting and collection of redistributive taxes (wealth taxes). Supranational agencies are also involved in all functions relating to corporate income taxes. Federal, regional and local governments are involved in the determination, collection and administration of 'sin' taxes (betting, gambling, lotteries); toll taxes, effluent charges, and poll and user charges. There are some revenue responsibilities where the central government is not involved. For instance, regional governments determine, collect and administer charges relating to motor vehicles (registration, transfer tax, driving licences and fees), business taxes, property taxes, land taxes and excise taxes.

Smoke (1994) stresses the need for a clear correspondence between service responsibilities and revenue availability and the determination of tax rates, licence fees and service charges on the basis of rational guidelines rooted in reasonably reliable information rather than on subjective and arbitrary decisions. He emphasises vertical and horizontal coordination of revenue assignments to improve revenue assessment and collection.

Prud'homme (1990), however, has a different view and suggests centralisation of revenue assignments and decentralisation of expenditure responsibilities. He argues that such an arrangement has the potential to maintain fairly the role of the central government in controlling effects of macroeconomic magnitude (stabilisation), to be moderately good in being responsive to local needs and realities (efficient allocation) and allow important subsidies from the centre to local governments (distribution).

2.4.3 Intergovernmental fiscal transfers

Exponents of the school recognise the mismatch between revenue and expenditure assignment. Whilst they propose intergovernmental transfers as a mechanism to resolve the mismatch, they do not fully agree on the objectives of grants and processes followed by the welfare economics model, which they regard as narrow and meant only to correct horizontal imbalances and benefit spillovers. Helmsing (1996: 28) criticises the welfare economics model grant system for neglecting local fiscal capacity as a determinant of expenditure capacity and for delinking local decisions from immediate financial consequences. Winkler (1994) views the welfare economics model as offering only a few practical insights for the design of grants in developing countries.

Among the exponents of the school, Shah (1998: 41) recommends the inclusion of various additional objectives and modalities in the intergovernmental fiscal transfer system. These include:

- bridging fiscal gaps or vertical imbalances through general non-matching transfers or tax base revenue sharing;
- addressing fiscal inequality or horizontal imbalances through general non-matching equalisation transfers;
- correcting benefit spillovers through open-ended matching transfers (the matching rate being determined by the benefit-spillout ratio);
- ensuring a minimum standard of services across sub-nationals (fiscal inefficiency) through conditional non-matching transfers; and
- stimulating public expenditure on sectors of high national importance but low local priority (fiscal harmonisation) through conditional open-ended matching transfers.

Shah (1994) also proposes general guidelines on the process of designing and implementing a good intergovernmental transfer programme, some of which are: determining grants objectively and openly (not subject to hidden political negotiation); applying a well-established formula (transparent, simple and based on credible factors); having an agency specifically responsible for intergovernmental fiscal transfers (central government or quasi-independent expert body or a grant commission or a central-local committee); making grants relatively stable from year to year to permit rational sub-national budgeting; and determining the grant pool as a fixed proportion of total central revenues subject to periodic renegotiation (every three to five years).

Winkler (1994: 31-44), whilst accepting the need for intergovernmental fiscal transfer systems, rejects the implementation of block grants in developing countries and insists on sector-specific grants or categorical grants. He argues that block grants may ensure minimum revenue, but they are incapable of either eliminating disparities among sub-national governments or efficiently attaining the central government objectives. For him, designing of block grant formulas in developing countries is constrained by lack of the accurate and timely data on variables that the measure needs (cost variation and population), fiscal efforts (tax rates, user fees) and fiscal capacities (actual or potential own-source revenues) and service performance. He proposes categorical grants because they have the potential to ensure minimum expenditure on specific services, especially those that can alleviate poverty, improve equality in spending for services and enhance equity in income distribution. He also proposes different types of categorical grants: formula grants, cost reimbursement grants, competitive grants and ad hoc grants.[14]

Exponents of the school also present proposals on the system of intergovernmental grants. For instance, Schroeder and Smoke (2003) propose three principles for determination of the distribution pool:

(i) The decision has to based on comprehensive review of central and regional governments' expenditure needs and revenue means.
(ii) The pool has to provide levels of government with adequate resources subject to the overall resource constraints.
(iii) The pool has to be predictable and stable in order to enable governments to plan expenditures in the short-, medium- and longer-term perspectives adequately.

The intergovernmental relations school also proposes modalities on measuring fiscal capacity. Schroeder and Smoke (*op. cit.*: 39) suggest that fiscal capacity measures have to be linked with fiscal effort or revenue raising. This is because, 'Since resource mobilisation instruments of sub-national governments are commonly linked to wealth, income or consumption, inter-jurisdictional differences in these factors result in different abilities for sub-national governments to raise revenue.' Accordingly, two alternative approaches are recommended. The first is a macroeconomic approach, which assumes that level of economic activity within the region affects the ability to raise revenues. It uses an aggregate single indicator measured in terms of gross regional product. The approach is simple and used where sub-national governments have no autonomy to set tax rates. However, its application in developing countries is questioned, as it is difficult to get reasonably accurate measures of gross regional product or local income. The second recommendation is a micro-oriented or representative tax system approach, which measures fiscal capacity on the basis of estimated size of the revenue bases of each region. It is applicable in federal countries where sub-national governments have autonomy in setting local tax rates.

In addition, some exponents of the school (for example, Smoke, 2001) propose an asymmetric transfer system – that is, starting with modest transfer programmes that involve substantial central control and monitoring, and increasing the volume of transfers as local governments develop the capacity to deliver services and behave in a fiscally responsible way. Careful research prior to transfer system design is also recommended.

2.4.4 Sub-national borrowing

The intergovernmental relations school gives two primary purposes for which sub-national governments should use their access to financial markets: financing long-term capital expenditure[15] and matching expenditure to tax flows (synchronising yearly revenue collections and expenditures). Three channels for sub-national borrowing are proposed: direct borrowing by the central government and on-lending to sub-national tiers, borrowing through a public intermediary such as a financial parastatal, and direct borrowing from capital markets (Shah, 1994).

Unlike the welfare economics model, this school endorses direct loans from the market to sub-national governments as well as sub-national borrowing to finance budget deficits. Exponents of this school, especially Shah (1994), reject the argument of the welfare economics model that sub-national borrowing could lead to risk of moral hazard or affect national stabilisation objectives. Shah contends that direct access to capital markets by sub-national governments offers the potential for a more transparent and market-based relationship as well as better chance of enforcing a hard budget constraint. This is because markets signal poor performance of local leaders through increase in interest rates or by blocking access. The risk of moral hazard can also be countered through the combined use of information systems, public legislation, bankruptcy laws, and so on.

In the context of sub-Saharan African countries, Smoke (1994) indicates that sub-national borrowing in developing countries is ineffective because of underdeveloped private lending institutions and central government rejection of access to the capital market by local authorities. He advises that, for financing of critical investment projects, the central government should provide access to credit on terms that local authorities can meet.

The intergovernmental relations school provides yet more perspectives on intergovernmental fiscal relations. First, it emphasises asymmetric assignment of fiscal responsibility among levels of government. It rejects the assumption that all lower levels of governments should be assigned similar types of expenditure and revenue responsibilities and be entitled to equal amount of transfers. Winkler (1994) suggests a system of asymmetric decentralisation that takes into account, among other things, the public-good characteristics of the service as well as fiscal, administrative and technical capacities of sub-national governments. Smoke (2001) also questions the validity of decentralisation programmes that tend to treat all local governments equally by default, as if they are similar in capacity and staffing. He argues: 'It will generally be more effective, even if sometimes politically and administratively difficult, to differentiate among local authorities. Treating those with weak capacity as if they can handle responsibility invites failure. Unduly controlling and providing technical assistance to capable local authorities wastes resources.' Smoke also suggests asymmetric decentralisation in the context of implementing decentralisation programmes in phases. For example, he recommends that the initial phase of decentralisation reforms be implemented in sectors and functions where rapid success is likely and that reforms should be prioritised with a focus on simple tasks that do not immediately threaten the central power and overwhelm local capacity.

Second, the intergovernmental relations school regards agreement and cooperation as important for three major reasons. One reason is that agreement and cooperation avoids unproductive duplication of authority and thus helps with management of horizontal and vertical relations between levels of government. This can be done through executive, judiciary and legislative mechanisms, among others (Opeskin, 2001). Shah (1998) notes the necessity for a legal framework that clearly sets out the revenue and expenditure assignments of different levels of government. Prud'homme (1995: 218) also indicates the need for, among other measures, coordination mechanisms and contracts between levels of government in joint provision of goods.

The second reason for the importance of agreement and cooperation is that it creates commitment from all parties to the design and implementation of intergovernmental fiscal relations programmes. Smoke (2001) notes that it is crucial to get consensus from key institutional actors on how to define fiscal decentralisation. He points out that consensus building would result in a system with at least some basic checks and balances among various organisations and individual employees in key institutions, so that none would be too powerful in the process of defining what fiscal decentralisation means or controlling its implementation.

Some authors from the developed world put forward a third reason to support the importance of agreement and cooperation, in the specific context of inter-local and interregional agreements, which they view as a means to correct externalities (Inman and Rubinfeld, 1997: 48-9). The argument is rooted in Coasan bargaining theory, which is the preferred option to Pigovian grant theory. Coasan bargaining theory argues '…when there are sufficient benefits to the outside residents from removing a harmful policy, then compensation can be paid to inside residents so that all residents – outside and inside – are better off. In practice, such compensation would be paid through an intercommunity agreement in which jurisdictions raise taxes and pay compensation to their neighbouring governments, which in turn return those funds to groups initially favoured by the inefficient policies' (*ibid.*). Unlike Pigovian theory, which suggests that the central government should provide grants for compensation, Coasan theory restricts the role of the centre to encouraging and enforcing interjurisdictional contracts.

Another area to which the intergovernmental relations school brings fresh insight is the political process. It disagrees with the welfare economics model's reliance on public choice mechanisms (voting by ballot or 'voting with feet') for preference revelation where developing countries are concerned. It does not take for granted the accountability and responsiveness of elected officials to constituents' demands and aspirations; risk of no re-election for public officials; the will of the bureaucracies to promote the welfare of residents; the institutional, technical and managerial capacity of strong local governments to deliver the services demanded by their constituents; and that local governments have sufficient access to the financial resources required to meet their responsibilities (Prud'homme, 1995; Shah, 1998; Smoke, 2001; Winkler, 1994). Prud'homme (1995) suggests other mechanisms for revealing preferences in the absence of political choice mechanisms. These include the will to serve, deconcentration (redistribution of decision-making authority), pricing mechanisms and survey devices. Shah (1998: 1) cautions about the 'dangers of decentralisation' and expects his new federalism framework to work 'in an environment of discordance in the societies' goal, authorizing environment and operational capacity', reflected in failure to meet citizens' expectations and a dysfunctional public sector. Shah (*op. cit.*) argues for 'decentralisation as a means to foster a listening, learning, and evaluation environment'.

The above discussion shows that the intergovernmental relations school emphasises economics of scope and shared responsibility in the assignment of expenditure and revenue tasks among levels of government. It also expands the purposes of intergovernmental grants to include correcting not only horizontal imbalances and externalities but also vertical imbalances. It allows sub-national governments to borrow from different sources for different objectives, including managing budget deficits. It recommends asymmetric decentralisation and stresses the need for cooperation and agreement among levels of government.

2.5 Institutional Approach to Decentralisation

The institutional approach asserts that there is more to the design of a decentralised system than just allocation of expenditure and revenue responsibilities to levels of government. It argues that institutions determine the success of decentralisation. By institutions is meant rules of the game in society or incentives and constraints that influence human behaviour and organisations and other means that enforce the rules (Azfar *et al.*, 1999; Litvack *et al.*, 1998: 16).

The approach maintains the existence of a strong linkage between decentralisation and institutions. The main argument is that, as decentralisation entails broad-based political, administrative and financial reforms that have influence on various sectors and levels of government, an adequate institutional analysis is necessary to design and implement it successfully. The exponents of the approach argue that there are studies, anecdotal evidence and theoretical works which confirm that success in decentralised service delivery depends on the institutional arrangements that govern its implementation (Azfar *et al.*, *op. cit.*; Litvack *et al.*, *op. cit*: 28; Parker, 1995: 32).

The institutional approach doubts the effectiveness of earlier theories of decentralisation, as they pay less attention to how decentralisation policies are designed and implemented in disparate institutional settings. For instance, the welfare economics approach, especially Tiebout's 'voting-with-feet' argument, is questioned as it neglects institutional factors such as imperfect information, moving costs and land-use restrictions (Azfar *et al.*, *op. cit*). Ter-Minassian (1997) argues that 'weak institutions can throw the theoretical efficiency gains from decentralisation out the window in practice.'

According to the institutional approach, the failure of decentralisation policies in many developing countries is a result of misfit between principles of decentralisation that are developed within the context of developed countries and existing institutional settings in developing countries. Litvack *et al.* (1998) point out that 'much of the literature on decentralisation, normative and empirical, is based on industrial countries and assumes the existence of institutions that are usually very weak in developing countries'. The weakness of institutions is exhibited by, among other things, incapacity of local people to vote their leaders out of power; absence of opportunity for 'voting with feet'; unpredictable and secretive decision-making by office holders; lack of broadly based participation; irresponsive and authoritarian government; elite capture; weak markets for land, labour and capital; ineffective formal rules and oversight arrangements; and so on. Bahl (1999) regards intergovernmental fiscal relations as a comprehensive system and political autonomy as 'perhaps the most crucial element of a decentralisation system'. He argues the efficiency gains from decentralisation will be captured and accountability will be upward, if local councils are not elected locally or if higher levels of government appoint the local leadership. He also stresses the need for the central government to be transparent and adhere to the rules guiding the centre-region relationship.

The approach presents a strong case for undertaking institutional analysis in designing and implementing decentralisation. It also indicates that the institutional elements that confront decentralisation are complex and varied. Some of them are: the political framework, constitutional and legal framework, citizens' participation, civil society and social structure, capacity, level of education of the local population, initial natural resource endowment, length of experience with decentralisation, accountability mechanisms, information system and incentive structure (Azfar *et al.*, 1999; Parker, 1995) as well as institutions related to tax administration and expenditure (Tanzi, 2001). Bahl (1999) identifies the necessary and desirable conditions for success of fiscal decentralisation. Some of the necessary conditions include elected local councils, locally appointed chief officers, significant local government discretion on revenue and expenditure, and transparency. Nonetheless, overlap among the institutional elements and difficulty in understanding the pattern of interaction between them is demanding. Yet there do appear to be some discernible institutional elements that enhance the prospect of successful decentralisation. The following are some of the common institutional elements cited by Azfar *et al.*, Parker and Litvack *et al.*

2.5.1 Institutional elements of decentralisation

Incentive structure

The incentive structure refers to the system of rewards/sanctions that will encourage/undermine the outcomes of decentralisation. It entails various interrelated elements, such as people's right to vote incompetent politicians out of power through elections; community participation in, or representatives' decision-making process for, investigating inputs used and outcomes achieved in local service delivery; rewards for central government agencies to monitor sub-national governments, or sanctions to penalise agencies that fail to carry out their functions appropriately; a reward system to attract honest and well-trained people to make their career in local government; comparison and competition between local governments for the purpose of providing options for 'voting with feet';[16] and well-functioning markets to provide additional checks on politicians and administrators.

The literature provides specific incentive modalities for expenditure and revenue assignments, fiscal transfers and borrowing. These include application of user charges by sub-national governments to match taxes with services closely or create a close link between the delivery agent and clients; making submission of timely reports and necessary information by lower-level government a condition for receiving fiscal transfers; decentralising the borrowing market, which offers a mechanism for sending market signals on the performance of government; and monitoring and evaluation mechanisms to maintain fiscal transparency as well as undermine attempts to hide taxes and liabilities or exaggerate benefits by politicians and officials.

Information

One of the institutional requirements for successful decentralisation is the systematic collection, analysis and reporting of information. Accurate and timely information is required to make informed policies on expenditure, revenue, fiscal transfer and local borrowing. Implementation and follow-up of the policy decisions by the different actors also demand adequate information. These include: information on grants, impact statement reports on decentralisation, comparable local governments' performance reports on services delivered and costs incurred, periodic planning and budgetary data, and so on. Moreover, developing effective local government requires informing local communities about what is being done, how well it is being done, how much it is costing and who is paying for it.

Political framework

The political framework is concerned with institutional elements that shape the relationship between government and people as well as between the different levels of government. These include the party system, type of government (parliamentary, presidential), elections, relations between various branches of government, involvement of civil society, citizens' participation, and so on. The two common elements that appear in the literature are elections and civil society. Elections are one of the mechanisms for fostering local democracy, encouraging participation, maintaining accountability and achieving efficiency gains from decentralisation. Active civil society involvement is also instrumental in cultivating adequate consensus between central and local actors and determining and actualising expenditure and revenue assignments. Bahl (1999) considers elections an important mechanism enabling voters to hold their elected officials more accountable, especially if local public services are financed to a significant extent from locally imposed taxes.

Capacity

Institutional capacity encompasses a multitude of issues, which are generally categorised as political, administrative (human resource, information, systems and procedures) and financial capacity. The debate on the link between decentralisation and capacity and on how to develop capacity is not yet settled. Some argue that the availability of qualified professionals or adequate finance cannot guarantee enhanced local government capacity for service delivery. Others say that providing the right incentive to lower-tier governments may provide an opportunity for public officials to seek creative ways of tapping into existing sources of capacity through outsourcing to the private sector and NGOs, intergovernmental contracts and agreements (Litvack *et al.*, 1998: 27). The arguments, however, do not undermine the relevance of capacity as an institutional element. An appropriate number of adequately trained professionals in planning, budgeting, implementing effective spending programmes, revenue administration and fiscal and policy analysis, an adequate information system, finance, and so on, are critical for successful decentralisation (Tanzi, 2000). Bahl (1999) also recommends a simple fiscal decentralisation structure that takes into consideration the capability of the administrative system. Such a system requires few resources from governments and lowers the cost of monitoring and evaluation by the central government.

The above discussion presented some of the most commonly cited institutional elements that influence the design and implementation of the four decentralisation elements. The institutional approach to decentralisation has no specific recommendations on expenditure and revenue assignment, intergovernmental transfers and borrowing. It accepts many of the proposals made by the earlier theories, but suggests due consideration be given to institutional factors. Litvack *et al.* (1989: vii) note that 'decentralisation is neither good nor bad for efficiency, equity, or macroeconomic stability; rather its effects depend on institution-specific design.' Nonetheless, the perspectives of the institutional approach on the four elements of decentralisation are discussed below.

2.5.2 Expenditure assignment

The approach holds that so long as there are local variations in taste and costs, decentralising public sector activities yields efficiency gains. Like the intergovernmental relations school, the approach proposes the principle of subsidiarity in expenditure assignment, that is, assigning each function to lower levels of government consistent with efficient performance (Litvack *et al.*, 1998). The approach would have local governments be accountable to their citizenry for their actions insofar as the citizenry finance those actions, and stresses that locally provided services should benefit local residents. It also suggests significant local discretion in spending or expenditure prioritising.

2.5.3 Revenue assignment

Like earlier theories, the approach suggests the application of the benefit rule to revenue assignment. Sub-national revenues are collected from local residents, who are expected to pay according to the perceived benefits they receive from local services. It cautions that sub-national taxes should not distort national resource allocation and proposes that residential property taxes and user charges be the domain of local governments.

The approach recommends that lower levels of government bear significant responsibility for financing the expenditure for which they are politically responsible and that they be given power to set tax rates (perhaps within limits), assess and collect taxes and utilise the proceeds. It also suggests that local governments have a significant degree of freedom to alter the level and composition of their revenues, including the freedom to make mistakes. As with expenditure assignment, the approach suggests the need for responsiveness and accountability of local leaders with regard to revenue generation and emphasises the principle of 'no taxation without representation'.

2.5.4 Intergovernmental fiscal transfers

The approach holds that transfers from central to local governments will continue to constitute important sources of local finance in many countries, regardless of the revenue sources made available to local governments. It accepts the objectives of intergovernmental transfers suggested by the intergovernmental relations school. It argues, however, against a simple and uniform pattern of transfers suitable for all circumstances. The approach links institutions with the transfer system. For instance, it recommends a transfer system that does not bail out incompetent and irresponsible local governments in countries with weak local democracy. It also suggests an inbuilt incentive structure that rewards efficiency and accountability and penalises unwanted political goals; and expenditure conditionality and performance conditionality[17] to avoid money fungibility, particularly where important national services (health and education) are provided by sub-national governments.

2.5.5 Sub-national borrowing

The approach considers borrowing an economically appropriate way of financing capital outlays and managing budget deficits. It recognises the impact of decentralised borrowing on macro-economic stability, which results from asymmetric behaviour by sub-national governments to close budget deficits through borrowing. The approach considers such asymmetric behaviour to be caused by institutional problems such as lack of information and absence of a well-functioning market that signals the fiscal behaviour of local governments.[18] The approach proposes instituting credible no-bailout rules and measures of transparency.

The institutional approach offers other proposals, too, for designing and implementing decentralisation. First, it advocates policy synchronisation measures or linking the different elements of decentralisation. The measures are expected to prevent or remedy problems such as devolving decision-making without providing budgets to make meaningful decisions; decentralising finance without ensuring adequate local accountability; devolving services fiscally and politically but centralising all wage and employment policies; and issuing localities with a long list of service delivery mandates that provides very little flexibility for local decision making. Second, it recommends adopting asymmetric decentralisation or treating various government units differently because of differences in socio-economic and political settings among jurisdictions. Third, it advocates modalities of expenditure assignment such as unbundling of sectors or the need to provide different aspects of a single service delivery by levels of government (Litvack *et. al.*, 1998). The latter two recommendations are in line with the proposals of the intergovernmental relations approach.

The above discussion shows that the institutional approach emphasises the importance of considering the impact of institutional factors in the design and implementation of decentralisation. On expenditure and revenue assignment, it proposes the principle of subsidiarity and suggests that the economic role of local governments ought to be provision to local residents of public services for which they are willing to pay. Although it follows the same assumptions and principles as the intergovernmental relations school, the approach demands that institutional factors be considered in the assignment of expenditure and revenue responsibilities, intergovernmental transfers and borrowing. The institutional elements suggested by the different exponents of the approach are, however, varied and overlapping. For instance, elections as an institutional factor crosscuts the political framework and incentive structure; the incentive structure is interlinked with the information system and the political framework. The institutional approach also fails to provide coherent recommendations on specific institutional elements that deserve most consideration in a given setting as well as the interaction between and impact of institutional elements.

2.6 New Public Management Theory

New public management theory (NPM) introduces major changes in assigning responsibilities among levels of government and in the internal working systems of the various levels of government. The approach challenges the relevance of traditional public finance theory which guides the assumptions of the welfare economics model in expenditure and revenue assignment. It also doubts the effectiveness of the 'old public administration' which shapes the internal management system of the public sector. It labels the traditional public finance and Weberian ideal-type model of bureaucracy as outdated, albeit theoretically attractive (Lane, 2000).

The approach questions the separation of the three economic roles (allocation, distribution and stabilisation) and the efficiency gains from provision of public goods by the public sector. For instance, Lane (2000: 164-5) indicates that the distinction between the allocation and distribution functions is absolute. He also asserts that 'the concept of public goods has no explanatory power whatsoever in relation to the budgetary activities of governments, whether national or local' (*ibid.*).

NPM advocates a limited State role and an increased market role. This thinking is shaped by, among other things, two important developments. The first is the influence of neoliberal ideas (the ideology of the new right), which assumes that the market is a superior mechanism for attaining efficiency in resource allocation and rejects the excessive and direct interventions of government in national economic activities. The second is the deepening economic and fiscal crises (the crises of the welfare state) in the 1980s, reflected in rising government expenditure coupled with falling economic performance, collapse of near-full employment and sharp increases in social inequality and social exclusion (Behn, 2001; Heady, 2001: 4; Mackintosh, 1998: 79; Minogue, 1998: 19-21; Polidano, 1999).

NPM stands on three major theoretical foundations, namely public choice theory, new institutional economics and principal-agent theory (Brinkherhoff, 1997: 4; Common, 1998: 59; Gray and Jenkins, 1995; Kelly and Wanna, 2000; Keraudren and Mierlo, 1998; Labri, 1999; Shand, 1996). The main elements can be summarised as follows:

- Public choice theory assumes that self-interest dominates human behaviour and individuals are rational utility maximisers. It endorses political agendas, which are the bases for NPM, such as minimising the role of the State, selling the State's commercial assets and curbing the functions of government agencies. It argues that the public sector reward system lacks due incentives for politicians and bureaucrats, which results in waste of resources, growth of expenditure, rent-seeking behaviour and ineffectiveness. Thus, the main argument is for limiting the role of the State or restraining government expenditure and enhancing the role of the market.
- New institutional economic theory hypothesises that transaction cost emerges as a function of institutions through which economic exchanges are mediated, with markets and hierarchies forming the two ends of an institutional continuum. It advocates efforts to minimise transaction costs by moving towards the market end of the continuum.
- Agency theory assumes social and political life to be a series of contracts. The agent undertakes to perform various tasks on behalf of the principal, and in exchange, the principal agrees to reward the agent in a mutually acceptable way. This theory, which is at the heart of the NPM decentralised management system, is concerned with issues such as selection of agents, design of remuneration systems and choice of institutional arrangements. It maintains that traditional public administration has directly or indirectly resulted in the failure of 'principals' to monitor the actions of their 'agents' effectively. Thus, it recommends contracting out to the market.

The above theories hold some ramifications for assignment of expenditure responsibilities, revenue assignment, intergovernmental transfers and borrowing.

2.6.1 Expenditure assignment

NPM, as elaborated by the above theories, advocates withdrawal of the public sector from direct provision of public goods and increased use of the market or competition in the production and distribution of public goods and services. Accordingly, it follows two basic assumptions: demand must be separated from supply; and there must be competition between suppliers (Lane, 2000: 307). NPM does not fully endorse the principles of positive/negative externalities and economies of scale, which justify giving major expenditure responsibilities to the central government. It argues that many of the problems related to externalities and economies of scale in national service provision can be resolved through market mechanisms and other institutional arrangements.[19]

Under NPM, the public sector plays a steering or enabling role in addition to measuring and monitoring the market provision of public goods. The actual production and delivery of public goods and services is done by the private (profit or non-profit) sector. In the process, the government (demand) and private sector (supply) are linked through contracts. (Contracts are efficiency-enhancing mechanisms and all levels of government use them extensively.) For instance, in the 1980s, the Thatcher government in Britain introduced compulsory competitive tendering for many local government tasks. These included construction-related activities (new building, repairs and maintenance, highway construction and maintenance), internal cleaning of buildings, refuse collection, street cleaning, school and welfare catering, vehicle maintenance, maintenance of sports and leisure services, and so on (Wallis and Dollery, 2001).

It is clear that NPM leads to the dispersal of local governments' functions through privatisation, compulsory competitive tendering and other institutional arrangements. This helps bring market discipline into local governments or, as Bennett (1994: 18) notes, 'a general reorientation towards consumer-based approach using market'. Although it is difficult to generalise, as different countries apply various approaches of NPM, the theory proposes a minimalist local government or follows the 'residuality principle'. The principle, according to Wallis and Dollery (2001), holds that local governments should be selected only where the benefits of such an option exceed those of all other institutional arrangements. Similarly, the benefits from decentralisation should exceed the cost associated with potential agency failure. This assumption has its basis in principal agency theory, which opts for having an agent that maximises the interest of the principal. In addition, this minimalist approach suggests that local governments should stop directly providing many services.

2.6.2 Revenue assignment

NPM proposes changes in revenue assignment and questions application of compulsory local rates and taxes by levels of government. The first argument relates to the problem of preference revelation or understanding citizens' willingness to pay in relation to each good (Lane, 2000: 39). NPM recommends using revenue instruments directly linked to citizens' demands for public resource allocation, like charges, vouchers and individual insurance schemes (*ibid.*: 157). Bennett (1994) also pinpoints cost-recovery schemes (user charges, fees, licences, rentals and special assessments) that will provide closer and better representation of customers' willingness to pay. User charges give consumers freedom to 'opt out' of specific services if dissatisfied with their cost and/or quality. Similarly, vouchers, exchangeable both within and without the jurisdiction, like school vouchers, allow citizens to switch to alternative providers and pressure local authorities to be more efficient and responsive (Wallis and Dollery, 2001). The mechanisms bring market principles to the supply of public goods, or people are treated not as 'clients' but as 'consumers'.

The second argument follows public choice theory, which suggests reducing government expenditure or 'restraining the leviathan'. This refers to curbing or limiting the tax-raising powers of local governments. NPM rejects the welfare economics model, especially Oates' argument that local governments without tax-raising powers are effectively agencies of central government and hence lack sufficient autonomy (Oates, 1972). NPM argues that any decline in local autonomy due to limitations on taxation power can be compensated for by strengthening local accountability – that is, by 'introducing a clear link between the provision of services, paying for them and voting in local elections' (Wallis and Dollery, *op. cit.*).

2.6.3 Intergovernmental fiscal transfers

Following similar arguments for cutting the taxation power of local governments, NPM criticises the heavy emphasis on the grant system. Grants are regarded as a strong incentive for local governments to increase their spending. NPM recommends grants that have market characteristics, including competitive grants and output-based grants, rather than formula-based or input-based grants. In this, its exponents support the 'fly-paper effect 'prediction, which states that sub-national government public spending is increased far more by federal grant receipts than by equivalent increases in constituents' private income. It proposes grants that have an income effect – those that increase the community's income.

2.6.4 Sub-national government borrowing

NPM proposes borrowing by local governments, but through market mechanisms. However, as indicated above, since it prefers investment in the local economy to be by the private sector, it does not fully endorse the direct involvement of local governments in implementing long-term capital projects. Thus, the economic unit that provides investment service, or the private sector, has the access to the capital market. As local governments are only involved in policy and regulation of the local investment projects, there is no need for local borrowing.

The above summary presented the main NPM assumptions and proposals on expenditure and revenue assignment, fiscal transfers and borrowing. As indicated earlier, the second major proposal under NPM is revamping the internal management system of levels of government, or debureaucratisation. The guiding theory is managerialism, which advocates the adoption of private sector management techniques and practices in resolving problems of the old public administration. These reform measures include the following (Behn, 2001; Common, 1998; Gray and Jenkins, 1995; Heady, 2001; Labri, 1999; Minogue, 1998, 2000):

- redefining the relationship between political policy-making and administrative policy implementation by distinguishing the roles and responsibilities of senior administrators from those of politicians, creating a small strategic policy core and large operational units, and introducing corporate governance or the 'board of directors' model;
- breaking up monolithic bureaucracies by disaggregating separable functions into semi-autonomous agencies, and organisational unbundling or delayering of vertically integrated organisations or replacement of traditional 'tall hierarchies' with a flatter, flexible and more responsive structure;
- shifting power to senior management by designing a clear responsibility and accountability relationship, making the necessary human

and technological resources available to managers and making them appreciate the value of competition;
- changing the restrictive and control-oriented line-item budget process into a system which measures the efficiency and effectiveness of government programmes, and devolving finance and budgeting functions to decentralised units by creating separate budget centres or spending units;
- harnessing information technology in areas of revenue collection, financial management and accounting, interdepartmental communication systems, human resource management, and service delivery;
- revising the traditional public service personnel management system and instituting open and competence-based recruitment and selection procedures as well as achievement-oriented promotion; shifting from high security careers (lengthy service and seniority) to short-term employment contracts;
- introducing incentive packages to recognise and reward skills and personal achievements.

The theory argues that the above reforms will make the operational management of the levels of government efficient and effective. Behn (2001) summarises the above features of NPM as:

- market government – focuses on decentralisation, performance-related pay and other private sector techniques;
- participative government – emphasises flatter organisations, total quality management and teams;
- flexible government – features virtual organisations and temporary personnel;
- deregulated government – stresses greater managerial freedom.

NPM advocates that public sector management reform should not be limited to enhancing the efficiency and effectiveness of local governments, but should also focus on making local governments embrace ideas of democratic participation, accountability, empowerment and decentralised management. These ideas are expected to transform local governments from 'local administration' to 'local governance' (Bovaird *et al.*, 2001). Accordingly, local governments are expected to perform the following additional important tasks (*ibid.*):

- not only 'serving the community as knowledge - service provider', but also 'enabling communities to plan and manage their own affairs (community developers)';
- not only 'improving the internal efficiency of local authorities', but also 'improving the external effectiveness of local authorities'; and not only 'increasing user satisfaction of local services', but also 'building public trust in local governments through transparent processes, accountability and democratic dialogue'.

In addition to the above, two important issues deserve attention:

First, NPM recommends a shift from the traditional (legal) compliance control to a new approach of interaction between levels of government. This is referred to as performance management system, which emphasises the importance of measuring local governments' service delivery, especially when it is funded by the central government (Toonen and Radschelders, 1997). In Britain, the approach is known as the 'best value' regime for the management of local public services. Accordingly, performance of local governments is measured by using performance criteria such as economy, efficiency and effectiveness (Harty, 1994: 168). Martin (2000: 210) also points out that the approach, which draws heavily on prescriptions for re-inventing government, is a more gradual transition characterised by the co-existence and interaction of hierarchical, market-based and collaborative frameworks for coordinating service delivery. Germany has a comprehensive performance management system for public service delivery labelled the 'new string model' (Bovaird *et. al.*, 2001).

Secondly, NPM replaces hierarchy with reciprocal interaction. It advocates networking and partnership that involves not only central and local governments, but also supranational governmental organisations and the private sector. Kelly (2001: 5) labels it 'a new form of intergovernmentalism' that is replacing hierarchical relations. This contradicts the welfare economics model assumption that central and local governments operate in their own distinctive space. Kelly notes that the best course for local authorities is to work in partnership with other organisations, often in complex networks that entail horizontal and vertical integration of policy and implementation strategies, both internally within their organisations and externally with different government and private agencies. The new form of interaction is also conditioned by the advances in information technology. The availability of modern information and communication technology and the application of 'e-government' are changing intergovernmental relations. Many developed countries are using this modern technology in service delivery, for information exchange, performance monitoring and consultation between levels of government (Bovaird *et al.*, 2001).

In short, NPM has introduced market decentralisation, which is the ultimate form of decentralisation. The approach changes not only the assignment of expenditure and revenue, intergovernmental grants and borrowing, but also the internal management systems of levels of government. Local governments' expenditure assignment is limited to policy, standards and oversight functions. The actual provision of local services (production, delivery and administration) is left to the private sector through contracting out. NPM recommends that revenue assignment to local governments include vouchers, user charges and other revenue instruments that directly link benefits and costs. It recommends an output-based or market-oriented intergovernmental transfer system and restricts borrowing by sub-national governments. It recommends a performance management system to guide the relationship between levels of government and private sector management systems to enhance efficiency and effectiveness in the operation of levels of government.

2.7 Theory of Democratic Decentralisation

The theory of democratic decentralisation maintains that decentralisation encompasses not only transfer of decision-making power and resources to lower levels of government, but also local authorities' accountability to constituents and enhancement of public participation in the local political process. The theory is advocated for its process-cum-output orientation. The process includes mainly participation (giving citizens a meaningful role in local governments' decisions that affect them) and accountability (increasing popular control over what local governments have done or left undone). The output aspect involves improving local service delivery, matching social services and public decisions to local needs and aspirations, mobilising local resources, and increasing equity in the use of public resources (Blair, 2000; Heller, 2001; Manor, 1999; Olowu and Wunsch, 2004).

Developed-country researchers who focus on urban governance and democracy also appreciate accountability and participation as critical factors in democratic decentralisation. Haus and Heinelt (2005: 14-15) identify three dimensions of democratic self-governance in Western society. The first is 'input-legitimation through participation', which is authentic participation – expressing agreement with or dissent against proposed policies and influencing the decisions on those proposals (getting one's voice heard and one's vote counted). The second is 'output-legitimation through effectiveness', which is solving problems that affect the fate of the community. It implies developing policy decisions by taking available information (knowledge) and getting it accepted by the implementers. The third is 'throughput-legitimation through transparency', which is making the social environment understand how major decisions are taken and who is responsible for them. It also deals with accountability, which is a precondition for evaluating political actors' performance and for efficient decisions with respect to scarce resources.

Exponents of democratic decentralisation theory, especially Olowu and Wunsch (2004), argue that earlier decentralisation efforts in many developing countries since the 1950s focused on deconcentration without including any serious democratic component. The initiatives were inadequate and did not change the pre-existing conditions – that is, altering the central government's power of command over local services and resources. There has been renewed interest in decentralisation with emphasis on the democratic component since the early 1990s, especially in many developing countries. Three important factors have provided the impetus for the emergence of the theory of democratic decentralisation.

The first is the ascendancy of the notion of good governance, which upholds the importance of the political process in socio-economic development. The concept of good governance questions the earlier Third World political theories that regarded development only as an economic process.[20]

> Like Keynesian and Leninist approaches to economies, the two paradigms which had long dominated political analyses of less developed countries – the political development/modernization school and dependency theory – became increasingly less convincing during the 1980s. New modes of analysis gained popularity in their place and helped to prepare the ground for experiments with decentralisation (Manor, 1999:28).

Referring to the modernisation theory, Uphoff (1986) also argues that the robust 'trickle-down' effect resulted in centralised political systems, and if any decentralisation occurred it was deconcentration, not devolution.

Good governance has introduced various political issues. Although difficult to generalise, these include: participation, accountability, responsiveness, transparency of government action, rule of law, equity and inclusiveness, consensus-oriented decision-making, and effectiveness and efficiency.[21] The notion has also inspired major donors and aid-recipient governments to include political factors in decentralisation. Manor (1999) observes that 'World Bank analysts have recognised decentralisation of resources and responsibility without (democratising) political reform would have been incomplete and, probably, not conducive to socially effective results.' Similarly, Blair (2000: 22) notes that in the mid-1990s the US Agency for International Development was supporting about 60 democratic local governance activities around the world and the UN Development Programme had assisted over 250 decentralisation activities. Blair (*ibid.*) also notes that the most impressive testimonial to the perceived efficacy of democratic decentralisation has been its endorsement by the Development Assistance Committee of the Organisation for Economic Cooperation and Development.

The second contributing factor to the emergence of the theory of democratic decentralisation was the economic and political crises in developing countries. The economic challenges included, among other things, a resource crunch, negative economic growth, growing external indebtedness and systemic fiscal imbalances. Some of the political problems were political instability; demands from organised interests for political inclusiveness, inadequacy of central leadership, degeneration of patronage systems and charismatic leadership, and so on. The crises forced many governments in developing countries to reconsider sharing out of political power to lower levels of government (Manor, 1999; Olowu and Wunsch, 2004).

The third factor that provided the impetus for the emergence of the theory of democratic decentralisation is globalisation, which has compelled national governments to focus their attention on strategic issues of national economic and political management, handing over the detailed management of cities and communities to other institutional actors or non-State actors (Olowu and Wunsch, *op. cit.*)

Like NPM, the theory of democratic decentralisation has strong theoretical foundations. The two important approaches underlying it are public choice theory and participatory or community-based development.

Public choice theory assumes that efficiency in the allocation of public resources is enhanced by decentralised governance when taxpayers/citizens convey their preferences democratically and when politicians and administrators closely follow those preferences (Martinez-Vazquez and McNab, 1997). Manor (1999: 28) affirms that public choice theory views 'democratic decentralisation as an option which offers something resembling a free market, i.e., bringing together buyers (citizens) and sellers (decentralised authorities) in a setting where the wishes of the former can impinge effectively on the latter'. The theory regards democratic decentralisation as a means to off-load obligations from hard-pressed central government to local and intermediate-level bodies and to facilitate cuts in central government expenditure (*ibid.*).

The community-based approach to development endorses communities as a kind of fulcrum for development and an entry point for socio-economic development (Uphoff, 1986). The approach considers local peoples' participation in planning, production and delivery of public services as the mainstay of local-level development.

2.7.1 Mechanisms for promoting democratic decentralisation

The theory of democratic decentralisation suggests two measures giving local governments sufficient political and administrative power as well as financial resources. The first is a mechanism to make elected representatives accountable to their constituencies and to the public. The theory questions the effectiveness of the conventional approach of using hierarchical control to achieve accountability.[22] The second recommendation is for the establishment of effective participation mechanisms that would be instrumental in informing decision-makers about the needs, preferences, wishes and capabilities of the public and in involving the public in priority setting, financing (paying), planning and production of local services. The literature on democratic decentralisation provides a variety of mechanisms, which are often labelled voice and exit mechanisms.[23] Many of the mechanisms are similar to those suggested by the institutional approach. The following are some commonly accepted mechanisms that are peculiar to democratic decentralisation or relevant to addressing the problem of participation and accountability (Blair, 2000; Brosio, 2000; Katorobo, 2004; Kauzya, 2005; Manor, 1999; Olowu and Wunsch, 2004).

Elections

Free, fair, regularly scheduled elections and universal suffrage are direct mechanisms to ensure accountability and political participation. Elections, as a mechanism for instilling accountability, give constituents the right to review the performance of elected members and replace local authorities that fail to live up to their promises. As a mechanism for participation, elections also provide citizens with opportunities to elect and be elected in local councils, and political activists to collect information on demands of constituents. Through elections, localities, especially in remote and poor areas, are able to negotiate and lobby for greater resources and exercise influence at the national level. Generally, elections create a viable local political process, and without elections local governments fail to be democratic.

Political parties

The existence of different political parties makes for a powerful engine to enforce accountability. A multiparty system enforces checks and balances, as the party in power often has strong incentive to evade accountability while opposition parties have their own incentive to uncover the wrongdoings of the ruling party. A strong multiparty system is also an effective participation mechanism because it can help different members of the community to articulate and organise their interests.

Civil society

A diverse, strong, vibrant civil society serves as an accountability and participation mechanism. Civil society is an organisational activity between the individual (family) and the State (Blair, 2000) or comprises organised interests (lower-level associations and non-government organisations) with a significant degree of autonomy from the State (Manor, 1999). It serves as a watch-dog over local authorities; gathers information on community needs and ways of addressing them; enlarges opportunities for citizens to participate in decisions affecting their lives; maintains close linkages between officials and citizens; and promotes monitoring, evaluation and planning from below. Moreover, civil society is a venue for building social capital – which is defined as the density of interactions within and between social groups and voluntary associations that generate mutual trust to facilitate public activity (*ibid*.).[24]

Political will and commitment

Expenditure and revenue assignment remains unimplemented unless the political leadership has a strong and enduring commitment to it. Political commitment as a mechanism to ensure accountability and participation involves different elements. For instance, Olowu and Wunsch (2004) identify the following major components: rule of law and obedience to that law by the political leadership; general and institutional stability; openness to democratic contestation and the existence of related political freedoms; a favourable legal structure for local entities to operate within a stable and supportive economic context; giving local governments opportunity to develop consensus on central policy and to check and balance central decisions; easing alienation of opposition parties and social groups from the political arena; avoiding creation of 'authoritarian enclaves' at sub-national level; respecting individual rights, freedom of the press, and so on (*ibid.*).

Haus and Heinelt (2005) also demonstrate the critical importance of political leadership for achieving governability at the local level. In this context they define political leadership as mainly mobilisation of followers for specific or broad purposes. It is not giving orders, but building willingness to follow or generating support. It entails the capacity to establish, clarify and focus on broad purposes and to accept public accountability for the realisation of these purposes. There is a symbiotic relationship between political leadership and participation. Political leadership achieves legitimacy by involving citizens in the policy process, pooling together common interests or making claims on their behalf, and influencing the agenda and setting up procedural rules for participation. It is also a precondition for increasing effectiveness and efficiency as well as vitalising local democracy through greater transparency and accountability. Effective political leadership is actually generated through participation. Haus and Heinelt point out that there a risk in having institutionalised strong political leadership as it may lead to the personalisation of politics at the expense of substantial discussion, foster paternalistic attitudes and trigger populism (*ibid.*).

Generally, the theory of democratic decentralisation recognises that the above major pillars are critical for the success of decentralisation in developing countries. The theory does not present new proposals on the four elements of decentralisation, but pursues many of the assumptions made and principles recommended by the earlier theories. The following are some of the theory's proposals on the four elements of decentralisation.

2.7.2 Expenditure assignment

The writers on democratic decentralisation follow different approaches from the earlier theories. Manor (1999) favours the principle of subsidiarity; that is, all government functions should be performed at the feasible local level. He also recommends that central government be responsible for complex development projects and projects that extend spatially beyond a single local area, because local governments lack the inclination, sophistication and administrative capacity to implement them. Olowu and Wunsch (2004: 69) recommend the NPM approach – privatisation, multiple providers, deregulation and contracting out – which they label impersonal, neat, and effective exit mechanisms. They suggest private provision of basic education and health services, credit to women and farmers, and extension facilities to farmers and informal sector operators. Their main argument is that provision of such services, especially credit and extension services, by local governments has a destructive impact on local politics as it stimulates intense, extra-legal, and at times violent competition over who gets what share of the goods and leads to clientelistic and neo-patrimonial administration (*ibid.*: 263). On the other hand, Katorobo (2004) argues for a system of expenditure assignment that can balance the risks involved in shared responsibility (the intergovernmental relations approach) and exclusive functional responsibility (the welfare economics model). He believes that the intergovernmental relations approach carries the risk of shirking by the parties that have the responsibility to perform and can lead to inaction, while the welfare economics model carries the risk of non-implementation due to sub-national governments' resource and capacity constraints.

2.7.3 Revenue assignment

The theory of democratic decentralisation has no specific recommendations on taxation. Some of its exponents follow the proposals of the welfare economics model and intergovernmental relations school to advocate that local governments should rely on property taxes, user charges and fees. Olowu and Wunsch (2004) follow the NPM approach and recommend user charges to finance some local services like basic education and health, and a voucher system for electricity and water services.

Olowu (2002) also favours property taxes in developing-country urban or local government jurisdictions because the tax rate is progressive and makes possible the diversion of more revenue to developing rural areas and relieving the poor of an unfairly heavy tax burden.

Exponents of the theory argue that tax systems in many developing countries are poorly developed at national as well as local levels. Taxes are derived from poor people and the rich are excluded as they operate in the private and informal sectors. Given the ascendancy of democratic governance, proponents of democratic decentralisation are optimistic that the suspicion and cynicism which ordinary people generally feel towards government will diminish over time and people will be more willing to pay taxes. In addition, big investments in profitable local enterprises will be encouraged and there will be some possibility of eventually enhancing local revenue (Olowu and Wunsch, 2004: 75). The theory also emphasises accountability and a participatory process in revenue assignment. It recommends that communities work together to tax themselves and enhance their voice in local government through increased local taxation and local control over spending choices.

2.7.4 Intergovernmental fiscal transfers

Democratic decentralisation theory regards the systems of intergovernmental fiscal transfer practiced in many developing countries as having adverse effects, although they have increased spending by local governments. The transfers are blamed for very low levels of local taxation and undermining the voice of local residents on how taxes should be spent. The decisions on the basis of which the transfers are made (distribution pool and formula) are also criticised for being non-transparent; heavily skewed in favour of equity and needs; and having no strong incentives for local revenue mobilisation (Olowu and Wunsch, 2004). Nonetheless, the theory does not provide specific suggestions for improving the system of intergovernmental fiscal transfers. It follows the proposals of the intergovernmental relations school but stresses the need for an incentive-compatible, transparent and participatory system of intergovernmental fiscal transfers.

2.7.5 Sub-national borrowing

The theory endorses local-level borrowing, especially for financing infrastructure projects and synchronising annual revenue and expenditure flows. It suggests that local governments should borrow from private sector capital funds (through direct loans or bonds) and adopt rigorous standards of accountability with regard to financing their activities on commercial terms. The central government has to play a regulatory role but not directly control the finances of sub-national governments.

2.7.6 Dilemmas in democratic decentralisation

The literature on democratic decentralisation points to various, mainly political, challenges that arise when instituting democratic decentralisation in developing countries. Four of the challenges are presented here.

The first challenge is reconciling the deep-rooted mental framework of leaders and intellectual advisors with the ethos of democratic decentralisation. Olowu and Wunsch (2004) note that some African leaders and their intellectual advisors still hold on to the centralist, homogenising and bureaucratic State model inherited from the colonial period.[25] Manor (1999:23) also remarks that 'Regimes found themselves trapped in "path dependency" and it proved exceedingly difficult to throw off old, time-honoured habits of mind.'

The second problem is the difficulty of reconciling patrimonial administration with democratic governance. The former is characterised by force and places power of government (judicial, legislative, executive) under the personal possession of local chiefs and the head of state. This form of administration, characterised by dominance and submission, is still prevalent in many developing countries.

The third problem is incompatibility between local capture and democratic decentralisation. Local capture is usually reflected in corruption, embezzlement, and spending of a substantial share of the local budget on salaries, buildings, vehicles, electricity generators and other perquisite for officials. Such actions by local elites have a debilitating effect on people's willingness to invest their personal resources in local governments.

The fourth challenge is the tendency of national leaders to set decentralisation programme objectives so as to promote their personal interests rather than genuinely empower the grassroots. Manor (1999: 37-9) describes this attitude as 'hard-nosed calculations of self-interest'. Some of its features are placing prominent figures at the local level in official positions of power so that the central government can cultivate them as allies; off-loading tasks that the central government finds costly or inconvenient onto lower-level authorities; mobilising local resources through tax increases, which the ruling party can exploit for partisan advantage; giving the appearance of democratising lower levels in the system while actually limiting the influence that locally elected members can exercise on the centre; and enacting ineffective decentralisation policies to please donor agencies that favour decentralisation and democracy.

From the above discussion it is clear that the theory of democratic decentralisation emphasises the political aspect of decentralisation. It identifies various mechanisms for promoting accountability and participation, especially elections, a multiparty political system and civil society, as important elements for successful decentralisation. It also calls on central governments to show unrestrained commitment, respect the rule of law, provide space for political freedom and democratic contestation, and institute a legal structure that is favourable for local entities. With regard to the four elements of decentralisation, the theory follows many of the assumptions and principles developed by earlier approaches. It emphasises accountability and participation as cross-cutting issues in all the four elements of decentralisation.

2.8 Conclusion

On the basis of the literature on decentralisation, this chapter identified five theoretical perspectives, which provide different assumptions and proposals on the design and implementation of the four elements of decentralisation: expenditure assignment, revenue assignment, intergovernmental fiscal transfers and sub-national borrowing. The discussion showed that the five theories differ over the division of three economic roles of government – stabilisation, distribution and allocation – among levels of government. Whilst the welfare economics model gives the central government responsibility for distribution and stabilisation, the intergovernmental school and new public management model doubt the validity of the argument. The institutional approach and the theory of democratic decentralisation also reject the welfare economics division. All the theories accept that allocation functions should be performed by all levels of government. The following paragraphs provide a brief comparative analysis of the positions of the five decentralisation theories on the four elements of intergovernmental fiscal relations.

2.8.1 Expenditure assignment

The welfare economics model upholds the benefit principle (allocation efficiency) and production efficiency as bases for expenditure assignment. The main thrust of this model is separate expenditure and revenue assignments for different levels of government. Accordingly, local governments provide public goods consumed and paid for within their jurisdictions and the central government is responsible for goods of nationwide benefit. The intergovernmental school maintains that expenditure assignment should be based not only on allocation and production efficiency but also on the principle of subsidiarity and economics of scope. It suggests shared responsibility or joint provision of functions and/or services among different levels of government. The institutional approach suggests the assignment of responsibilities to lower levels of government consistent with efficient performance. The new public management model advocates withdrawal of the public sector from direct provision of public goods and increased use of the market in production and distribution of public goods and services. The model proposes a minimalist local government, or follows the 'residuality principle', which states that local governments should be selected only where the benefits of such an option exceed those of all other institutional arrangements. Some exponents of the theory of democratic decentralisation suggest a system of expenditure assignment that balances the risks that arise from shared responsibility (the intergovernmental relations approach) and exclusive functional responsibility (the welfare economics model). Others opt for the NPM approach, especially contracting-out.

2.8.2 Revenue assignment

As with the assignment of expenditure responsibilities, the welfare economics model proposes that the division of revenue sources among levels of government be based on the benefit principle or mobility of economic units. Accordingly, the central government takes most of the non-benefit taxes or mobile tax bases; sub-national governments are assigned taxes with immobile bases (real estate tax), those easy to administer (payroll tax), and benefit charges. The intergovernmental school also proposes revenue assignment based on the benefit principle, but proposes shared responsibilities in tax assignment. As with expenditure assignment, it proposes that assignment of revenue be based on specific functions, which include determination of base, fixing of rates, collection and administration, as well as vertical and horizontal coordination of revenue assignments. The institutional approach also suggests application of the benefit rule. NPM questions the application of compulsory local rates and taxes by levels of government and recommends using revenue instruments that are directly linked to citizens' demand for public resources, like charges, vouchers and fees. The theory of democratic decentralisation suggests that local governments should rely on property taxes, user charges and fees.

2.8.3 Intergovernmental fiscal transfers

The welfare economics model views intergovernmental grants as having three main purposes: using matching grants to correct differences in fiscal capacity or per capita income among lower levels of government, equalising the terms on which particular public services are provided, and correcting externalities or benefit spillovers. The intergovernmental school criticises the proposals of the welfare economics model as being narrow and meant only to correct horizontal imbalances and benefit spillovers. Its exponents recommend one additional objective: bridging fiscal gaps or vertical imbalances through general non-matching transfers; which is given less attention by the welfare economics model. Winkler (1994) opts for sector-specific grants or categorical grants. The intergovernmental school also provides guidelines on design and administration of grants. The institutional approach follows the proposals of the intergovernmental relations school but recommends an appropriate incentive structure and other institutional mechanisms in grant design and implementation. NPM criticises the heavy emphasis on the grant system as it provides a strong incentive for local governments to increase their spending and run securing large grants from the central government. It recommends grants that have market characteristics, which include competitive grants and output-based grants, rather than formula-based or input-based grants. The theory of democratic decentralisation recommends establishing an incentive-compatible, transparent and participatory system of intergovernmental fiscal transfers.

2.8.4 Sub-national borrowing

The welfare economics model allows sub-national government to finance long-term investment programmes only through long-term bond financing. Sub-national governments are not allowed to borrow directly from the market, especially to finance annual budget deficits. The intergovernmental relations school, however, allows sub-national borrowing for both long-term capital expenditure as well as annual budget deficit financing. It also allows direct borrowing from the market and central government. The institutional approach follows the proposals of the intergovernmental school but advocates credible no-bailout rules and other measures of transparency. NPM prefers investments in the local economy to be by the private sector and does not fully endorse the direct involvement of local governments in long-term capital projects. The theory of democratic decentralisation presents similar proposals to those of the intergovernmental school.

The above discussion shows that there are differences among the five approaches on assumptions and proposals regarding the four elements of decentralisation. However, the differences are marked among the welfare economic model, intergovernmental relations school and new public management model. Because of their focus on institutional issues and other political variables, the institutional approach and theory of democratic centralisation do not make specific recommendations on the four elements of decentralisation, but mostly follow the proposals of the intergovernmental relations school.

There is also marked difference between the intergovernmental school and the welfare economics model over the link between political process and preference revelation. The welfare economics model takes for granted the existence of responsive and accountable politicians and bureaucrats and effective public choice mechanisms, especially elections, at sub-national level. Nonetheless, the intergovernmental school assumes the opposite, especially in developing countries. NPM shares the welfare economics model assumption. The institutional approach and the theory of democratic decentralisation stress factors that limit the effectiveness of intergovernmental fiscal relations reforms. The institutional approach claims effectiveness is dependent on institutional factors while the theory of democratic decentralisation argues that the local political process is crucial in realising intergovernmental fiscal relations reforms.

The assumptions and proposals presented by the five theories regarding the four elements of decentralisation will be used to analyse Ethiopia's intergovernmental fiscal relations during the past decade. The chapters on the empirical findings will assess the feasibility of applying these theories in Ethiopia. Table 2.1 summarises the assumptions and princi-

Table 2.1

Theoretical matrix for expenditure and revenue assignment, fiscal transfers and sub-national borrowing

Decentralisation theories	Major assumption	Expenditure assignment	Revenue assignment	Intergovernmental transfers	Sub-national borrowing	Expected process outcomes
Welfare economics model	Economic efficiency through public sector with more power to the central government (layer cake model)	Based on benefit rules and economics of scale; central and lower levels are assigned goods of national and local benefit respectively; exclusive service functions to levels of government	Based on efficiency and equity criteria; non-benefit taxes (highly mobile and progressive) to the centre; benefit taxes (non-mobile taxes) and user charges for local governments	Used to correct spillover effects (conditional/ matching) and fiscal equalisation (unconditional grants)	Allowed for long-term investment through bond financing	Efficiency, equity, autonomy and competitive-ness
Intergovernmental relations school	Economic efficiency through public sector with more power to sub-national governments (marble cake model)	Based on principle of subsidiarity, emphasis on benefit rules, economics of scale and scope; shared responsibilities; asymmetric assignment	Same as above, but shared responsibility among levels of government. Some prefer centralised tax, others the subsidiarity principle	Used for above purposes plus correcting vertical imbalances, fiscal inefficiency and for fiscal harmonisation. Proposes principles of transparency and objectivity	Same as above, plus for financing budget deficits, allows direct borrowing from market	Cooperation between levels of government; efficiency, equity, innovation and flexibility; autonomy, accountability, participation

(Continued)

Decentralisation theories	Major assumption	Expenditure assignment	Revenue assignment	Intergovernmental transfers	Sub-national borrowing	Expected process outcomes
Institutional approach	Institutions for effective decentralisation (incentive structure, information, political and legal framework, capacity)	Same as above, but more focus on institutional arrangements	Same as above, but more emphasis on institutional arrangements and more taxation power and autonomy for local governments	Same as above, but more emphasis on incentive structures and other institutional elements	Same as above, getting the rules of the game right for moral hazard problems	Efficiency, equity, participation, accountability, autonomy, transparency
New public management theory	Economic efficiency through market and major change in public sector management	Based on benefit rule but public sector has limited role in production and distribution; residuality principle for assignment to lower levels, contracting-out	User charges and vouchers to be main sources of revenue for lower levels of government. Against compulsory rates and taxes	Less emphasis on grants, but market- and output-based transfers	Limits borrowing by lower levels of govt.	Efficiency, effectiveness, autonomy, accountability
Theory of democratic decentralisation	Good governance necessary (emphasis on political process - participation and accountability)	Some authors follow NPM proposals, others suggest mix of the other theories	No coherent recommendation but follows proposals of above theories	Follows the intergovernmental approach but emphasis on transparency and participation	Same as intergovern mental relations school	Efficiency, equity, autonomy, participation, accountability, transparency

ples of the five theories with regard to the four elements of decentralisation.

The assumptions and proposals presented by the five theories regarding the four elements of decentralisation will be used to analyse Ethiopia's intergovernmental fiscal relations during the past decade. The chapters on the empirical findings will assess the feasibility of applying these theories in Ethiopia. Table 2.1 summarises the assumptions and principles of the five theories with regard to the four elements of decentralisation.

Notes

1 Olowu (2001) and Litvack *et al.* (1998) observe that decentralisation is complex, as it affects and is affected by political, economic, socio-cultural and institutional factors and entails different forms and types. It is multidimensional since it involves distribution of power and resources among and within different organisations and units, from the neighbourhood to the supranational.

2 The legal model elaborates the federal system as: federations, confederations, consociations, unions, leagues and condominiums. It assumes that federal-based systems are decentralised to at least one level and that they have constitutionally or legally specified sovereignty over identified public sector tasks in defined territorial jurisdictions (Cohen and Peterson, 1999: 19).

3 According to Cohen and Peterson (*ibid*: 21) 'This approach is best illustrated by the work of the Berkeley Decentralisation Project, which was primarily interested in finding ways of bringing more effective development program and projects to the rural poor'.

4 There are numerous classifications of decentralisation. For instance, Fesler (1965) divides decentralisation into two categories: deconcentration and devolution. Rondinelli (1999) identifies four forms: political, administrative, fiscal and market decentralisation. Cohen and Peterson (1999: 21), quoting the Berkeley group, find eight forms: devolution, functional devolution, interest organisation, prefectoral decentralisation, ministerial deconcentration, delegation to autonomous agency, philanthropy, and marketisation. Triesman (cited in Degefa, 2003) pinpoints six types: vertical decentralisation, decision-making decentralisation, appointment decentralisation, electoral decentralisation, fiscal decentralisation, and personnel decentralisation. Mackintosh and Roy (1998) identify six distinct types of economic decentralisation.

[5] Lack of terms that embrace the full continuum between centralisation and decentralisation as well as specify the middle range where centralising and decentralising tendencies are substantially in balance (Fesler, 1965: 537)

[6] The discussion is confined to the two levels of government, but the model assigns taxes to middle-level governments following the benefit model. Middle-level governments are assigned personal income tax on residents (with slight progression only), taxation on corporate income originating within the jurisdiction but flowing to non-resident owners, retail sales tax, and origin-type product tax, which count as benefit charges (Musgrave, 1998).

[7] Oates (1972) classifies grants on the basis of conditionality. The first type is the conditional grant, where the grantor defines to some extent at least the purposes for which the recipient is to use the grant. The conditional grant can be a matching grant, where the recipient is required to match each grant dollar. The second is the unconditional grant, where there are no such specifications so that the recipient government can use the grant according to its own set of priorities

[8] A.C. Pigou (cited in Oates, 1972: 66) recommended, 'In the case of external benefits, the economic unit generating the spill-over should receive a unit subsidy equal to the value at the margin of the spill-over benefits it creates. In this case the decision-maker will have an incentive to take into account the external effects of this behaviour.'

[9] The role of local governments in local economic development has been seen in formulation and implementation of own programmes aimed at reinvigorating the local economy, improving the local economic and physical infrastructure, attracting new firms to the area, mobilising funds from a variety of sources (national and supranational) and playing an active role in the network of actors (public and private intermediary organisations) involved in the implementation of the local economic policies and programmes (Helmsing, 1996)

[10] The welfare economics model assumption is similar to that of the Cohen and Peterson legal model of decentralisation, with both considering decentralisation on two levels of government, federal and state.

[11] A more specific example is health service provision. The centre may provide technical training for staff, procure pharmaceuticals to benefit from economies of scale and ensure quality, and fund public health services. Intermediate levels might supervise local-level personnel, provide refresher training courses, ensure adequate maintenance of facilities and satisfaction of the personnel, and together with the local level, decide the appropriate mix of curative services to offer (Shah, 1999: 20).

[12] Winkler (1994) identifies the following activities: financing of recurrent expenditure, financing of capital expenditure; curriculum design and content; textbooks and teaching materials; teacher training, teacher recruitment and pay; testing and evaluation; programme supervision; school construction and maintenance; financial and management audit; planning and budgeting; school lunch. The model also specifies the role of the central ministry of education and regional governments in each activity. For instance, in financing recurrent expenditure, the ministry of education is expected to design and administer grants-in-aid to ensure a specified minimum level of spending per pupil and financing to reduce inequality in education spending. The local government is expected to finance education on a cost-sharing basis and has the authority to finance expenditures beyond the specified minimum. In financing capital expenditure, the ministry provides finance through grants-in-aid or backs local government borrowing .The local governments are also expected to contribute their share of the costs of school construction and rehabilitation.

[13] Shah (1998) pointed out negative consequences of assigning mobile taxes to sub national governments. These include: arbitrary differences in redistributive consequences for residents of different jurisdictions; inefficiently low tax as there are possibilities for tax evasion and avoidance; and increase in the cost of collection and compliance for both public and private sectors. It can also result in some tax bases facing either double taxation or no taxation at all and pose difficulty of auditing procedures as there are tax bases that involve transactions across state boundaries.

[14] *Formula grants* allocate money on the basis of variables that reflect variations in need and cost across jurisdictions. They compensate for a jurisdiction's low fiscal capacity and reward jurisdictions for fiscal effort. These grants are subdivided into capitation grants (calculated by giving more weight to population or beneficiaries), entitlement grants (determined on the basis of spending proposals that meet central government criteria), and matching grants (which can be closed, open, variable or percentage equalising). *Cost reimbursement grants* partially or fully compensate jurisdictions for costs of providing specified services. *Competitive grants* are mostly for large capital expenditures or for one-time recurrent expenditures. Jurisdictions compete against one another by submitting project proposals that best meet the central government's funding criteria. *Ad hoc grants* are awarded by the central government to a specific jurisdiction or set of jurisdictions on the basis of subjective criteria.

[15] The main arguments for financing long-term capital expenditure through borrowing are that it is inefficient to finance through taxation and it makes the future generations participate in financing.

[16] In the developed world, 'voting with feet' can be substituted by competition between service providers within a jurisdiction to increases options for residents to check the performance of local politicians and officials.

[17] Expenditure conditionality is imposed to ensure that grant funds are spent on the specified services; the focus of performance conditionality is on output rather that input.

[18] Local governments that behave responsibly will have access to the capital market and the irresponsible ones will be denied access.

[19] A typical example is the institution formed during the Thatcher government in Britain, known as non-elected agencies, which advance single, well-specified goals that fall within the wider range of local government concerns. The institution can also be an appointed central government agency with explicit remits and special boundaries, especially for local economic development initiatives (Wallis and Dollery, 2001).

[20] Uphoff (1986) points out that for many years, consideration of good governance was off limits because development was understood as principally an economic process. It was promoted primarily by manipulating economic variables (level of saving, investment, prices, wages and economic infrastructure).

[21] There is no full consensus in the literature on all the elements of good governance, or on how they should be listed or described. For example, Uphoff (1986) lists them as accountability, transparency, probity and participation, whilst the World Bank (1992) defines governance as the manner in which power is exercised in the management of a country's economy and social resources for development, with the elements including participatory civil society, open and predictable policy-making, an accountable Executive, professional bureaucracy and rule of law. For the British Overseas Development Agency the elements are legitimacy, accountability, competence, respect for law and human rights (British Council, 1997).

[22] In the conventional approach, hierarchical control is exercised by designating specialised ministry inspectors, expenditure having to be approved by the central government, deployment of central-level personnel, suspension and dissolution of local government councils, and so on (Olowu and Wunsch, 2004: 67).

[23] The voice mechanisms include elections, recall, referenda, third-party monitoring, auditing and evaluation, pressure by interest groups, public hear-

ings/reporting, mandatory public information, information dissemination, adjudicatory structures, social unrest/resistance, taxation, an ombudsman, local government size, participatory budgeting, service delivery surveys, social fund committees, and so on. The exit mechanisms include privatisation, multiple providers, deregulation, vouchers/grants, contracting out, and so forth (Blair, 2000).

[24] There is no consensus among proponents of democratic decentralisation on the role of traditional or indigenous local institutions (kinship, traditional associations, churches and historical rules) in civil society. Some consider them as building blocks for an accountable and rule-governed system (for example, Manor, 1999). Others (for example, Olowu and Wunsch, 2004) argue that while traditional institutions are respected and can play important roles, allowing them to play a big role would make local government slow, cumbersome and ineffective in providing expensive and technically complex goods.

[25] This model has persisted because, among other reasons, centralism has provided the opportunity for a permanent monopoly of power, democratic decentralisation is perceived as a threat to national cohesion, and western democracy does not have a good record of solving Africa's deep-rooted economic problems.

3 Expenditure Assignment in Ethiopia

3.1 Introduction

The previous chapter elaborated five theoretical approaches to four elements of decentralisation: expenditure assignment, revenue assignment, intergovernmental fiscal transfers and sub-national borrowing. This chapter focuses on the practice of expenditure assignment in Ethiopia.

Expenditure assignment is the distribution of policy-making and implementation powers over provision of public goods and services among levels of government. Assuming that different levels of government occupy separate and identifiable domains of power, the welfare economics model proposes exclusive expenditure assignment among levels of government based on the principle of 'spatial limitation of benefit incidence' or allocation efficiency and production efficiency (Musgrave, 1989; Oates, 1972). The central government provides public goods with nationwide benefit incidence (national defence, foreign relations and national policies and standards for many public goods) and lower-level governments supply public goods consumed and paid for within their jurisdiction. According to this model, preferences are revealed through 'voting with feet' and voting by ballot. It also takes for granted the presence of responsive and accountable political and bureaucratic officials with the will and capacity to serve. The model argues that such expenditure assignment leads to autonomy of local governments, competition among lower levels of government, innovation and increased productivity in the provision of public goods and services.

The intergovernmental relations school assumes vertical and horizontal interactions among levels of government. Expenditure assignment is based on the principle of economics of scope or shared responsibility. Exponents of this school suggest dividing a specific sector or sub-sector function into detailed tasks or functional components and assigning them among levels of government. The division and assignment of specific tasks in primary health and education among levels of government by Winkler (1994) is a typical example. The school assumes that such arrangements will not threaten central government power. It takes into account weak administrative and financial capacity of lower levels of government and absence of political choice mechanisms for preference revelation (Prud'homme, 1995; Smoke, 1994). The school recommends asymmetric assignment of fiscal responsibilities as well as agreement, co-operation and coordination of activities among levels of government.

The institutional approach to decentralisation holds that so long as there are local variations in taste and cost, carrying out public sector activities in a decentralised fashion yields efficiency gains. It proposes assignment of expenditure responsibilities to lower levels of government consistent with efficient performance (Litvack *et al.*, 1998). The approach shares many of the assumptions of the intergovernmental school on expenditure assignment.

New public management (NPM) theory proposes withdrawal of the public sector from direct provision of public goods and increased use of the market in production and distribution of public goods. NPM confines lower-level governments to regulating private provision of local public goods. It proposes a minimalist local government, or follows the 'residuality principle', which holds that local governments should be selected only where the benefits of such an option exceed those of other institutional arrangements in the provision of public goods (Wallis and Dollery, 2001).

Exponents of the theory of democratic decentralisation suggest various patterns of expenditure assignment based on the proposals of the earlier theories. Manor (1999) suggests the principle of subsidiarity; that is, all government functions that can be performed locally should be performed at that level. Olowu and Wunsch (2004) recommend the NPM approach, favouring privatisation, multiple providers, deregulation, and contracting-out. Katorobo (2004), however, argues for a system of expenditure assignment that can balance the risks arising from shared responsibility (expounded by the intergovernmental relations school) and exclusive functional responsibility (identified by the welfare economics model). The theory suggests the importance of the central government in supporting and protecting local initiatives when the scale of their problems transcends local areas.

The above theories offer different perspectives and criteria by which to examine expenditure assignment among levels of government. This chapter analyses the practice of expenditure assignment in Ethiopia by focusing on the agriculture, health and education sectors in three regions: Amhara, Tigray and Benshangul-Gumuz. As indicated in Chapter 1, there is variation in the three regional states' economic, political and social situations. The three regions are diverse in terms of population, number of ethnic groups, pattern of urbanisation, and social services. There are differences in the farming systems, land fertility, agricultural density and rural poverty. Tigray and Amhara have a smallholder, livestock–cereal subsistence farming system. Benshangul-Gumuz has fertile rangeland but a semi-pastoralist population who farm with hoes. It is also relatively poor in urban infrastructure such as electricity, telephone service and potable water supply. Table 3.1 (p. 113) shows the differences among the three regions during the early days of decentralisation in Ethiopia.

In addition, the debates on intergovernmental fiscal transfers between the central and regional governments, which will be discussed in Chapter 5, show variations in preferences among regional governments. This chapter argues that the central government policy of devolution formally gives regional governments autonomy to decide their expenditure policies and programmes and, in view of the relative variation in socio-economic conditions among the three regions, this should lead to differences in patterns of expenditure prioritising. It investigates the extent to which power has been devolved and the degree of autonomy of regional governments in setting specific regional policies and programmes, given the importance of regional governments' adherence to national standards in the three sectors.

The chapter analyses national development strategies, medium-term plans/programmes and annual budget data. National development strategies provide evidence concerning the role of regional governments in deciding the major policy frameworks that shape their expenditure prioritising. Central and regional governments' medium-term expenditure plans/programmes, which provide not only general indicative action plans but also detailed activities, are analysed to understand the differences or similarities in expenditure prioritising among the case study regions and the power of regional governments to set specific region-wide expenditure plans that differ from those of the central government. The medium-term plans may have some limitations, as the labels on the regional plans may be similar whilst there are possibilities of differences in actual implementation. Nonetheless, they can indicate patterns of expenditure planning in the case regions. Moreover, using the annual budget data, this study quantitatively examines similarities and dissimilarities in expenditure prioritising among the three regions and corroborates the findings derived from analysing the medium-term plans/programmes. Finally, the chapter concludes by reflecting on the extent to which the proposals of the above decentralisation theories can be applied in the Ethiopian context.

Table 3.1
Selected socio-economic indicators in case study regions

Indicators	Amhara	Tigray	B-Gumuz
Population exposed to drought , 1994/5	15%	34%	18%
Agricultural density, 1994/5	5	5.9	3.8
Manufacturing enterprises as % of total national figure, 1998/9	3.6%	6.7%	0
Private investment projects approved as % of total national figure, 1991-98	7.55%	10.55%	0.84%
Average annual dependency on central government transfers, 1993-2000	81.1%	76.1%	94.1%
Primary school participation rate, 1994/5	17.9%	43.7%	35.4%
Health centre to population ratio, 1994/5	1:329,285	1:174,444	1: 115,000
Road density, 1994/5	14.31	10.65	0.79

Sources: Ministry of Finance and Economic Development Annual Financial Report, various years; Ministry of Economic Development and Cooperation (2000a); Ethiopian Economic Association (1999/2000, 2000/1).

3.2 Legal Framework for Expenditure Assignment

The Ethiopian federal Constitution (see Appendix A) provides the legal framework for expenditure assignment. It places the stabilisation functions under the domain of the central government. Article 51 of the Constitution states that the centre has the power to formulate and execute national financial, monetary and foreign investment policies and strategies; administer the National Bank, print and borrow money, regulate foreign exchange and money in circulation; and determine the rules and regulations under which states can borrow money from internal sources. Regarding the distribution functions, the centre has the responsibility of narrowing the gap in per capita income among regions.

Allocation functions are assigned between the federal and regional governments. National defence and foreign affairs, the two public services with a high degree of non-excludability, are under the central domain. The centre also has policy and regulatory power for the provision of many public goods and services. It has overall power to formulate and implement national socio-economic policies, strategies and plans as well as to establish national standards and basic policy criteria for public health, education, science and technology. In addition, it controls transport and communications services (air, rail, waterways and sea transport, major roads linking two or more states, postal and telecommunications services, utilisation of rivers and lakes linking two or more states); it regulates inter-state and foreign commerce, and administers and expands all federally funded institutions that provide services to two or more states.

The regional governments have separate allocation functions. The Federal Proclamation no. 41/93, developed during the transition period, states that 'regional councils are repository of overall political power regarding the internal affairs of their respective regions'. The 1995 Ethiopian Constitution also gives regions overall and exclusive power to formulate and execute economic and social development policies, strategies and plans of their respective jurisdictions as well as the right to the final determination of their own affairs and self-government. Federal Proclamation no. 41/93, which is the basis for the Constitution, defines the power and functions of the central and regional executive bodies; it stipulates the specific allocation functions conferred on the central and regional governments in the areas of education, health and agriculture.

All the regional governments have the same types of proclamations, enacted in 1995, simply replicating Federal Proclamation no. 41/93 on the power and responsibilities of their executive organs. The regions are given the following powers in the three sectors:

(i) preparing educational strategies, plans and programmes based on the national education policy as well as expanding and managing elementary, junior, and senior high schools and colleges;
(ii) expanding health services, preparing regional health care plans and programmes based on national health policy and organising and administering hospitals, health centres, clinics, and research and training institutions;
(iii) developing agricultural strategies and expanding agricultural extension services.

Federal Proclamation no. 41/93 is the only document that defines the sectoral expenditure assignments of the central and regional governments. The executive body of the Transitional Government, which is dominated by the TPLF, enacted it and the Transitional Council authorised it. The proclamation came into force and was implemented even before formal endorsement of the establishment of regional governments under the country's 1995 Constitution and without due consideration of the institutional capacity of regional governments. When the proclamation was enacted, the regions did not have adequately organised offices to shoulder the responsibilities and there were few qualified personnel to run the operations. It was after Proclamation no. 41/1993 that Benshangul-Gumuz established 13 bureaus, Tigray 13 bureaus and Amhara 12 bureaus (this will be discussed further in Chapter 7). In Benshangul-Gumuz, central political advisors headed the newly formed regional bureaus. In 1994, after the proclamation had been ratified, the central government transferred 553 civil service employees working at the centre out to all the regions.

The legally proclaimed assignment of responsibilities in Ethiopia, both through the Constitution and the proclamation, displays many of the features of the welfare economics model or the 'layer cake model', which implicitly assumes levels of government occupying identifiable and separate spheres of power and responsibility. The stabilisation and distribution functions fall in the realm of the central government; both levels of government have parallel legislative, executive and judicial powers; regions have separate domains of power to formulate and implement economic and social development policies, strategies and plans; the legal framework and other proclamations give no indication of the relationship between the regional and federal executives with regard to expenditure assignment, except for some general provisions demanding assistance and advice from the centre to regional executives as and when necessary;[1] despite the differences among the three regions, they are treated equally; and there is no specific sectoral legislation that indicates shared or joint responsibilities among the levels of government with regard to health, agriculture and education, except Proclamation no. 41/93, which gives the central and regional executive organs separate power and duties (this proclamation will be used in the following sections to analyse expenditure assignments in the three sectors). Moreover, like the welfare economics model, the federal Constitution does not recognise expenditure assignment at the lowest levels of government, only at the federal and regional levels. The Ethiopian model of decentralisation ignores the intergovernmental relations school recommendation on shared responsibilities and asymmetric decentralisation.

3.3 Unpacking the Practice of Expenditure Assignment

The above legal framework only sets out the official placement of expenditure responsibilities between the two levels of government. This section explores how expenditure assignment is implemented in practice at the federal level and in the three case study regions of Amhara, Tigray and Benshangul-Gumuz. First, the section examines the role of the central and regional governments in drawing up the country's long-term development strategy. Then it analyses the federal and regional ruling parties' medium-term development programmes. Finally, it investigates the role of the regional governments in prioritising their expenditures on: agriculture, education and health.

3.3.1 National development strategy

The Agricultural Development Led Industrialisation (ADLI) strategy is a long-tem plan (1994-2014) formulated to actualise the Ethiopian Transitional Government Economic Policy of 1991.[2] Both the policy and strategy claim to address the demands of 85 per cent of the rural population for sustainable economic growth, equity (including regional equity) and self-reliance in national development, and to utilise the two important resources of the country, land and labour, effectively (MOPED, 1994).

According to a government report, this strategy has been used as a basic framework to launch several multi-year sectoral programmes/projects (roads, education, health, energy, agriculture and rural development), the two national food security strategies (1996 and 2000) and the national poverty reduction strategy (EPRDF, 1995).

Government documents show that ADLI's first priority is raising agricultural production and the productivity of peasants and pastoralists (MOPED, 1994; EPRDF, 1995). This is being done by, among other things, introducing modern technological inputs (improved seeds, fertilisers, pesticides, agricultural tools and implements); constructing small-scale irrigation schemes; developing livestock resources; expanding soil and water conservation measures; launching off-farm activities, and large-scale farming in lowland areas. The second priority is industrial development, which is expected to be achieved through promotion of labour-intensive technology and utilisation of domestic raw materials. The strategy visualises export-led growth as well as expansion of basic and vocational education and primary health care services (*ibid.*).

There is no evidence of active involvement of regional governments in the development of the Transitional Economic Policy and ADLI strategy through their elected representatives. The policy and strategy were formulated and their implementation begun before regional governments were formally established. The Tigray People's Liberation Front (TPLF) designed both documents and the Transitional Government Council of Representatives (July 1991 – August 1995) authorised them. The Council was not an elected body; its 87 members were chosen mainly from the then existing ethnic liberation movements that had waged war against the Dergue. The Council comprised 32 representatives from the EPRDF (Ethiopian Peoples' Revolutionary Democratic Front),[3] 12 from the Oromo Liberation Front,[4] and the rest from 22 ethnic political parties[5] and two other organisations.[6] The most important criterion for allocation of seats in the Council was contribution to the armed struggle to overthrow the Dergue. The liberation fronts representing Tigray and Amhara regional states had 10 seats each, and Benshangul-Gumuz region had one seat.

An informant from the Ministry of Finance and Economic Development told the author that 'ADLI was an initiative by TPLF leaders, but it was later elaborated by selected officials from the centre, got backing from the World Bank and was approved by the Transitional Council'

(Interview, Addis Ababa, April 2004). A senior party official in Amhara regional state also asserted, 'The strategy is the "baby" of TPLF and no one other than the then politburo members of TPLF was involved in the initial decision.' (Interview, Bahirdar, February 2004). The vice-president of the Benshangul- Gumz region confirmed that the region had not been fully established when ADLI was developed (Interview, Assosa, July 2003).

During the past decade, ADLI has been the framework guiding expenditure prioritising, or formulation of medium-term plans, annual plans and budgets, at both federal and regional levels. The strategy is still controversial. One informant summed up the pro-ADLI camp by describing the strategy as 'a genuine commitment by TPLF to transform the country's agricultural and industrial development' whilst another expressed the opposite view: 'ADLI is TPLF's gimmick to impress the IMF and World Bank bureaucracy so that they could facilitate the flow of scarce financial, technical and logistical resources to sustain its regime' (Interview, Addis Ababa, April 2004). Written documents also indicate that some Ethiopian experts have doubts about the viability of the policy and others have condemned it as a wrong-headed strategy.[7]

To summarise, ADLI has been and continues to be the main development strategy that guides central and regional expenditure planning in Ethiopia. When the Transitional Council authorised this long-term strategy, the regional governments were not yet fully established. Elected representatives of the regional governments have not debated it. As the central political leadership of the TPLF, which took control of the Ethiopian State by toppling the Dergue regime, believes that Ethiopia can attain economic development by implementing ADLI, the regions have no option but to accept the strategy. Regional governments have no power to opt for alternative strategies or to modify the strategy to address their respective regional needs.

3.3.2 Ruling parties' medium-term development plans

EPRDF's five-year Development, Peace and Democracy Programmes are detailed medium-term plans formulated on the basis of the ADLI strategy. During the last decade, three EPRDF programmes (1995/6 to1999/2000; 2000/1 to 2004/5; 2002/3 to 2004/5) have been developed by the federal and regional governments.

As will be explained later, the federal government's medium-term plans provide specific guidelines on expenditure assignments to all regional governments. The contents of the three medium-term plans are similar. The federal plans are not indicative or used to orient public actions, but they provide detailed guidelines for action by regional governments. They include, among other things, activities and standards for each sector of the economy (agriculture, education, health, roads, industry, mining, electricity, telecommunications, transport, water, and urban development); policies on macro-economic issues (trade, fiscal and monetary); and measures for maintaining peace and democracy. The second and third medium-term plans included additional directives on food security, capacity building (including human resource development) and the rural marketing system (EPRDF, 1995, 2000).

EPRDF executive committee members, dominated by a few TPLF veterans and their advisors,[8] initiated and drafted the first and second federal medium-term plans (1995/6 to 1999/2000 and 2000/1 to 2004/5) and subsequently presented the plans to the central committee for discussion. At that stage, the discussion involved top political leaders from each regional government (leaders of the EPRDF member parties who had been selected and appointed by the TPLF). The central committee debated the proposed activities, targets, possible adjustments and modifications and accepted them with minor adjustments. Finally, the draft documents were adopted as final EPRDF five-year development programmes and were passed on to the regional governments for elaboration and implementation.[9] One informant told the author, 'The two top TPLF leaders (the premier and the party ideologue) were the main architects of the EPRDF programmes. The rest of the TPLF/EPRDF executive members had the tradition of accepting the ideas originating from the two officials as absolute and unquestionable.' This was corroborated by party members.[10]

The three regional governments of Amhara, Benshangul-Gumuz and Tigray also prepared their first and second medium-term development plans with a similar title to that of the federal programme, except for a prefix to include the name of the regional state issuing the document. The contents merely repeated the policy and types of activities in the federal programmes. For instance, the preamble of the first Amhara regional state medium-term plan (1995) stated: 'The federal EPRDF's five-year development plan […] which identified major problems of the people, set targets, outlined strategies that will be used as the basis for the formulation of the first five-year regional program of the Amhara regional government.' [11]

Similarly, Tigray's regional state first five-year medium term plan (1995) stated: '…like the five-year development program of the federal EPRDF, the five-year plan of Tigray region is based on the principles of development that is centred on rural and small holder farmers.' [12]

Interviews with officials indicate that the process of developing the five-year development plans for both Tigray and Amhara was similar. The leaders of the regional governments, who had been involved in discussions on EPRDF's proposed plans at the centre, took the approved documents back to their respective regions for further discussion by political leaders, bureau heads (mostly members of the ruling party) and hand-picked experts. On the basis of the outcomes of the discussions, the regional executive council adopted the central directives and issued similar guidelines for use by regional sector offices and lower tiers of government. Then, sector bureaus and lower tiers of administration prepared their respective draft five-year development plans, which were consolidated by the regional bureaus of planning and economic development and submitted to the regional executive council for approval. Finally, these five-year development plans were approved without change by the regional parliaments, which are controlled by the Executive.[13] From 1995 to 2002, regional parliaments in Ethiopia were not effective institutions because they were presided over by the head of the Executive, did not have parliamentary committees, and met only twice a year for two or three days to rubber stamp decisions.

In Benshangul-Gumuz, the process of formulating the regional medium-term plan was somewhat different. Since the regional ruling party is only an affiliate member of the EPRDF, the central political leadership gave orientation on the details of the EPRDF programmes to regional political leaders, advisors and selected experts. This orientation served as a basis for development of the regional sector plans, which were later compiled by the regional Bureau of Planning and Economic Development. Finally, advisors from the central government approved the details of the compiled regional medium-term plan, before it was officially endorsed by the regional executive council.[14] Three to six advisors (the number varies from year to year) were assigned to the region each year to issue directives on political and economic matters. The political mentors were from the TPLF and the economic advisors were hand-picked professionals from central government ministries. These advisors, who had the final say on regional expenditure prioritising, were accountable to the regional affairs sub-department in the Prime Minister Office.[15] According to informants,[16] the advisors, whom one termed 'the hidden hands of the central government', guided and controlled the regional expenditure assignment in spite of the regional government's resistance to having them assigned to the region.[17]

The third federal development plan (2002/3 to 2004/5) was formulated before completion of the second five-year development plan. It was initiated after a crisis within the TPLF central committee in March 2001, which resulted in the TPLF splitting into two groups: the Meles Zenawi group and the TPLF dissident group. The group led by Meles Zenawi, Prime Minister and Chairman of the TPLF as well as EPRDF, emerged dominant and initiated a wide-ranging process of internal reform, known as the party renewal (*tehadisso*), within the EPRDF member parties and affiliate parties.

The renewal process had two outcomes. The first was purging of the dissidents' allies and sympathisers. This resulted in a power shift from 'a few Big Men' to 'the Big Man'. As Medhane and Young (2003: 389) note, 'It can be said with confidence that the result (of the crises) is a shift in power […] from a group among the TPLF Central Committee to Meles Zenawi.' The second outcome was endorsement of new economic and political strategic documents, or 'the White Papers', quickly compiled by the Prime Minster and his advisors in five different documents.[18] It was an opportune time for the Premier to control the whole process of policy-making in present-day Ethiopia and impose his policy directives on all sectors of the economy throughout the country. At the central level, the third five-year development plan was discussed and adopted in light of the strategies and guidelines provided in the five White Papers. Then, two of the White Papers were given to all levels of government to help prepare their three-year development plans in the agriculture, health and education sectors: 'Rural Development Policies, Strategies and Methods' (2001) and 'Implementation of Capacity Building Strategies and Programs' (2002). As will be shown later in the discussion on each sector, the documents do not only discuss ideas on issues of rural development and capacity building; they also give detailed directives to be implemented uniformly by the central and regional governments. Moreover, the document entitled 'Issues on Development of Democratic System in Ethiopia' (2002) also provides justifications for and directives on implementation of decentralisation at the *woreda* level. Nonetheless, the shift of power was only among individuals within the TPLF and EPRDF political leadership and did not bring about changes in the centre-region relationship on expenditure prioritising. The directives on expenditure assignment given in the documents will be discussed later in relation to the three sectors.

Amhara and Tigray also revised their second five-year development plans and developed their third three-year development plans after the split within the TPLF. The process entailed evaluating the performance of the regional ruling party during the previous decade. The Amhara and Tigray party evaluation documents for the first and second medium-term development plans showed that the medium-term plans had been ineffective and inefficient and had failed to recognise the role of different actors, especially the local people and NGOs. It also revealed that the political party leaders, especially the dissidents, were corrupt and obstacles to the country's development effort; and that the central ruling party's guidelines to the regions on expenditure prioritising were deficient – that is, the premises and directions were not clearly specified, the content and presentation of the development plans were not correct, the key tasks were not defined, patterns of resource allocation (for time, money and manpower) were not adequately identified, and task interrelation and implementation modalities were not clearly spelled out.[19]. However, this was contradicted by statements issued after evaluation of the first regional five-year development plans and the development of the second five-year development plans, which declared the plans successful and the guidelines clear and objective.[20] The review report on the implementation on the first EPRDF five-year Programme for Development, Peace and Democracy and preparation of the second EPRDF five-year programme (April 2000, Addis Ababa) stated:

> On the whole, the EPRDF has achieved satisfactory results in its effort to implement its first five-year development, peace and democracy program. Following an in-depth assessment of the performance of the last five years, the EPRDF has also endorsed the draft plan of action for the next five years … the growth rate that has been achieved during the first five-year is indicative of the fact that our rural and agricultural based development strategy, which had benefited the rural population including the urban areas, is correct and will be maintained in the second five year.

The new justifications, which contradicted the above-cited regional evaluation documents, laid the groundwork for the new three-year development plans for Tigray and Amhara, formulated through a process similar to that followed for the earlier medium-term plans. The top political leaders at regional level, with the help of experts, discussed and endorsed central policy directives as set out in the White Papers and passed them on to each sector and the lower tiers of government.

Although the Benshangul-Gumuz ruling party is not part of the EPRDF coalition, it, too, had to take instructions from the centre to formulate a new three-year development plan. It was also obliged to conduct a regional party renewal forum in order to secure implementation of the revised political and economic directives from the central ruling party. A top regional official told the author:

> As EPRDF is the party that rules the country, the regional government is obliged to follow every change in policy and implementation of modalities made by the centre. Accordingly, the centre gives directives to the region to adjust its three-year development programme in line with the results of the EPRDF renewal. The Ministry of Federal Affairs spearheaded the revision (Interview, Assosa, August 2003).

Unlike with the other two regional governments, and under the guise of 'supporting backward regions', in March 2002 the Ministry of Federal Affairs gave a draft three-year regional development programme to Benshangul-Gumuz.[21] The document was entitled 'Guidelines on the Development of the Three-year Plan of Benshangul-Gumuz and Gambella Regions' (Ministry of Federal Affairs, 2003a). It noted that those involved in its design were two members of the Ministry of Federal Affairs, one member of the Ministry of Finance and Economic Development and an expert from each region. Thus, the 'uncalled-for' support that had been given by the earlier political leadership, which entailed assigning central advisors, was replaced by a stronger intervention that involved providing to the region a ready-made three-year medium-term plan for implementation.

The evidence shows that few members of the central political leadership have the ultimate decision-making power on expenditure assignment; regional governments, while ostensibly summoned to the centre for discussion of the proposals, actually have little autonomy to develop their medium-term plans and merely copy the central development plans. Of the three regional governments, Benshangul-Gumuz has the least autonomy and the highest level of central government intervention in the process of developing its medium-term plans. Thus, the three regional governments' choices on expenditure decisions are constrained. One of the major reasons for such centralised control is the ruling party's internal working principle of democratic centralism, which demands that regional political leaders unquestionably implement central directives (this will be discussed further in Chapter 6). The following sub-sections explain how expenditure is prioritised in the three sectors and how the central guidelines provided through the federal medium-term plans constrain regional choices.

3.3.3 Expenditure prioritising in agriculture

As noted earlier, Federal Proclamation no. 41/1993 defines the power and duties of the central and regional executive organs on expenditure assignment for the agricultural sector. The federal government has the responsibility to, among other things, formulate agricultural and land use policies and strategies; encourage and assist in provision of agricultural extension services, agricultural inputs, agricultural mechanisation services and credit facilitates to farmers; and provide technical assistance and advice relating to research, training and dissemination of research results to regional self-governments. The regional governments have the responsibility to encourage expansion of agricultural development in their region on the basis of the country's agricultural policy; provide agricultural extension services, agricultural inputs, farm implements and credit services to farmers; undertake research and training programmes that strengthen agricultural development in the region and assist in the promotion of rural technology; encourage agricultural investment in the region and issue agricultural licences to investors. Proclamation no. 8/1995 of Tigray, Proclamation no. 4/1995 of Amhara and Proclamation no. 3/1996 of Benshangul-Gumuz echo these provisions.

The second wave of decentralisation reform in the country (launched in 2002) brought few changes in the assignment of functions among levels of government.[22] It was in fact an attempt to actualise the provisions of the 1995 regional constitutions, which assigned expenditure and revenue powers to *woreda* administrators. This new initiative has the formal aim of empowering the *woredas* to allocate funds for both capital and recurrent expenditure and to hire and fire employees. It is expected to be supported through two phases of capacity-building programmes, with the initial intervention covering 2002-04 and a deepening and consolidation phase of capacity building from 2005 to 2008.

The legal framework does not clearly indicate the details of the divisions of responsibility for the complex tasks involved in the agricultural sector. Rather, it provides parallel power and responsibilities to both the regional and central governments. For such details, we need to examine the federal and regional development plans. The analysis below focuses on the agricultural extension programme, which is the main component of the EPRDF medium-term plans and sets out activities and guidelines for expenditure prioritising (medium-term and annual planning and budgets) in the agricultural sector by regional governments.

Participatory Demonstration and Training Extension System

The first five-year period (1995/6 – 1999/2000) focused on an extension programme known as the Participatory Demonstration and Training Extension System (PADETES).[23] The system is based on demonstrating to farmers and training them in proven technologies in a participatory manner. It involved a package approach geared towards the three different agro-ecology zones in the country, namely moisture-reliable, moisture-stress, and pastoralist areas. Moisture-reliable areas direct their activities towards using improved seeds, applying fertilisers, protecting crops against pests and insects, improving farming techniques and equipment, expanding credit services, teaching farmers through agricultural extension agents, and linking research with extension activities. Moisture-stress or rainfall-deficient areas concentrate on developing micro-irrigation schemes, performing soil and water conservation activities and developing regional livestock resources. Pastoral areas perform the same activities as moisture-stress areas and gradually transform pastoralist farmers into settled farmers (EPRDF, 1995).

The Prime Minister, who has led the TPLF and EPRDF for the last 15 years, spearheaded the introduction of this extensive extension programme. His enthusiasm for the programme was explained in a Sasakawa Global newsletter (20 June 1997):[24]

> …A turning point occurred in 1994 when Prime Minister Meles accompanied President Carter to one of the Ethiopian EMTP [Extension Management Training Plots] sites. 'We travelled in farm clothes, so as not to attract attention,' President Carter said. 'As we talked to local farmers who were using the SG 2000 methods […] Prime Minister Meles became increasingly impressed with their very high crop yields, which exceeded traditional pro-

> duction by 200 to 400 percent, and with their enthusiasm for the new techniques. Upon returning to Addis Ababa, the nation's capital, *Prime Minister Meles instructed his Minister of Agriculture and SG 2000 Country Director Marco Quiñones to use the EMTP approach throughout Ethiopia.* […] "It is time for us to redouble our efforts, encouraged by our achievements so far," Prime Minister Meles said' (emphasis added).

Subsequently, the expansion and implementation of the programme at a national level was discussed at the Jimma Conference, a national forum held in 1995 chaired by the Prime Minister himself. The participants were mainly leaders of the ruling party, selected experts and officials from the federal and regional agriculture offices and SG 2000. The conference passed a resolution that the number of farmers in the extension programme should be scaled up tenfold. The Prime Minister gave the federal Ministry of Agriculture the mandate to develop different extension packages and guidelines for the regional governments.[25] The following are a few examples of these guidelines from the Ministry of Agriculture National Extension System Evaluation Reports for 1995, 1996, 1997, 1998 and 1999.

- Defining detailed technical directives on improved agricultural practices (preparing plots, sowing, harvesting, protecting from insecticide) and agricultural inputs and equipments (improved seeds, fertilisers and farming equipments) were prepared at the federal level by the Ministry of Agriculture. For instance, in 1995/6 extension packages were prepared for moisture sufficient areas for staple crops (wheat, maize, *teff* and sorghum) and animal feed; in 1996/7 extension packages were developed for moisture deficient areas for staple food; and in 1997/8 packages were developed for high economic value crops (beans, lentils, nigger, potato, oilseeds, pulses, and vegetables), livestock development (dairy, hides and skin, poultry, honey production), post-harvest technology (storage and transportation), and natural resource development (soil and water conservation and forestry). Specific technical guidelines were also prepared on supply, distribution and application of fertilizers. For instance, the technical package recommended usage of 100 kg of DAP and 100 kg of Urea per hectare for cereals in rainfall sufficient area, and 50 kg of DAP and 100 kg of Urea per hectare in moisture-stress areas. This was applied through out the country irrespective of difference in soil texture and specific variations within agro-ecological zones.

- Determining duties and remuneration of extension agents at the centre. Some of the duties were orienting and registering participating farmers, organising demonstration trial, facilitating input credit arrangement and collecting pre and post harvest repayment from farmers. It was decided that remuneration for extension agents and supervisors would be Br. 75 and Br. 100 per month respectively.
- Replicating the Federal Ministry of Agriculture internal management structure to the regional agriculture bureaus. Accordingly, the bureaus were made to have two departments, namely the extension and regulatory units. The former is responsible for forestry as well as water and soil conservation; and the latter for implementing the extension packages. Regions were demanded to establish regional agricultural research centres.

Additional central directives were issued through political channels. First, quotas were set for the regional governments for the number of participating farmers, although participation was officially declared to be on a voluntary basis.[26] Secondly, regions had to give participating farmers access to inputs by providing credit in kind.[27] Regions were instructed to use their annual budgets as collateral to borrow from government banks and channel the loans to the lower administration offices. The directive stated that loans could only be given to participating farmers on condition that they agreed to allocate land for a demonstration plot and paid a 10-25 per cent down payment on the input package at the time of planting, with the balance due after the harvest.[28]

As indicated above, regional governments had little involvement in the design and formulation of the extension programmes; awareness-creation discussion forums were organised for regional officials and experts on the programmes. The role of other actors is not evident. Keeley and Scoones (2000: 100) observe that 'space for alternative actor-networks to discuss extension critically in public was drastically curtailed'. Informants in Amhara, Tigray and Benshangul-Gumuz told the author that the development of PADETES was restricted to the centre, with regional governments being involved as implementers.[29] Monitoring and evaluation of the programme was also of prime concern to the team consisting of officials and experts from the federal Ministry of Agriculture and research institutes.

There was slight variation by region in implementation of the extension programme.[30] In Amhara and Tigray, the packages on agro-forestry development, water and soil conservation, and coffee development were modified. Both regions also developed additional livestock extension packages (a sheep and goat package in Amhara and a goat-milk production package in Tigray). In Tigray there were modifications to the remuneration system for extension workers, with good performers being rewarded with Br. 150/month, average performers receiving Br. 100/month and poor performers being given no reward at all ('Ministry of Agriculture National Extension System Evaluation Report', 1995, 1996, 1997, 1998, 1998, 1999).

Second medium-term agricultural plan

Evaluation of agricultural sector performance during the first five-year agricultural plan was followed by formulation of the second medium-term agricultural plan (2000/1 to 2004/5). The central ruling party was convinced that the first five-year plan had been successful and decided to proceed with the same programme in the second phase: ' ...since the commencement of the implementation of the five-year program significant growth has been achieved in fostering the agricultural sector, especially cereal production, and this has to be continued' (EPRDF, 2000).

The federal government decided to continue most of the activities spelled out in the first five-year agricultural sector development plan, though some of the earlier instructions were revised and additions were made. As many of the technological packages, especially for rainfall-deficient areas, were unsuccessful, regions had to conduct studies to prepare cost-effective and area-specific packages and revise the uniform application of fertilisers. The centre issued directives to stop the involvement of extension workers in administration of farmers' loan repayment.[31] Additional instruction were given to implement a food security strategy programme that included a resettlement programme, off-farm income projects, diversification or multi-crop production, production of high economic value products (oilseeds, fruits and vegetables) and expansion of traditional and low-cost irrigation development activities.

All the directives gave detailed guidelines on implementation. For instance, the resettlement programme required regions to arrange necessary infrastructure (safe drinking water, roads, schools and health facilities), provide assistance to settlers, follow up and make sure that the resettlement was conducted on a voluntary basis, resettle family heads prior to moving the whole family, and encourage settlers to contribute labour and other resources to develop their settlement areas. Regional governments had to fill quotas of farmer settlers.[32]

While preparing the second agricultural medium-term plan, regional governments in Amhara, Tigray and Benshangul-Gumuz evaluated their respective first five-year extension programme performance.[33] The evaluations revealed the following weaknesses: mismatch between the agricultural extension services and agro-ecological zones, insufficient supply of improved seeds, unorganised system of fertiliser distribution, an inadequate input credit system, poor maintenance and utilisation of the micro-dams and river diversions schemes, lack of a market for agricultural crops, use of archaic farming technology, and weak capacity and skill of extension agents. In the area of livestock development, the most prominent problems included absence of a livestock development strategy, inadequate knowledge of modern cattle-breeding systems and poor usage of improved species, lack of sufficient livestock breeds, inadequate information on livestock resources, shortage of credit for livestock development, and insufficient markets.[34]

Despite the problems identified by the evaluations, the regional political leadership had no choice but to repeat the central political leadership stance that the programme was potentially successful and continue to implement it. The types of activities in the regional agricultural plans were very similar as they had all been provided by the centre. Thus, the second medium-term agricultural plans were only replicas of the federal version. The activities included enhancing production and supply of improved seeds; providing fertiliser and changing the blanket application of standards to area-specific recommendations; developing new extension packages that considered the local knowledge and situation; involving the private sector; establishing regional organisations for multiplication and distribution of improved seeds; involving banks to provide credit for service cooperatives; relieving agriculture bureaus from providing credit services, and so on.[35] Appendices B and C summarise and compare the first and second medium-terms plans (1995/6 – 1999/2000; and 2000/1 – 2000/5) of the three regions and show how the central directives are guiding regional governments' expenditure prioritising.

Third medium-term agricultural plan

As mentioned earlier, the third medium-term agricultural plan (2002/3 – 2004/5) was developed after the crisis within the TPLF. The White Papers on rural development, issued by the central political leadership, indicated no major changes in the basic strategy to be followed by all tiers of government. Along with ADLI and PADETES, specific directives were also given to the regional governments. The directives were in documents prepared by the Premier, which were discussed at central and regional party conferences and widely distributed throughout the country (freely to all civil servants and political cadres). Thus, political channels were used to issue the directives, which included:

- shifting from providing uniform packages to all farmers to alternative technological packages suitable for various agro-ecologies; allowing farmers to practice diversified farming rather than mono-farming; and combining traditional skills and wisdom with modern methods;
- reconsidering the imposition on farmers to be involved in the extension programme and to harvest specified crops; the new system entailed identifying and selecting leading peasants or villages, providing appropriate incentives to harvest successfully and using them as models to convince the community at large;
- assigning three qualified extension agents to each *kebele*, that is, those with college training with specialisation in crop, animal and natural resource management;
- scaling up medium-scale and micro-level (low-cost and traditional) irrigation schemes, and promoting small-scale river diversion, household-based water harvesting or collection of rainwater using shallow wells;[36]
- organising and expanding institutions to implement the agriculture and rural development programme and establishing a new government structure to handle it; the institutions included youth and women's associations, farmers' associations, public forums in each *kebele*, and rural agricultural service cooperatives; all regional governments were required to establish offices known as 'mass participation and organisational affairs bureaus';
- implementation of voluntary resettlement programmes for people in the highland areas and voluntary sedenterisation of peasants in the pastoral areas;

- creating opportunities for rural farmers to produce for the market and diversify and specialise their agricultural production; and instituting a system of comparative advantages for each locality/community;
- implementing the capacity-building programme in the agricultural sector; that is, establishing farming-skill-development institutions in each *kebele* and employing 70 per cent of those who completed primary education in the farming sector by providing three to six months' training in farming.
- working towards enabling the farmers to earn an annual income of Birr 4000-5000.

In addition, the White Papers gave specific directives on methods of public participation in rural development, issues of leadership and the roles and responsibilities of the different tiers of government (*kebele*, *woreda*, zone and regional administration) in agriculture and rural development.

It is clear that regional governments' expenditure prioritising has been based on directives provided from the centre. This can also be seen in Appendix D, which presents the agricultural expenditure priorities in the third medium-term plans (2002/3 – 2004/5) of Amhara, Tigray and Benshangul-Gumuz. The activities in the three regions replicate the directives discussed above. As the three regions are following the same directives, there is little variation among regional governments' expenditure planning for the main agricultural components, despite differences in land fertility and farming systems.

Throughout the last decade, the process of annual planning and budgeting in the agricultural sector was also based on the above directives, limiting the role of the three regional governments only to implementing the directives uniformly. The directives embedded in the extension programmes were also passed on to the lower-level administrative tiers. On this basis, the *woreda* administration planned the number of participating farmers, number of demonstration fields and other details such as payments for extension agents, amounts of fertiliser, selected-seed requirements, and so on. The *woreda* plans were consolidated at zonal level and submitted to the regional government for adjustment and approval. The regional annual agricultural plans and budgets were simple consolidations of the approved lower-level budget requests.

3.3.4 Expenditure prioritising in education

As with the agricultural sector, Federal Proclamation no. 41/93 directs the expenditure assignment in the education sector. The federal government has the responsibility to, among other things, formulate and supervise implementation of the country's educational policies, strategy and standards; determine the educational curriculum offered in senior secondary schools, higher education institutions and training institutions; determine the qualifications required for teaching at each level of education and provide assistance to training programmes offered at regional level; ensure the availability of educational materials and textbooks of adequate quality and quantity; prepare and implement projects designed to improve the quality and enhance the expansion of education; and provide technical and professional assistance to regions with a view to promoting their educational activities.

In conformity with national education policies and standards, the regional governments have the power to devise and implement strategies that enable the expansion of education at regional level; prepare and implement the regional education and training plan and programme; prepare the curriculum for kindergartens, adult education, elementary and junior secondary schools and teacher training institutions; train teachers and educational personnel; ensure provision of books and other necessary materials; organise and administer pre-primary, elementary and secondary schools and junior colleges established by the regional state; and prepare and execute projects designed for implementation of the education programme.

Thus, regional governments have independent power over kindergarten and adult education as well as elementary and secondary education, although they are expected to observe national standards. The central government is responsible for higher or tertiary education and can devise and implement national policies and standards as well as education sector development programmes. Regions have parallel power to develop and implement regional policies, strategies and regional education sector development programmes. The 2002 decentralisation reform has not changed the division of responsibility between the centre and regions except by implementing the provision in the 1995 regional constitutions that gave *woreda*-level governments independent responsibility for primary education.

To analyse the power and autonomy of the regional governments in prioritising education expenditures, we shall examine the three regions' role in the decision-making process of the Transitional Government Education and Training Policy (1994) and the national Education Sector Development Programmes (1997-2006). Both are the foundations upon which the three regional governments' decisions on expenditure priorities in the education sector are made. They provided the frameworks and specific guidelines for preparation of regional governments' medium-term education plans and regional Education Sector Development Programmes. The discussion on the Education Sector Development Programmes shows how central directives constrain regional governments from developing region-specific educational programmes.

Education and Training Policy

The Education and Training Policy, which was developed by the Transitional Government of Ethiopia, is a comprehensive policy framework designed to revamp the country's educational system.[37] The policy introduced sweeping changes in the objectives, structure and management of the national educational system. It changed the structure of the educational system, modalities of educational measurement, management of teacher training programmes and recruitment of teacher trainees, and professional competence and career structure of teachers. The policy envisaged decentralisation of educational management, participation of all stakeholders in management of the education system, and language of ethnic groups as media of communication at primary level. The student profile for all levels of education was redeveloped to be used as the basis for national standards in preparing the curriculum. The policy also made education free up to the tenth grade and on a cost-sharing basis thereafter.

A task force under the Prime Minister's Office, which was led by a senior EPRDF political official and whose members were professionals from the Ministry of Education and Addis Ababa University, drafted the education and training policy. In addition, 24 institutions at the federal level provided comments and suggestions on the draft. Finally, the members of the Transitional Government Council approved the policy at the federal level.

Representatives of the regional governments were involved neither in the task force nor in the Council that approved the policy. However, the centre organised two discussion forums that enabled teachers, regional education officers and experts to create awareness of the policy.[38] In February 2002, the Federal Ministry of Education admitted that the policy formulation process had lacked the participation of regional governments. Eight years after the policy was developed and implemented, a document entitled 'The Education and Training Policy and Its Implementation' was released 'to help the public understand the education and training policy, grasp its basic concept, realise its background and overall context, comprehend its content, its merits as well as its practical application'. The document stated that the major problem in implementation had been 'the lack of readiness of the implementing authorities', a reference to regional governments. It also included an appeal to mobilise the public: 'implementing authorities at every level have to explain the strategy to teachers, students and the population as a whole if the policy is to be successfully implemented'. It was confirmation that the policy-making process involved a top-down approach, with no room for contribution by regional governments except as implementing authorities.

Education Sector Development Programme

The Education Sector Development Programme (ESDP) is a 20-year programme (1997-2016) with four consecutive phases. It covers all levels, areas and components of education, all tiers of government and all forms of educational expenditure. The basic aims of the programme are 'increasing access, improving quality, increasing effectiveness, achieving equity and expanding finance at all levels of education within Ethiopia'. These are in line with the UN Millennium Developmental Goals and those of the Education for All campaign (Ministry of Education, 1998, 1999). The government claims that the programme was developed to implement the Transitional Government's Education and Training Policy (*ibid.*).

ESDP is based on a document which was first developed by the Ministry of Education on the instructions of the central political leadership. Experts from the Ministry of Education and other organisations collected nationwide educational data and conducted preliminary studies. The regional governments, especially the *woredas* and zones, collected and forwarded relevant data to the Ministry of Education for processing. The draft document was first presented to and welcomed by donors at a consultative meeting in Addis Ababa in December 1996. Subsequently, the

Ethiopian government, along with donors from 15 development agencies, elaborated and prepared the final ESDP document in 1997/8.[39]

ESDP I (1997/8 – 2001/2) produced two documents, 'Program Action Plan' and 'Program Implementation Manual', which defined the overall goals and specific targets to be achieved by specifying different indicators and expenditures to be made. The documents detailed the content of the programmes, financial requirements, budgetary and expenditure indicators, access indicators, quality indicators and efficiency indicators at the national level. They also provided guidelines on governance, financial management, procurement management, construction, rehabilitation and upgrading, textbook provision, furniture and equipment for schools, community participation, and monitoring and evaluation procedures during implementation of the programme. The following indicators were given for the allocation of expenditure to the education sector:

- increased annual public spending on new school construction;
- identification of primary education as the highest priority, with about 60 per cent of the total regional education budget allotted to it;
- decrease in the share of the regional budget spent on higher education from 15 per cent to 8 per cent;
- decrease in regional education expenditure on salaries from 78 per cent to 70 per cent;
- increase in spending on educational materials from 10 per cent to 15 per cent of the region's annual recurrent budget;
- increase in public spending on education from 13.7 per cent to 19 per cent.

In addition to these, there were indicators on distance education, apparent intake rate and net intake rates at grade one, learning modalities (introduction of learning readiness programmes and child-centred learning approaches) and alternative modes of delivery (low-cost schools, single-room schools, multi-grade classroom schools, feeder schools, mobile schools for the first cycle primary in pastoral areas, boarding schools and hostels, flexible school calendar and daily schedules). The programme also specified measures for achieving gender and regional parity, promotion of pre-primary education, provision of sufficient and qualified teachers, adult and non-formal education and special needs education programmes (Ministry of Education, 1998, 1999). These central guidelines and specific directives clearly undermined the autonomy given to regional governments to develop strategy as well as manage and administer pre-primary, adult, elementary and secondary education.

The implementation guidelines of the ESDP programme are harmonised so that none of the specific guidelines is subject to revision by regional governments or any other party involved in actualising the programme. The intention is to create a common understanding of the implementation arrangements by all stakeholders, including donors and those directly responsible for implementation (Ministry of Education, 1998). The regional governments' ability to follow alternative modalities of service provision by modifying or changing the guidelines is highly constrained.

Even though the ESDP provides detailed directives on regional governments' educational expenditure planning, the regional governments were not involved in the process to design it. After the programme was finalised, they worked on formulating their own regional ESDP I. The federal government organised three workshops for regional experts, where detailed guidelines and formats for the components of the education sector, indicators and methods of quantitative projection were given; draft documents were appraised; and the final programme documents for the federal and regional governments revised and consolidated. In the final stage, the financial requirements for ESDP I at regional and federal levels were determined. The regional governments' executive and legislative councils then formally approved the document with no changes or modifications.

The drafting of the regional programmes, rigorous as it may have been, had its own limitations. One observation is that experts from Tigray and Amhara regions returned to their regions to develop their respective regional ESDP I, while those from Benshangul-Gumuz were required to go to the centre with the available data, to develop the programmes under the supervision and guidance of experts from federal ministries. Hence, the document was prepared at the centre and was sent to the region for approval. The Benshangul-Gumuz regional government accepted the document without any alterations or adjustments.

ESDP II (2002/3 – 2004/5) was the second education medium-term plan. Although the initial arrangement had been to formulate four five-year consecutive education sector development programmes, ESDP II had a three-year lifetime. This was done to align the programme's implementation with the remaining period of the central and regional governments' term in office and to make it consistent with the new three-year development plan of the central government, which had been developed after the party renewal following the crisis within the TPLF.

The federal and regional ESDP II provided similar types of strategies and components to those of ESDP I. The specific indicators on access, quality, efficiency and equity were almost the same, with only the values attached to each indicator being different. The Program Implementation Manual prepared during ESDP I was also used for the preparation of ESDP II. However, the centre provided additional directives for preparing the regional ESDP II. The new directives were derived from a document entitled 'Implementation Capacity Building Strategies and Policies (2002)' written by the Prime Minister, as well as from the outcome of the ESDP annual review meetings at the centre. Some of the directives were:

- use of alternative school construction standards that are efficient and compatible with regional situations, except for schools financed by the World Bank; 85 per cent of the schools had to be low-cost schools or constructed at only 25 per cent of the standard school cost;
- reduction of budget allocation for secondary school education; this was in line with the decision of the central political leaders that provision of secondary education for all is not obligatory;
- involvement of the community in elementary school construction and restriction of the government's role to coverage of recurrent expenditure or supply of teachers and educational materials;
- devolution of authority to the *woredas* for operational planning, budget allocation and control of primary education;
- expansion and organisation of higher education institutions and technical and vocational training programmes;
- expansion of teacher training institutions and continuous upgrading of teachers' skills through distance education, evening classes, conferences and summer training.

Most of the previous technical directives were maintained, including self-contained classroom management, expansion of income-generation schemes in schools, continuous improvement of the curriculum and textbooks, making English a medium of communication starting from the ninth grade; and involving the community, students and parents in school administration. There were new directives on introducing civic education to teach students to respect and defend constitutional rights and responsibilities, and on instilling a positive attitude to farming since students often favour white-collar jobs.

Once again, the case study regions played little role in developing their respective ESDP II. The only minor difference was that, unlike with ESDP I, regional governments were not given strict instructions by national and international experts. Instead, they were told to prepare the document and submit it to the Ministry of Education for compilation. Nonetheless, two workshops were organised by the central government, one at the beginning and one at the end of the planning period, to provide guidelines for the regions on priorities, structures and formats of ESDP II and to review the draft documents and determine the financial resources before final approval.

The discussion so far shows that the formal division of functions in the education sector is done by assigning separate functions to the levels of government. Reflecting on the perspective of the intergovernmental relations school, especially the classification and sharing of primary education tasks in Winkler (1994), power is not shared between the central and regional governments for specific tasks in each sub-sector (financing of recurrent and capital expenditure; textbooks and teaching materials, teacher training, teacher recruitment and pay, programme supervision, school construction and maintenance, financial and management audit, planning and budgeting). Rather the Federal Proclamation no. 41/93, formally gives regional governments responsibility for all the tasks concerning adult, kindergarten, primary and secondary education, although they are required to follow national standards. It also gives them power to devise and implement strategies, plans and programmes that enable the expansion of education at regional level. Yet, the regional governments' role in determining the content of their Education Sector Development Programme, which is the main document for determining their expenditure priorities, has been minimal. The centre dominates decisions regarding the content of the programmes, financial requirements, budgetary and expenditure indicators, access indicators, quality indicators and efficiency indicators in all the education sub-sectors and components. The regions also have little influence in determining the educational policy framework of the country.

Attempts to deviate from the directives are not acceptable. For example, after Tigray failed to implement the directive on self-contained classroom management while all the other regional governments did so,[40] the centre instructed the regional government to apply the directive. Similarly, when regional governments opted to use English as a medium of instruction from the fifth grade (instead of ninth grade) of elementary education, the central political leadership did not allow them to do so. It was only after the May 2005 elections that the EPRDF permitted regions to use English as medium of instruction from the fifth grade. The party apparently realised it had lost the elections (although it is still in power) because it ignored people's preferences.

The central dominance is also evidenced by the lack of differences in the pattern of educational expenditure prioritising of the three regions. The table in Appendix E summarises the expenditure prioritising in the first five-year plan (1995/6 – 1999/2000). Whilst the information given in the table has its limitations as it does not detail expenditure items for each educational component, it shows that the three regional governments have similar lists of activities in their expenditure plans, which replicate the central government directives.

3.3.5 Expenditure prioritising in health

Expenditure assignment in the health sector is also directed by Federal Proclamation no. 41/1993. The central government has the power to formulate the country's public health policies and strategy, establish and administer referral hospitals and research centres, determine and supervise standards to be maintained by health services and research and training establishments in the country, determine the qualifications of professionals required in public health services at various levels, register and issue certificates of competence to medical practitioners and pharmacists, prepare and enforce essential drug lists and control the quality standards of drugs and medical supplies, devise and follow up the implementation of ways and means of preventing and eradicating communicable diseases, and provide technical and professional assistance to hospitals, health centres, clinics and research and training centres.

The regional governments have the responsibility to prepare and implement their health care plans and programmes in accordance with the national health policy, organise and administer hospitals, health centres, clinics, and research and training institutions, ensure the professionals engaged in public health services in the region satisfy the prescribed standards, organise and manage the provision of vaccinations and take other measures to prevent and eradicate communicable diseases. Both levels of government have parallel powers to administer quarantine control, ascertain the nutritional value of foods and promote traditional medicines.

As with the education sector, the central and regional governments have the power to develop and implement national and regional health sector development programmes respectively. The second wave of *woreda* decentralisation in 2002 has not brought about changes in this assignment of heath sector activities.

Expenditure prioritising in the health sector is based on the Transitional Government National Health Policy (1993) and the national and regional Health Sector Development Programmes (HSDPs). The following discussion highlights the content of the policy and programmes and how they were developed. The first and second HSDPs at both levels, which are similar to the medium-term plans in the health sector, will be discussed to analyse the three regional governments' autonomy in the decision-making process. The discussion will also show how the uniform central directives, conveyed through the federal HSDPs, are leading to lack of diversity in the three regional governments' expenditure prioritising.

National health policy of Transitional Government

The national health policy of the Transitional Government of Ethiopia contains directives regarding the objectives of the sector, priority areas, system of managing the health services and other related issues.[41] The policy is one of promotive and preventive health care. Accordingly, emphasis is given to controlling communicable diseases, epidemics and diseases related to malnutrition and poor living conditions; promoting occupational health and safety and environmental health; rehabilitating health infrastructure; enhancing health awareness; and propagating concepts and practices of self-responsibility in health. The directives also cover drugs, medical supplies and equipment, traditional medicines, research, financing and administration, family health service, health care facilities and referral systems as well as inter-sectoral collaboration in health service delivery.

In the area of management, the policy accentuates decentralisation as a guiding principle; that is, transfer of major parts of decision-making in the health system organisations and management to lower levels of government. It also emphasises the need for popular participation, self-reliance and strong community representation in identifying major health problems, budgeting, planning, implementation, and monitoring and evaluation of health activities. The policy gives regional governments the power to recruit and train community-based frontline and middle-level health workers of an appropriate professional standard.

The national health policy was first drafted in 1992 by a task force formed by the Prime Minister's Office and headed by a senior political officer of the EPRDF. The task force had the mandate to evaluate the status of the health service, identify major health problems and develop a health policy. The policy was approved at the central government level in September 1992. Regional governments were not involved in the drafting process, as they were not fully functional at that time. The Ministry of Health organised workshops to inform regional health bureau officials and selected experts about the contents of the new policy.

Phases of HSDP

The HSDP is a 20-year health sector development programme to be implemented in four phases. The first five-year investment phase began at the start of 1997/8. The EPRDF considers the HSDP to be an elaboration of the health policy of the Transitional Government (Ministry of Health, 1998a, 1998b). It was developed in the same way as the ESDP. Government reports show that in December 1996, the government prepared and presented a 20-year draft HSDP to donors. In 1997/8, the donors formed a joint donor technical assistance mission working in collaboration with government counterparts to support development of the draft programme.

The federal HSDP I (1997/8 -2000/1) has eight programme components, which are presented in terms of priorities and the various tasks that come under each component (*ibid.*). Each component has a specific allocation of funds for capital and recurrent costs. The priorities, tasks and allocations are the bases for developing the medium-term and annual plans and the budget at central and regional government levels. Some of the directives on health sector allocation are:

- Allocation to capital investment should focus on the construction and rehabilitation of health facilities (training centres, zonal and *woreda* health offices and drug stores) and capacity building (training of primary health workers, primary midwives, development of health management information systems).

- Allocation to recurrent expenditure should emphasise building financial, managerial and technical capacity at all levels as well as salaries, drug costs and other non-personal expenses.
- The new system of health organisation changes from a six-tier pyramidal system (health posts, health stations, health centres, rural hospital, provincial hospital and specialised hospital) to a four-tier system (primary heath care units, district hospitals, zonal hospital, specialised hospital).[42] The new health policy document condemns the former structure for being highly centralised, bureaucratic and non-participatory in its management and service delivery. It considers the new system more practical in serving realistic population sizes as well as participatory and decentralised.

Moreover, the Program Implementation Manual and the Program Action Plans contain specific directives on the governance structure for implementation of HSDP, community participation, distance between health posts, financial management, reporting structure and the procurement system. They also provide guidelines for construction: technical drawings and specifications, ground conditions, building materials, sample contract conditions, bill of quantities, mechanisms for site supervision, site selection, and standards for furniture and medical equipment (*ibid*).

The federal HSDP served as the basis for regional governments' health sector planning and expenditure allocation. As with the other sectors, the role of the regional governments in the development of the programme was very limited and the process was similar to that in the educational sector.

The regional HSDP I was formulated under the guidance of the central government and multi-donor joint technical assistance mission. A series of national workshops were conducted to give regional governments directives on the indicators, techniques and procedures for preparing the regional programme, appraise draft documents, and eventually to discuss and approve the final output. As with the ESDP I document, experts from Amahara and Tigray returned to their respective regions to develop their documents but the Benshangul-Gumuz HSDP I document was developed at the centre with the involvement of the regional experts.

Regional governments had minimal involvement in the process of developing the federal HSDP and very little decision-making autonomy in developing their respective regional HSDP I. According to an official report in 2000 by the mid-term review team, HSDP was not properly integrated into the day-to-day working arrangements of the regional governments.[43] The review team found the following major limitations:

- There was limited awareness of HSDP at the regional and lowest levels of government. The report states that the programme suffered from lack of ownership at the implementation level, which resulted from limited familiarity with and understanding of HSDP at lower levels of the health system.[44]
- The public did not welcome the changes in the system of the health structure; that is, the downgrading of health stations to health posts faced intense resistance from the community.
- Regional experts and a significant proportion of the society found it difficult to accept the main pillar of the programme, which is a prevention-based health system.
- The role of the regional joint steering committee was unclear, and in fact it provided minimal support to implementation of the HSDP.[45] Hence, the governance structure of HSDP was not fully implemented in the regions.
- Many at the zonal level regarded HSDP as a means of recentralisation by the regions, and those at the regional level in turn thought it was a mechanism for recentralisation by the federal government.

The Tigray regional government also expressed misgivings.[46] An evaluation of the region's implementation of the first HSDP and development of the second HSDP observed:

> When the first five-year action plan of the health sector was designed and implemented, there were limited baseline data on mortality, morbidity and other health care indicators. This created difficulty when trying to gauge the impact of health interventions at the end of the first action plan period.

The Tigray report also indicated that the regional HSDP I did not have a clear vision and mission to address regional problems and challenges. The problems identified were an unclear mission, lack of an appropriate system to approach the rural community and render better preventive services, failure to identify strategies on working relations with other sectors, and lack of detailed needs and performance assessments to ensure equity of health service delivery.

The federal HSDP II (2002/3 – 2004/05), like ESDP II, had a three-year duration, to align its implementation with the remaining period of the central and regional governments' term in office and to make it consistent with the central government three-year plan developed after the crisis within the TPLF. HSDP II had eight key components with detailed targets, strategies and activities; the implementation modalities were the same as for HSDP I.

The federal HSDP II gave regional governments additional directives on minimum standards in terms of modalities of health service provision, expenditure allocation, facilities, drugs and professional matters. These included:

- The objective of the 'Health Extension Package' was to increase access and equity in preventive health care interventions through community/*kebele*-based health services. Regions were required to focus their health services on preventive and promotive health measures, targeting households, particularly women/mothers at the *kebele* level, and to deploy two health workers to each *kebele*. The health workers were to be mainly female. The centre also provided syllabuses for training extension health workers, modalities of organising the health delivery system, and time frame and estimated cost of starting the health extension service programmes.
- Regions were to scale down investments in new health facilities and increase expenditure on rehabilitation, equipment for existing health facilities and maintenance of quality.
- On the average, 18 per cent of the regional budget was to be allocated to the health sector.
- Priority was to be given to allocating resources for construction of health posts. A health post per 5000 people was to be the entry point to primary health care. Each *kebele* was expected to have one health post, which would provide services in the areas of prevention, hygiene, mother and child care, birth attendance and immunisation. The next priority area was identified as construction of health centres to service 25,000 people each. The intention was to shift away from allocating large amounts of resources to construction of hospitals and big health facilities

- Regional, *woreda* and *kebele* leaders were to participate in awareness-creation programmes to change their focus from curative services to preventive health services.
- The private sector and NGOs were to be mobilised to help in the provision of health services, and attempts were to be made to convince the community about the value of prevention-based health care so that they would participate in building health posts.

These directives, along with the components of HSDP I, provided the groundwork for formulating HSDP II.

The regional HSDP II documents of Amhara, Tigray and Benshangul-Gumuz were developed after the central and regional officials carried out an evaluation of the earlier programme. The evaluation was performed at the centre. The regional documents repeated the comments made by the central political leadership on the federal HSDP II and criticised the earlier modalities of health service provision for not providing the desired level of health coverage and not being compatible with the financial resource capacity of the regional governments. Like the federal HSDP II, the three regional governments HSDP II documents drew attention to preventive and promotive health care service, which was identified as a regional health priority to be carried out through the newly designed health extension package programme. Informants from the health bureaus in Amhara (interview, Bahirdar, January 2004) and Benshangul-Gumuz (interview, Assosa, July 2003), pointed out that the health extension package programme had been developed by the federal government and the implementation modalities tabled and discussed at the HSDP Annual Review Meeting in 2002 in which the regional and central officials participated.

The three regional HSDP II documents all echo the instructions given by the centre. These include health financing through community participation, private sector involvement, cost sharing, introduction of insurance and a revolving fund, training of primary health care service workers and increase in the number of frontline health workers. As stipulated by the centre, the regional plans set targets of one health post in each *kebele* and one health centre in each *woreda*.

The process of preparing the regional HSDP II was similar in the three regions, since they replicated the pattern followed while preparing HSDP I. Regions had to set detailed targets and were required to submit the final documents to the central Ministry of Health for compilation and discussion by the central joint steering committee and at the HSDP annual review meeting. The submissions by the regional governments were formulated without complete information on the foreign and local resource envelope, and the resource allocation for the health sector programmes at national and regional levels was decided during further discussions at the centre after the final documents had been submitted.

It is obvious from the above discussion that the three regional governments have little autonomy in deciding the regional HSDP. In addition to exercising its responsibility to maintain standards in facilities, drugs and health personnel, the centre has issued guidelines and directives on almost all regional functions over which regions have official mandates. The central directives have constrained the autonomy of regional governments and resulted in making regional governments follow similar patterns of expenditure prioritising in the health sector. Appendix F compares expenditure prioritising by the three regional governments during the first medium-term plan period (1995/6 – 1999/2000). The table does not provide detailed lists of expenditure on each health sector component but it does show that the three regions have the same lists of health sector activities that are to be implemented.

3.4 Measuring Similarities and Differences in Expenditure Assignment

Ethiopia's legal framework gives regional governments overall and exclusive power to formulate and execute economic and social development policies, strategies and plans for their respective regional states as well as the right to the final determination of their own affairs and to exercise self-government. It also gives the central government the power to set national standards. However, the above discussion revealed that the central government has obliged regional governments to strictly follow central directives and instructions on almost all regional functions over which they have an official mandate. This central dominance has ensured that the three regions display few differences in the pattern of their expenditure prioritising in the three sectors under study.

As indicated at the beginning of this chapter, on the assumption that there are variations in preferences among sub-national governments, and since the Ethiopian legal framework treats regional governments as different entities and the socio-economic conditions in the three regional states are different (as summarised in Table 3.1), one would expect to find differences in their pattern of spending priorities. To investigate whether this is so, this study makes a quantitative analysis of diversity/uniformity in expenditure prioritising. It uses actual recurrent and capital expenditure data of the three regional governments for 1994/5 – 2001/2 (Appendix G, Tables G.1-G.6). The findings show similar patterns of expenditure prioritising, although the degree of similarity is not uniform. It has to be noted, however, that the indicators only measure patterns of inter-sectoral allocation (priorities in the distribution across or between sectors) but cannot measure intrasectoral allocations (priority variations within sectors). This is because the quantitative analysis considers only aggregate sectoral values. Nonetheless, the analysis does provide some corroboration of the qualitative findings in the discussion so far.

The ***Spearman rank correlation coefficient*** was used to compute the correlation among the three regional governments' expenditure rankings. The result shows few differences in the pattern of the regional governments' prioritising of capital and recurrent expenditure. The indices of correlation coefficient are all significant at the 0.01 level (two-tailed tests) and 0.05 levels (two-tailed tests). The latter is the correlation coefficient between Benshangul and Amhara for recurrent expenditure in 1997/8 (see Appendix H.1). Thus, there is similarity in ranking patterns in both capital and recurrent expenditure among the three regions. The pattern of similarity is also confirmed by the per capita expenditure (described below), as education is given higher priority in all sectors followed by agriculture and health.

The ***Peterson homogeneity index*** compares homogeneity or similarity in the patterns of expenditure allocation among the three regions. The index values show relatively high similarity among the three regions, except in a few cases. The similarity is stronger between Amhara and Tigray than between the two regions and Benshangul-Gumuz. The highest score of heterogeneity is between Tigray and Benshangul in 1996/7 and between Amhara and Benshangul in 1997/8. The highest level of similarity is between Tigray and Benshangul in 1994/5. The homogeneity index does not show much change across time, thus indicating little divergence among regional governments' patterns of sectoral expenditure prioritising (see Appendix H.2).

The ***T-test and the associated P-value*** measure differences or similarities among regional governments' patterns of expenditure prioritising on agriculture, health and education. The P-values show no significant differences in the mean actual capital expenditure on education and health. However, there is a difference between the mean actual capital expenditure on agriculture and natural resources between Tigray and Benshangul (P-value = .0036) and between Amhara and Benshangul (P-value = .0004). In the agricultural sector, there are similarities between Amahara and Tigray (see Appendix H.3).

The last measurement used to analyse similarity in expenditure prioritising is the ***annual regional per capita expenditure*** by the three regional governments in the three sectors.

Table 3.2 (p. 149) confirms that there are differences among the three regions in per capita expenditure. Benshangul-Gumuz, which is one of the backward regions of the country, has the highest per capita expenditure in the three sectors. The differences in favour of Benshangul-Gumuz are also growing over time. In other words, Benshangul, which only finances 7 per cent of its annual expenditure from its own sources, has higher per capita expenditure than Tigray and Amhara, which self-finance 25 per cent and 20 per cent of their annual expenditure respectively (this will be discussed further in Chapter 5). Comparison between Tigray and Amhara also shows that Tigray has higher per capita expenditure in the three sectors.

There are three main reasons for this disparity in per capita expenditure. First is the heavy dependency of the regional governments on central transfers to finance their expenditures. Higher subsidy per capita results in higher expenditure per capita. As will be discussed in Chapter 5 (and summarised in Table 5.7), Benshangul-Gumuz, followed by Tigray, gets a higher per capita subsidy than Amhara. The difference in regional per capita expenditure and per capita subsidy appears to indicate the central government's attempt to redistribute income in favour of backward regions, especially Benshangul-Gumuz, which covers only 7 per cent of its annual expenditure from its own sources. However, Tigray, which covers 25 per cent of its annual expenditure from its own sources, gets a larger per capita subsidy than Amhara, which covers 20 per cent of its annual expenditure from its own sources.

The second reason for the disparity in per capita expenditure is the denominator effect of the per capita formula. Given that subsidies are mainly used to finance capital expenditures specified by the central government and regional governments' recurrent expenditure (70 per

Table 3.2

Annual per capita expenditure in case study regions, 1994/5 – 2001/2 (million Birr)

	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2	AV	STD	CV
Tigray											
Agriculture	17.60	13.76	33.30	26.11	17.09	13.95	13.95	12.47	18.53	7.37	0.40
Education	25.45	25.91	28.38	23.04	21.94	25.84	34.30	38.71	27.95	5.75	0.21
Health	15.35	13.06	13.25	19.13	18.03	17.32	16.43	17.97	16.32	2.25	0.14
Total	58.40	52.73	74.93	68.28	57.06	57.11	64.68	69.15			
Amhara											
Agriculture	9.63	10.43	10.80	11.74	11.90	9.78	8.89	10.20	10.42	1.04	0.10
Education	13.92	14.56	16.90	16.20	17.61	15.95	23.05	22.40	17.57	17.57	17.57
Health	5.82	6.64	5.80	7.35	7.31	5.80	4.25	6.23	6.15	1.00	0.16
Total	29.37	31.63	33.50	35.29	36.82	31.53	36.19	38.83			
B-Gumuz											
Agriculture	22.22	20.17	10.84	14.22	43.04	61.04	39.74	46.20	32.18	17.83	0.55
Education	32.43	28.32	29.50	34.90	49.21	43.91	50.33	60.58	41.15	11.65	0.28
Health	26.73	23.47	31.85	32.73	39.00	32.12	27.45	31.77	30.64	4.72	0.15
Total	81.38	71.96	72.19	81.85	131.25	137.07	117.52	117.52			

Notes: AV = average; STD = standard deviation; CV = coefficient of variation.
Source: Data in Appendix G, Tables G.1–G.6.

cent covering salary costs), and relating that to the wide differences in population among regions, it is possible to get such disparities in per capita expenditure. As will be shown later in Table 5.5, 23 per cent of the total central government subsidy on the average is allotted to Amhara, 9 per cent to Tigray and 4 per cent to Benshangul-Gumuz. However, Amhara's per capita expenditure is less than this would suggest. This apparent contradiction is due to the difference in population. For instance, in 2001/2, the population of Tigray, Amhara and Benshangul was 3,900,000; 17,210,000; and 570,000 respectively. Regions with a smaller population have higher per capita expenditure. This issue will be discussed further in Chapter 5.

The third reason, which is related to the above, is the increase in the number of civil servants. Appendix M shows the number of civil servants over time in the three regions. From 1995/6 to 2000/1, the increase for Benshangul-Gumuz, Amhara and Tigray was 144 per cent, 16.5 per cent and 35 per cent respectively. As the central government finances the major share of regional expenditure to keep afloat the regional administrative machine, it is possible that the increase in the number of civil servant resulted in an increase in the annual per capita subsidy. This situation could lead to higher per capita expenditure values in favour of Benshangul-Gumuz.

Despite the differences in per capita expenditure, the pattern of expenditure priority across sectors shows similarity among the regional governments. The mean per capita values clearly show that in the three regions the educational sector has first priority, its allocation being larger than that of the other sectors. The second and third priorities are agriculture and health in all the three regions. Thus, the three regions display a similar pattern of sectoral expenditure prioritising. The Spearman rank correlation coefficient and Peterson homogeneity index support the finding as both show similarity in sectoral expenditure prioritising. Moreover, the per capita expenditure in the three sectors also corroborates the argument, showing lack of divergence across time in the allocation of resources by regional governments. The standard deviation and coefficient of variation for education and health are small, indicating no significant change in the allocations for health and education during the period. However, this does not hold true for the agricultural sector in Tigray and Benshangul-Gumuz. This result is also consistent with the T-test meaure, which shows variation in the allocations for the agricultural sector between Benshangul and the other two regions, but similarity in the other two sectors among all regions and in the agriculture sector between Amhara and Tigray.

3.5 Summary and Reflections on Decentralisation Theories

This chapter analysed expenditure assignment in the Ethiopian decentralisation system by considering the legal framework and processes of expenditure prioritising in education, health and agriculture. It examined the formulation of long-term strategies/policies as well as medium-term plans/programmes, at central and regional levels. It also provided quantitative analysis using annual budget data.

The Ethiopian legal framework on intergovernmental fiscal relations is designed in a top-down approach with little participation by the regional governments. The central political leadership made the decision on expenditure assignments without considering the capacity of regional governments to shoulder such responsibilities. The content of the framework follows the propositions of the welfare economic model, which gives the stabilisation and distribution functions as well as most of the allocation functions to the central government. Following the model's assumption of separate responsibilities among levels of government, the framework gives both the central and regional governments independent power to formulate and execute economic, social and development policies, strategies and plans at national and regional levels respectively.

The analysis of sector-specific expenditure assignment shows that, formally, the central and regional governments have separate powers to determine sub-sectoral plans, programmes and projects. For example, regions have independent power to develop and implement their agricultural plans, programmes and projects. They also have the power to manage and administer pre-primary, primary and secondary education. In the health sector, the three regional governments have separate powers to organise and administer hospitals, health centres and clinics. This resembles, to use Prud'homme's phrase, a matrix of level of government by types of sub-sector. The legal framework does not substantively address the structure of relationships between the central government and regional governments in the context of provision of public services. Neither the 1995 Constitution nor Federal Proclamation no. 41/93 indicates shared responsibilities. There is also no indication of the relationship between the regional and federal executives on expenditure assignment, except for some general provisions for assistance and advice from the centre to regional executives as and when necessary.

The central government dominates the actual implementation of expenditure prioritising, which involves making decisions on the quality and quantity as well as financing of public goods and service provision. The findings showed that the central political leadership formulated and put into operation the binding document for the country's long-term development strategy, that is, 'Agricultural Development Led Industrialisation (1994-2014)', prior to the formal establishment of regional governments. The three EPRDF Development, Peace and Democracy medium-term plans (1995/6 – 1999/2000, 2000/1 – 2004/5 and 2002/3 – 2004/5) and the sector programmes for education, health and agriculture were developed in a top-down fashion. The process of formulating these plans/programmes involved three main steps. First, the EPRDF party executive committee members, dominated by a few TPLF veterans and their advisors, initiated major policy issues and developed detailed draft programmes. Then, the EPRDF central committee members, who are leaders of EPRDF regional member parties and selected and appointed by the TPLF, discuss the proposed activities and targets and accept them with minor adjustments. Finally, the plans/programmes are given to the regional governments for elaboration and implementation.

All regional governments have medium-term plans/programmes that have a similar content. In Tigray and Amhara, the medium-term plans were developed through a similar process. The regional governments' highest political leaders, who were involved in the discussions on the proposed plans at the centre, took the approved documents to their respective regions for further discussion among regional political leaders, bureau heads and hand-picked experts. Then, the regional executive council adopted the central directives and issued similar guidelines to the regional sector offices and the lower tiers of government. Unlike in Tigray and Amhara, the Benshangul-Gumuz regional medium-term plans were formulated under the direction of advisors from the central government, whose approval was necessary for the plans to be accepted. The role of the three regional parliaments has been circumscribed to discussing and endorsing such important decisions. Members of parliament in the regions are only summoned once or twice in a year for one or two days and are controlled by the executive branch.

The findings in this chapter show that the central government dominates and controls regional expenditure prioritising and there is a lack of diversity in the regional patterns of expenditure prioritising. This is confirmed by both the qualitative and quantitative findings, although the latter are less robust. The findings can be summarised in the following three points.

First, for the last decade, the centre has controlled modalities of service delivery by issuing regulations and pronouncements. For instance, in the agricultural sector, the extension programme gives details of activities concerning soil and water conservation, livestock development, water harvesting, and so on. More directives are given on the amount of fertilisers to be applied on farmers' plots and the types of crops to be harvested. The regions lack autonomy to change the modalities of service delivery and the landholding system keeps farmers captive. As the State owns the land, farmers are afraid they might be evicted if they reject orders from the State on the types of agricultural inputs and technology to be used. In the health sector, guidelines are provided on the types of health establishments at each level of government, the health services to be provided, the number and gender of health workers, salary of health workers, and so on. In the education sector, too, the instructions include types of construction materials to be used, teacher-student ratios, class size, curriculum development, organisation and management structure of primary and secondary schools, distance between schools, and minimum educational level and salary of teachers. These instructions violate the mandate given to regional governments over the three sectors.

Second, in spite of the differences identified at the beginning of the chapter, the centre rejected regions' requests for variation in service provision. For instance, the Benshangul-Gumuz regional government was obliged to provide farmers with agricultural inputs, especially specified types of fertilisers, while there was resistance from regional experts and farmers to do so. Given the fairly nomadic characteristic of farming and relative fertility of the soil, the demand for fertiliser in the region was minimal. Moreover, the centre did not accept the region's request for specific types of materials suitable for local soil conditions for school construction. In Tigray, the centre insisted that the regional education bureau implement the self-contained school management system in primary schools, despite resistance from regional education experts and teachers. In Amhara, teachers and educational experts were strongly in favour of using the English language as a medium of instruction from the fifth grade instead of the ninth grade as directed by the centre; their proposal was not accepted by the centre until recently. The Amhara and Tigray regional governments were forced to construct macro-dams for irrigation purposes. Many of these big irrigation projects have now failed and the centre has issued new instructions forcing the regions to construct small water-harvesting projects. The three regions' preference for both preventive and curative health systems was not welcomed by the centre, which wanted only preventive health services.

Third, although the quantitative analysis has its limitations as it is based on aggregate sectoral data, it indicates similarities in the pattern of expenditure prioritising among the three regional governments. On the basis of actual capital and recurrent expenditure data of regional governments for 1995-2002, the Spearman correlation coefficient, the Peterson homogeneity index and the T-test show similarities in the pattern of expenditure prioritising. Whilst the per capita measurement shows similar patterns of expenditure prioritising, it does not show uniform or equal sectoral per capita expenditure in the three regions.

In short, there are central government dominance and similarities in the pattern of expenditure prioritising among the three regions. This is despite the legal framework's provision of autonomy to regional governments, the accepted theoretical understanding that there is variation in preferences and the relative variation in socio-political and economic conditions in the three regions. Thus, the centre retains its historical control over expenditure prioritising, thereby placing application of the welfare economic model under question.

The exponents of the welfare economic model, especially Oates (1972), assume that decentralised provision enables matching of local demand with local supply and addresses variations in local preferences. The model also assumes that residents' demand for public goods is revealed through elections and that governments work in the public interest. In the Ethiopian case, however, all residents in different regions are provided with similar types of public goods irrespective of the relative regional variations in socio-economic conditions.

The assumption of the welfare economics model expounded by Oates (1972) and Musgrave (1989) that local residents reveal their preferences through elections does not hold true in Ethiopia. As will be elaborated in Chapter 6, Ethiopian elections are simply a political gimmick mainly used to place local leaders who are subservient to the central political leadership in power. Ethiopia's 2005 elections demonstrated a new and disturbing reality, that they can be causes of violence and death rather than mechanisms for revealing preferences for public goods and services. The counter-argument to the welfare economics model by some exponents of the intergovernmental relations school is more realistic in the Ethiopian case. For instance, Prud'homme (1995: 208) observes that 'the platforms on which local elections are fought (when they exist) are often vague and unrealistic. The menus offered for choices are unlikely to express the electorate's preferences.'

Exponents of the welfare economics model (Oates, Musgrave and Tiebout) hypothesise that local people pay taxes and local governments are accountable to justify their expenditure in terms of benefits to the taxpayers. The rest of the decentralisation theories present similar arguments. In the Ethiopian case, however, there is mismatch between local expenditure and taxes. For instance, the medium-term plans on education and health sector did not adequately spell out the financial resource requirements or show the amount of money to be collected from regional taxes or to be transferred from the centre to achieve the programme targets. This was because the regional political leaders prefer to plan development projects with the anticipation that financial resources will be secured from the central government or donors and NGOs. Clearly, the big challenge is to determine the regional resource envelope and make appropriations for each sector in line with the policy priorities of regional governments or the specific demands of local constituencies.

Whilst discussing the virtues of decentralisation, Oates (1972: 12) argues that expenditure assignment leads to 'greater experimentation and innovation', believing that lower levels can learn, adopt and change over time. The exponents of the other decentralisation theories also share this argument. Unfortunately, decentralisation in Ethiopia has not provided this benefit and the regions are merely acting as channels for central directives to the lowest levels of government, *woreda* and *kebele*.

The assumptions of the welfare economics model that expenditure assignment gives maximum autonomy to lower levels of government and leads to horizontal and vertical competition to realise Tiebout's argument for 'voting with feet' are not practical in the cases that are the focus of this study. The top-down medium-term plans and sector programmes give regional governments little discretion or autonomy to set expenditure priorities. The 'one-size-fits-all' guidelines on expenditure prioritising constrain regional governments from providing variety in services. When individuals see no differences in service provision, they have no incentive to migrate from one locality to another. Moreover, the ethnic federalism in Ethiopia reduces mobility and thus the possibility of 'voting with feet'.

New Public Management (NPM) theory, especially Lane (2000), advocates limiting the role of the public sector and increasing the use of the market in producing and distributing public goods and services. Wallis and Dollery (2001) assume that decentralisation can enhance efficiency with the active involvement of the private sector in providing and delivering public goods and services. The feasibility of applying this suggestion is questionable given the few private sector institutions available in Ethiopia. There are few attempts in Ethiopia, especially in Amhara and Tigray, to engage the private sector in local service delivery. Some of the businesses owned by the regional ruling party are involved in distributing input credit to farmers, distributing textbooks and exercise books, and constructing local schools and health posts. However, the enterprises involved in such activities are mainly parastatals or private enterprises owned and managed by the ruling party, making it difficult to make a distinction between the State, the ruling party and the private sector.

The distinction between private and public goods made by NPM and the welfare economics model is not so clear-cut in Ethiopia. For instance, agricultural extension services, which involve input credits and seed distribution to farmers, are mainly private goods since consumption is rival. In the Ethiopian case, however, such services are regarded as pure public or merit goods and the government is actively involved in their provision. Hence, the feasibility of the two theories is doubtful in poor countries like Ethiopia, which often conceive many private goods as public goods.

The intergovernmental relations school proposes assigning expenditure responsibilities through shared or joint responsibilities among levels of government. As articulated by Winkler and Shah, the school proposes that specific tasks be identified in the various public services for assignment among levels of government. Smoke's suggestion of asymmetric decentralisation has an important virtue. Given the historical, political and administrative capacity differences among the three case study regions, it seems inappropriate to assign similar tasks to all regions. The Benshangul-Gumuz case is an illustration of how such uniform treatment can lead to heavy involvement by the centre and dissatisfactions on the part of the regional government. The problem could have been avoided by gradual assignment of different tasks through periodic evaluation of the region's capacity. However, the chapter has shown that, far from sharing power, the central political leadership has taken back the formal powers on expenditure assignment given to regional governments. In view of the EPRDF's political culture, that is, the central political leadership's appetite for centralised power, it is hard to imagine application of the intergovernmental relations school proposals for clearly defined and agreed-upon shared responsibilities.

The intergovernmental relations school also assumes that decentralisation can lead to cooperation and agreement on expenditure assignment among levels of government. It stresses the need for sub-national governments to be actively involved in the process of formulating national strategies/policies/ programmes and to be co-responsible for their implementation. Whilst the Ethiopian legal framework formally recognises participation, cooperation and agreement among levels of government, the regions are not actively engaged in formulating national policy, strategy and programmes. They are only informed about the policies, plans and programmes through discussion forums after the decisions have been made. Regions hardly debate the service delivery modalities issued from the centre, for they recognise that the central government maintains tight control over power and treats sub-national governments as agents of central authority, which is typical of deconcentration rather than devolution.

The institutional approach and the theory of democratic decentralisation have no specific recommendations on expenditure assignment. Some of the exponents of the approaches, especially Litvack *et al.* and Manor, accept the propositions of the intergovernmental relations school. Olowu and Wunsch propose the NPM approach of providing public goods through the private sector. As indicated above, the application of both propositions is problematic in Ethiopia. Nonetheless, there is an important lesson from the institutional approach, that institutions are valuable insofar as they provide organisational infrastructure that helps people gather the information they need, and to make and implement decisions to solve their problems. The assumption by Olowu and

Wunsch (2004) that decentralisation leads to accountability and participation if there is an effective local political process is also relevant to Ethiopia. In addition, Manor (1999) and Olowu and Wunsch (*op. cit.*) are relevant to explaining the problems of design and implementation of expenditure assignment in Ethiopia when they pinpoint the dilemmas of democratic decentralisation, which include the challenges of neo-patrimonialist leadership, the deep-rooted tendency of the central leadership to adopt a centralist and hegemonic approach to governing, and the hard-nosed calculation of self-interest by central political leaders. The situation in Ethiopia is reminiscent of the decentralisation process in Ghana, 'where the central government gives with one hand and takes it back with the other – politics of decentralisation' (Aye, 2004: 152). Ethiopia's case also demonstrates 'the powerful impact that the tradition of central control and the presumption of central "tutelage" still have long after the reality has totally changed' (Olowu and Wunsch, 2004).

Having shown that regional governments in Ethiopia are implementers of centrally determined plans and programmes because they do not have the autonomy to make their own expenditure decisions on the basis of the demands and aspirations of their constituencies, this study devotes Chapters 6 and 7 to elaboration of how specific factors in the political and administrative process affect expenditure assignment in Ethiopia. The next chapter discusses the revenue assignment in Ethiopia.

Notes

1 Federal Proclamation no. 4/93, article 10:d.

2 The policy covers the major activities that the country should follow in agriculture, trade, finance, transport and communications, and other social sectors

3 EPRDF is a coalition of four regional parties: Tigray Peoples' Liberation Front (which is the dominant party in the coalition), Amhara National Democratic Movement, Oromo Peoples' Democratic Organisation, and Southern Ethiopian Peoples' Democratic Movement.

4 Oromo Peoples' Democratic Organisation is a political front that claims to represent the Oromo ethnic group in Ethiopia.

5 Most of the ethnic political parties were organised by the TPLF from conscripts of the Dergue army who had surrendered to the TPLF, and other hand-picked individuals from the towns (Clapham, 1995).

[6] 'Minutes of the 14th Regular Session of the Transitional Council, September 1991', Addis Ababa.

[7] A prominent Ethiopian land tenure expert criticised ADLI as an ill-advised policy which would not work because 'ADLI places all its eggs in one basket – the smallholder agriculture basket. To bank on smallholder agriculture in our condition is unsound because what kind of agriculture do we have – an impoverished peasantry, very tiny plots of land, huge environmental degradation, productivity at best that has stagnated over the last 20 years. This is the kind of smallholder agriculture we have. To think that you can get a dynamic economy based on this type of agriculture is just unrealistic.' (<http://www.irinnews.org/report.asp?ReportID=35971&SelectRegion=Horn_of_Africa&SelectCountry=ETHIOPIA>).

[8] During 1990/1 – 1996/7, the EPRDF internal party structure had two layers of decision-making bodies: the party central committee with 60 members (15 from each of the four parties) and the executive committee with nine members (seven from the TPLF, one from the Oromo Peoples' Democratic Organisation and one from the Amhara National Democratic Movement). The executive committee is the initiator and ultimate decision-making body of the EPRDF.

[9] Interviews with party officials in Addis Ababa (April 2004), Tigray (Mekele, October 2003) and Amhara (Bahirdar, January 2004).

[10] Interviews with party members and expert in Bureau of Finance and Economic Development, Tigray (Mekele, November 2003) and party members in Addis Ababa (March 2004)

[11] 'Amhara Regional State Five-Year Program for Development, Peace and Democracy' (1995), Bahirdar.

[12] Tigray National Regional State Five-year Program for Development, Peace and Democracy (1995), Mekele.

[13] Interviews with officials of the regional Bureau of Finance and Economic Development, Tigray (Mekele, November 2003) and Amhara (Bahirdar, February 2004).

[14] Interviews with officials and experts of Benshangul-Gumuz region's Bureau of Finance and Economic Development (Assosa, July 2003).

[15] This sub-department had four Desks for the emerging regions: Benshangul-Gumuz, Gambella, Afar and Somali. The Desks were responsible for planning and implementing all capital projects and providing technical and administrative support to the regions.

[16] Interviews with Regional Vice-President of Benshangul and Vice-Bureau Head of the Planning and Economic Bureau (Assosa, July 2003).

[17] However, informants in the Ministry of Federal Affairs say that the support and intervention by the central government was at the request of the regional government (Interviews, Addis Ababa, March 2004).

[18] 'Rural Development Policies, Strategies and Methods' (Addis Ababa, November 2001); 'Implementation of Capacity Building Strategies and Programs' (Addis Ababa, February 2002); 'Industrial Development Strategy' (Addis Ababa, August 2002); 'Foreign Affairs and Security Policies and Strategies' (Addis Ababa, November 2002); and 'Issues on the Development of Democratic System in Ethiopia' (Addis Ababa, May 2002).

[19] Amhara Regional State (2001) 'Minutes of the Conference of ANDM on Revising the 2nd Five Year Development Plan in Line with the EPRDF Party Renewal Process'; Tigray Regional State (2001) 'Minutes of the Conference of TPLF on Revising the 2nd Five Year Development Plan in Line with the EPRDF Party Renewal Process and Directions up to the next congress' (unofficial party documents in Amharic).

[20] 'Amhara Regional State 2nd Five-Year Development, Peace and Democracy Programs' (Bahirdar, 2000); 'Tigray Regional State 2nd Five-year Development, Peace and Democracy Programs' (Mekele, 2000).

[21] Interviews with officials of Benshangul-Gumuz regional Bureau of Finance and Economic Development. (Assosa, July 2003).

[22] According to the Director of District-level Decentralisation, the federal government has the policy and implementation responsibility of providing national food security and large-scale irrigation and research as well as developing national strategies on water harvesting and extension programmes (Worku, 2005). The regional governments also have similar power to develop and implement regional agricultural strategy and guidelines; extension package strategies, medium- and small-scale irrigation and regional research. The *woreda*-level governments have power to develop district strategic plans, design and implement small-scale irrigation, carry out adaptive research, and implement agriculture extension programmes (*ibid.*).

[23] The major objectives of the programme were to increase production and productivity of small-scale farmers through research-generated information and technologies; empower farmers to participate actively in the development process; increase the level of food self-sufficiency; increase the supply of industrial and export crops; and ensure the rehabilitation and conservation of the country's natural resource base. Before PADETES, a programme

known as the Training and Visit extension approach was implemented in Tigray and Amhara until 1994.

[24] Sasakawa Global 2000 was managed by an international NGO, the Carter Centre. From 1993 to 1995. It ran an extension programme in Ethiopia labelled Extension Management Training Plots (EMTP), which emphasised agricultural development using a seed-fertiliser-credit-package. See the news on <http:// www.cartercenter.org/news/documents/doc156.html> (accessed February 2003).

[25] Interviews with experts in the Ministry of Agriculture (Addis Ababa, March 2004) and in the Amhara Regional State Bureau of Agriculture (Bahirdar, January 2004).

[26] Informants in the regions declined to specify the quotas for each region

[27] This was decided in 1995 at the Jimma Conference and is the only decision that makes regional governments borrow from banks.

[28] The directive states that farmers who can afford it are expected to make a 25 per cent down payment; those with small plots of land are expected to make a down payment of only 10 per cent; destitute farmers are not expected to make a down payment (Ministry of Agriculture, 'National Extension System Evaluation Report, 1998').

[29] Interviews with the vice heads of the regional agricultural bureaus in Amhara (Bahirdar, January 2004) and Tigray (Mekele, January 2004) and regional bureau of agricultural experts (Awassa, July 2003).

[30] The main sources used for this analysis are the annual evaluation reports (1995-99) on the implementation of the extension programmes and interviews with experts at the regional Bureau of Agriculture in Tigray (Mekele; December 2003), Amhara (Bahirdar; February 2004) and Benshangul-Gumuz (Assosa, August 2003).

[31] This directive was issued because extension workers in all regions were unnecessarily involved in forcing farmers to repay their input loans. This reduced farmers' trust in the extension agents and made them unwilling to accept the packages (Interview with an expert in Amhara regional Bureau of Agriculture, Bahirdar, February 2004).

[32] Informants in all regions declined to provide the quota statistics.

[33] 'Amhara Regional State Second Five-Year Development, Peace and Democracy Programs 2000', 'Tigray Regional State Second Five-Year Development, Peace and Democracy Programs 2000', and 'Benshangul-Gumuz Regional State Second Five-Year Development, Peace and Democracy Programs 2000'.

[34] *Ibid.*

[35] *Ibid.*

[36] The earlier large-scale irrigation schemes were condemned; Tigray and Amhara regions decided at the same time to reconsider the viability of the two commissions for sustainable agriculture and environmental rehabilitation (Co-SAERT and Co-SAERAR) that had been created to design and construct large-scale irrigation schemes in the two regions. No such organisation had been established in Benshangul.

[37] Federal Democratic Republic Government of Ethiopia (1994) 'Education and Training Policy', Addis Ababa.

[38] The first discussion was conducted at central level, 11-15 June 1993. The second was conducted the same year at regional level by resource persons from the federal government.

[39] The development agencies were Unesco, UNDP, Unicef, Department for International Development-UK, Irish Aid, SIDA, USAID, JICA, Ministry of Foreign Affairs of Finland, Italian Cooperation, GTZ, NORAD, European Commission, African Development Bank and World Bank. The donors formed a joint donor technical assistance mission (with international and local experts) to elaborate and refine the programme.

[40] The central directive states that 'children attending the first cycle primary school (grades 1-4) shall be taught by a single teacher who would teach them all the subjects'.

[41] Transitional Government of Ethiopia (1993) 'Health Policy of The Transitional Government of Ethiopia'.

[42] The programme provides details about each service unit. Primary health care units include a health centre with five satellite health posts and is expected to provide comprehensive and integrated primary health care services and to perform minor surgery and life-saving emergency operations. The centres are expected to serve 25,000 people and to have 10 beds, 13-15 technical staff and 12 non-technical staff. District hospitals provide comprehensive outpatient and in-patient services and train frontline health workers. They are expected to serve 250,000 people and to have 50 beds, 33 technical staff and 35 non-technical staff. Zonal hospitals provide specialist services and clinical training for nurses, health officers and paramedics. They are expected to serve 1m. people and have 100 beds, 60 technical staff and 35 non-technical staff. Specialised hospitals provide sub-specialist care and clinical training for health officers, general practitioners and specialist doctors. They are expected to serve 5m. people and to have 250 beds, 120 technical staff and 50 non-technical staff.

[43] Report of the mid-term mission (7 February to 8 March 2000) that conducted a comprehensive review of the Ethiopian health sector development programme (1997/8 – 2001/2).

[44] Ministry of Health (2002)' Health Sector Development Program II (2002/3 – 2004/5)'. Addis Ababa.

[45] The regional steering committee and central joint steering committee are the governing bodies of the HSDP and ESDP at regional and central levels respectively. Their roles include advising, monitoring and following up the sector development programmes. The membership includes heads of ministries/bureaus and donors.

[46] 'Tigray Regional State, Health Bureau report on Region Health Sector Development Program, June 13, 2002', Mekele.

4 Revenue Assignment in Ethiopia

4.1 Introduction

Revenue assignment is the distribution of revenue sources and decision-making powers to collect and administer taxes, fees and charges among levels of government. The theories of decentralisation that were discussed in Chapter 2 suggest various arrangements for revenue assignment to levels of government.

As with the assignment of expenditure responsibilities, the welfare economics model proposes the assignment of separate revenue sources to levels of government based on the benefit principle. The central taxes include area-wide (national) taxes to finance area-wide services. Sub-national taxes comprise revenue sources to finance services provided by local jurisdictions. The central government is assigned most of non-benefit taxes or mobile taxes, which include progressive/proportional personal and corporate income taxes and sales taxes; taxation on transfers by bequest or gifts (wealth and inheritance), and taxation on natural resources. Local governments are assigned taxes with immobile bases (real estate tax), taxes easy to administer (payroll tax), and benefit charges. Such arrangements are expected to achieve both economic efficiency and equity. The model, however, does not propose that sub-national governments should totally avoid taxation of highly mobile economic units, but provides different modalities like levying of surcharges by lower-level governments and shared taxes (Musgrave, 1989). It proposes that the tax system should not directly alter the terms on which individuals choose among alternative economic activities, should have an equitable pattern of incidence and entail low costs of administration and compliance. It also recommends tax harmonisation among different levels of government for highly mobile tax bases, but it does not imply that all levels of government should employ the same taxes with identical rate structures as that would endanger the link between benefits and costs. It suggests local governments should be given more tax-raising powers and argues that without such powers they are effectively agencies of the central government and hence lack sufficient autonomy.

The intergovernmental relations school has similar proposals on revenue assignment. It places taxes for mobile economic units (serving stabilisation and distribution functions) under the central government to avoid inefficiency in resource allocation. It assigns user charges to lower-level governments to create a close link between the revenue generated and public service provided (Helmsing, 1991). Within this wider framework, Shah (1999) proposes assignment of joint and shared revenue responsibilities, which is sharing or dividing of specific taxation functions, such as determination of the base, fixing of rates, collection and administration over a specific tax base, among levels of government. Prud'homme (1990) suggests centralisation of revenue sources but decentralisation of expenditure responsibilities. The school also proposes vertical and horizontal coordination of revenue assignment. Similarly, the institutional approach suggests the application of the benefit rule to revenue assignment. The approach emphasises that lower levels of government should bear significant responsibility for financing the expenditure for which they are politically responsible and be given power to set tax rates (perhaps within limits), assess and collect taxes and utilise the proceeds.

The New Public Management (NPM) theory proposes changes in revenue assignment and questions the application of compulsory local rates and taxes by levels of government (Lane, 2000). NPM recommends using revenue instruments that are directly linked to citizens' demands for public resource allocation, like charges, vouchers, fees, licences and other cost-recovery schemes. It further recommends curbing or limiting the tax-raising powers of local governments. The theory of democratic decentralisation argues that tax systems in many developing countries are poorly developed, both at national and local levels, due to their weak political processes. The school recommends that members of communities should work together to tax themselves and enhance their voice in local governments through increased local taxation and local control over spending choices.

In the light of the assumptions and proposals of the above decentralisation theories, this chapter analyses revenue assignment in Ethiopia with reference to Amhara, Benshangul-Gumuz and Tigray regions. The basic information sources used in the chapter are the legal framework, selected tax policies enacted during the past decade and annual revenue collection data. The chapter examines the degree to which the regions are involved in the central policy-making process concerning taxation, the extent of centralisation in revenue collection and administration, the patterns of revenue collection among regional governments, and the regions' autonomy to determine the tax base and rates and manage their revenue administration systems.

The chapter begins the analysis by discussing the legal framework that provides assignment of revenue sources in Ethiopia. It then analyses the practice of revenue assignment in the country, with a particular focus on the process of decision-making and regional governments' experience of taxation power and revenue administration, as well as by measuring patterns of tax collection at both central and regional government levels. Finally, it summarises the Ethiopian experience in the light of the theoretical proposals.

4.2 Legal Framework for Revenue Assignment

The formally expressed objectives of revenue assignment in Ethiopia are to help both levels of government carry out their respective duties and responsibilities efficiently and assist regional governments to develop their regions through their own initiatives. The legal framework also provides the main assumptions in revenue assignment. These cover ownership of resource sources, national and regional character of revenue sources, convenience of levying and collection of taxes or duties, population, distribution of wealth, standard of development of each region, and other factors that are the basis of an integrated and balanced economy.[1]

The legal framework gives both levels of government the prerogative to develop tax policies and enact laws to raise revenue. Article 55 (11) of the 1995 federal Constitution states that the centre has the power to levy taxes and duties on revenue sources reserved for the federal government. Similarly, article 49 (11) of the Amhara regional constitution (1995), Benshangul-Gumuz regional constitution (1995) and Tigray regional constitution (1995) give power to the regional councils to enact laws for levying taxes on sources of revenue reserved for the regional states. Articles 96, 97 and 98 of the federal Constitution specify independent and joint sources of revenue for both levels of government. Article 47 of the three regional governments' constitutions echoes these provisions. The constitutional provisions on revenue assignment are given in Appendix I.

The following main issues are summarised from the constitutional provisions on revenue assignment.

- The assignment of most of the direct taxes (employees' income tax, rental income tax and capital gains tax), fees and charges is according to taxpayer' categories and sources of revenue. The federal government levies and collects income taxes from private and public employees at federal level, houses owned by the federal government and services rendered by the federal organs. Regional governments levy and collect individual income taxes from regional employees in public and private organisations, houses owned by regional governments and services rendered by regional organs. Similarly, the centre and regions decide and administer taxes on sales, profits and dividends of public enterprises owned by the federal and regional governments respectively. This revenue assignment is unique as it does not strictly follow the assumptions of the welfare economics model, which assigns taxes on the basis of their type rather than taxpayer categories.[2] Individual income taxes, which, according to the model, are instruments of the central government's distribution and stabilisation policies as they are progressive and needed to regulate cyclical fluctuations, are also assigned to both levels of government.
- Regions have independent power to determine and collect tax on agricultural income and fees for land usufructuary rights, and royalties for the use of forest resources. The federal government has exclusive power to levy and collect duties, taxes and other charges on imports and exports; income from national lottery prizes and winnings from other games of chance; taxes on monopolies; and federal stamp duties. This revenue assignment, except for the royalties on forest resources, is in line with the principles espoused by the welfare economics model.
- Regional governments' authority to decide and administer taxes for non-corporate private enterprises (partnerships or private limited companies or business entities other than individual traders operating within their territory) is limited to employee income tax. The federal

government controls all buoyant and progressive taxes (sales tax, profit tax and excise taxes) from these sources and the proceedings are to be shared between the two levels. The assignment of such tax bases to the centre follows the welfare economics model's recommendation to make highly progressive, mobile and redistributive taxes a federal government responsibility.

- The Constitution provides concurrent power of taxation on three tax bases: power to levy and collect taxes on profits and sales as well as excise duty from jointly established enterprises; taxes on profits and sales of companies and dividends due to shareholders; and taxes on income derived from large-scale mining and all petroleum and gas operations as well as royalties from such operations. In practice, the federal government has fully controlled tax policy and administration of these taxes and the proceeds have not been shared.
- Article 99 of the Constitution specifies how residual taxation power is to be assigned: 'The House of Federation and House of Peoples' Representatives shall in joint session, determine by a two third majority vote on the exercise of powers of taxation which have not been specifically provided for in the constitution.'

Thus, the Ethiopian Constitution formally empowers regional governments to levy, assess and collect taxes on specific revenue sources reserved for them. On the whole, it follows the proposals of the welfare economics model for separate tax assignment. The following proclamations also emphasise a harmonised tax system in the country. Article 58 of the Federal Financial Administration Proclamation no. 57/1996 states that:[3]

- the tax system at the federal and regional levels shall be harmonised and standardised; and
- the Ministry of Finance, through research and administrative support, shall facilitate such harmonisation and standardisation.

Article 77 of the Council of Ministers Regulation no. 17/1997 directs that the relationship between the centre and regional governments on taxation should be as follows:

- Consultations between the federal and state governments have to take place on all new or changed taxes at both levels of government to ensure that the tax bases are harmonised and standardised.

- In exercising their taxation powers, states and the federal government are required to ensure that any tax is related to the source of revenue taxed and determined following proper consideration.
- Neither regional states nor the federal government shall levy and collect taxes on each other's property unless the property is a profit-making enterprise.

The above legal provisions are in line with the assumptions of the welfare economics model. The federal Constitution gives regional governments independent taxation power. The third point in the Council of Ministers Regulation also affirms that both levels of government are independent and only allows the central government to control one of the progressive taxes on regional government property (tax on profit-making enterprises). The harmonisation of the Ethiopian federal tax system is in line with the recommendation by Oates (1972). However, there is a lack of clarity because the legal framework specifies neither the modalities of harmonisation nor the tax bases and the tax rates that are subject to tax harmonisation and standardisation. Moreover, the legal framework gives regional governments the right to be consulted or participate in revenue assignment but fails to specify the type of participation and the regional governments' discretionary power to reject or amend proposals from the central government.

4.3 Revenue Assignment in Practice

The discussion on the legal framework shows that revenue assignment in Ethiopia shares some of the principles of the welfare economics model. In other words, the framework includes efficiency and equity criteria and gives regional governments independent tax bases and the right to be consulted on and participate in tax policy formulation and administration. The following section first analyses regional governments' participation in the decision-making process and then discusses regions' independent power of taxation and tax administration.

4.3.1 Centre-region relationship in revenue assignment decisions

In the last decade, Ethiopia has ratified a federal Constitution that divides revenue sources between the levels of government, and the central government has issued various legal proclamations on tax policies and administration. Among the issues covered by the proclamations are the formula for sharing revenue between the centre and regions (1998), tax on interest from bank deposits (2001), value added tax and turnover tax (2003), regulations to amend rates and administration of income taxes, and policies on sales and excise taxes. This sub-section examines the process of designing the legal framework for revenue assignment and the subsequent tax policies and amendments.

The 1991-95 Transitional Government, which was led by TPLF/ EPRDF, issued Proclamation no. 33/1992, which spelled out revenue assignment and stipulated a standardised and harmonised tax system in the country. There was limited involvement of the regional states in the drafting and approval of the proclamation, as they were only emerging governments at that time. The 1995 federal Constitution included the revenue assignment from the proclamation with minor modifications, but it left out tax harmonisation. Article 47 of the regional constitutions of Amhara (1995), Benshangul-Gumuz (1995) and Tigray (1995) reiterated the same provisions.

Informants and documents indicate that Federal Proclamation no. 33/1992 was drafted in a series of steps:[4] The Office of the Prime Minister initiated the idea and gave the responsibility for drafting the proclamation to the two federal organs that were responsible for revenue administration: Ministry of Finance and Inland Revenue Administration. Selected experts from the two organs went on study tours to different countries, especially to Nigeria and Germany, and consulted documents on their federal revenue systems. On the basis of these countries' experience, the experts produced a draft proposal, which was reviewed and evaluated by the Prime Minister's Office. The draft was then presented to EPRDF's executive committee members for approval. Finally, the Transitional Government Council, which comprised 87 non-elected regional representatives who were members of ethnic political fronts that had waged war against the Dergue, approved the document without any alterations.

This initial legal framework was prepared without studying the revenue potential at national and regional levels.[5] No systematic analysis was conducted to relate the expenditure assignment of regional governments to the revenue assignment. The historical and institutional environment, the degree of trust between the two levels of government, the degree of mobility of different economic units, the redistribution or spillover effects of some of the revenue sources and other issues that needed due consideration were not well studied and documented. In 2003, the Finance Minister stated that the only consideration at that time had been that the central government had higher financial responsibilities than regional governments. The central government's responsibilities include, among others, financing military expenditure, paying the principal and interest on foreign loans, providing grants to the regional governments and developing major infrastructure facilities.[6]

The 1995 federal Constitution adopted the earlier proclamation on revenue assignment with minor adjustments. The modifications were: an additional tax source for regional governments – they could determine and collect royalties for the use of forest resources (which was part of joint revenue); two additional tax sources for the federal government – it could levy and collect tax on monopolies and levy and collect federal stamp duties; and a provision on residual taxation power (article 99).

Since ratification of the Constitution, the centre has made many amendments in tax rates and introduced a few additional taxes. Enhancement of regional governments' revenue-raising capacity has never been a pressing issue in the political discussions at both federal and regional levels. A closer look at the three development plans of the central and the three regional governments (1995/6 –1999/2000; 2000/1 – 2004/5; 2002/3 – 2004/5) shows no specific plan on approaches and mechanisms to enhance regional governments' revenue, except the vague statement that 'revenue generation will be increased in the coming five years'. The revenue potential of the regions and that of the country has never been considered worth assessing. A cynical informant in Amhara commented, 'The issue of revenue is not a big concern at both levels of government since the centre is sure to secure funds from donors and the regions expect funds from the centre too.'[7]

The degree to which regional governments are involved in deciding tax policies can be seen in the following three cases.

Changes in taxation power and revenue-sharing proposal

Article 98 of the federal Constitution stipulates concurrent power to tax profits and sales and levy excise taxes on jointly established enterprises; to tax profits and sales of companies and dividends; and to levy income taxes and royalties on large-scale mining, petroleum and gas operations. In 1998, the House of Peoples' Representatives and regional state councils revised article 98 as it did not provide a formula for tax sharing besides the provision to jointly levy, collect and share the proceeds. The federal government executive body initiated the revision and suggested two major changes. The first revised the constitutional provision that 'the federal government and the (regional) states shall jointly levy and collect taxes on joint sources of revenue'. The Ministry of Finance proposed a change from concurrent taxation power to central government independent taxation power. The justification for this was that it would avoid the logistic problems of bringing legislative bodies of both levels of government to the centre to decide on each tax object jointly; and that the revision would implement the country's policy of a harmonised and standardised tax system as stipulated in Federal Proclamation no. 33/1992.[8]

The second proposed change was the formula for tax sharing. The Ministry of Finance drafted the formula summarised in Table 4.1.

Table 4.1
Formula for sharing joint revenue between federal and regional governments

	Type of tax	Federal share (%)	Regional share (%)
1	On profits of jointly owned enterprises	As per contribution	As per contribution
	Employee income tax from jointly owned enterprises	50	50
	Sales and excise tax from jointly owned enterprises	70	30
2	On profits of private companies	50	50
	Sales and excise tax from private companies	70	30
	On dividends by private companies	50	50
3	On profits of large-scale mining, petroleum and gas operations	50	50
	Royalties from large-scale mining, petroleum and gas operations	60	40

Source: 'Minutes of the House of Federation, Addis Ababa, 2nd year, 2nd meeting' (March 1997).

The House of Federation, which has the power to determine the division of revenues derived from joint federal and state tax sources,[9] debated and accepted the two proposals. During the debate, some members rejected the proposal, questioned the formula and demanded justifications (on the basis of information and studies) for the higher shares of the federal government. Some mentioned that the process contravened the Constitutional grant to regional governments of concurrent power to make decisions on joint sources of revenue. These members said that the change would result in regression to article 5.4a of Federal Proclamation no. 33/1992, which had been issued by the Transitional Government at a time when the regions had not yet been formally established.[10]

The debate raised an important issue: application of the principles of mobility and externality in revenue assignment in the Ethiopian context. This was especially relevant in the case of taxes on sales and profits of partnership undertakings such as bakeries, small local restaurants and hotels. A member asked, 'How can small businesses be characterised as having a high degree of mobility, while it is known that they are not moving anywhere given the ethnic politics in the country, while they are using inputs from local sources, and the goods and services are mainly consumed by local residents (in the absence of externality) and they have a small annual turnover?'[11] This question reflected the challenge of theoretical assumptions on mobility and externality as applied in the Ethiopian case.[12] It underlined the problems caused by not undertaking a proper study to estimate the patterns of tax incidence of various tax bases in Ethiopia before determining the assignment of revenue.

The members of the House of Federation were addressing their remarks and questions to the central executive committee, especially the Ministries of Finance and of Economic Development and Cooperation. The regional government executive and legislative councils were not consulted, as they had not participated in the decision-making process. It was only in August 2002 that the opinions of the regional governments and their demands on revenue assignment were collected for the first time during a workshop organised by the House of Federation. The following regional demands and opinions were voiced during the discussions.[13]

- Regional governments' share of revenue collected from income of employees of jointly owned enterprises should be higher because the employees are beneficiaries of the services and facilities provided by regional governments.

- Regions' share of taxes collected from companies should be higher because the owners reside in regions and consumption of the products takes place within the regional boundaries.
- Regions' share of sales and excise taxes should be higher as they are fully collected from the residents of the regions.
- Regions have no knowledge of levying and collecting taxes from large-scale mining, petroleum and gas operations.
- The rationale for the original revenue assignments between the regional and central governments has not been clear and transparent.

In January 2003, the central government organised another workshop to discuss tax assignment issues with the regional governments and federal executives. Members of the House of Federation and regional representatives discussed the decisions taken in 1998 on concurrent power of taxation and the revenue sharing formula. The minutes of the workshop reported that the regional governments had not been asked for their consent to the decisions on concurrent power for regions and the revenue sharing formula, and that the decisions had been taken without prior experience of such issues in Ethiopia and without adequate and reliable information on the revenue situation of the regional and central governments. The experiences of other countries had been the only basis for the decisions.[14] However, hardly any changes were made following the suggestions and complaints of regional government at the two workshops.

The regional governments have never received their share of joint revenue. During the last decade, there have been no published reports of tax revenue collected from jointly established enterprises as well as large-scale mining and petroleum operations in the country. According to the Finance Minister, however, the revenue collected from companies between 1996/7 and 2002/3 was only Birr 54m. (nearly EUR 5m.).[15] While no study is available on planned revenue collection from this source, the actual collection is considered to be very low. Ministers have admitted that the federal government is inefficient in tax collection.[16] Informants in Amhara and Tigray also told the author, 'the central government neither collects taxes properly nor passes the power to those who can collect it efficiently.'[17] The Finance Minister attributed the failure to share revenue to three causes: that regional governments get their share indirectly as part of their annual subsidies; that revenue collected from joint sources is small, as there are no jointly established enterprises and large-scale mining, petroleum and gas operations; and that the central Ministry of Finance was not organisationally and administratively ready and capable of calculating the share of each regional government.[18] These explanations did not satisfy the regional governments and they continued to demand their back-revenue, but to no avail.[19]

Thus, there have been complaints and demands from regional governments over revenue assignment in practice. Some of the demands were not in line with the main principles of tax assignment espoused by the welfare economics model, which assigns progressive taxes and mobile taxes to the central government. However, the Ethiopian case demonstrates that the concept of mobility is complex. Mobility in the context of poor countries like Ethiopia is neither understood nor properly contextualised. In the literature, mobility of economic units is understood in terms of provision of goods and services to consumers and/or using production inputs across different sub-national governments, irrespective of the working capital of economic units. However, in Ethiopia, mobility is measured in terms of the nature of business enterprises (sole proprietorship or partnership) and their working capital. Business organisations like local restaurants, bakeries, clinics and local hotels, which have no potential to be liable for import or export taxes or whose activities or provision of goods and services are only confined to one locality or regional administration, are considered to be mobile economic units. In fact, clear demarcation between mobile and immobile taxes is a problem even in the developed world (Oates, 1972).

To sum up, the above discussion has identified some of the problems in centre-region relations concerning revenue assignment. These include lack of active participation by regional governments in the decision-making process, lack of reliable studies before decisions are made, the central government's administrative inefficiency in collecting taxes and the central government's failure to pay the regions their share of taxes as per its own formula.

Tax on bank deposit interest

Introduced in 2001, this tax is levied on individuals or organisations that deposit their capital in banks. The House of Federation approved the draft proposal presented by the Ministry of Finance, under which the interest tax is assigned to the centre, without any alteration. Regional governments were not directly consulted on the issue. Therefore, at the workshop organised in 2003 to discuss revenue assignment, regional governments criticised the one-sided decision-making procedure[20]. They pointed out that it contravened the constitutional provision that the 'House of Federation and House of Representatives shall in joint session determine by two-third majority vote on the exercise of powers of taxation which have not been specifically provided in the constitution', which had been reaffirmed in Council of Ministers Regulation no. 17/1997 in the following way: 'consultations between the federal and state governments have to take place on all new or changed taxes.'. In the same forum, the Ministers of Finance and Revenue explained that tax on bank interest is personal income tax and should be administered and collected by the central government so that it can perform its distribution and stabilisation functions and maintain equity in tax administration. The regional representatives strongly argued that the tax was collected from savings of regional residents and should not be appropriated by the central government alone. Whilst the regions admitted that the centre could collect the tax, they insisted that the proceeds should be divided on a derivative basis.

Despite strong arguments from the regions, the federal government still collects and administers the tax. There is no published document on tax sharing. During the fieldwork for this study (2003/4), the author was told that regional governments do not get their shares. An expert in the Amhara regional Revenue Department cited the tax on bank deposit interest as a typical example of what can happen when tax laws are enacted by the centre: regional governments' consent is not always obtained and constitutional provisions can be ignored (Interview, Bahirdar, January 2004).

Value added tax and turnover tax

These two taxes were introduced in January 2003 to replace the sales tax on goods and services.[21] The income tax bands were also revised.[22] The federal government levies and collects taxes; it divides the proceeds between the centre and regional governments according to the formula developed for joint revenue sources. The new law stipulates that regional governments will not be responsible any more for administering the taxes of even individual traders if the annual turnover of their businesses is more than Birr 500,000.

The new tax laws and policies were drafted by the federal Ministry of Revenue and approved by the Council of Ministers.[23] The House of Peoples' Representatives and the House of Federation, sitting in a joint session, endorsed the draft without any modifications. The tax policies were based on information collected from various sources; the experiences of various countries were studied; orientation programmes were organised to create awareness and to obtain opinions from the regional governments, the Chamber of Commerce, professional associations and the academic community; and technical support was provided by a legal advisor from International Monetary Fund[24].

Informants in Amhara, Tigray and Benshangul-Gumuz indicate that there were differences in the role played by the three regional governments in the design and final decisions. An informant in the regional Revenue Department of Tigray said the highest-level political leaders of the region were involved at the initial decision-making stage (interview, Mekele, December 2003). An official in the Amhara Bureau of Finance and Economic Development stated that some members of the bureau had attended meetings organised for awareness creation, but their opinions had been ignored (interview, Bahirdar, January 2004). 'The region demanded that value added tax (VAT) should be administered at the regional level, with the support and coordination of the central government, but as always, it was impossible to get it done in the way the region wanted it to be,' he said. A high-level official in the Benshangul-Gumuz Bureau of Finance and Economic Development observed that 'the usual process of policy-making in the country works for conveying the VAT proclamation also; the Office of the Prime Minister sends ready-made proposals and then the House of Peoples' Representatives approves them as given' (Interview, Assosa, August 2003). Generally, the top and middle-level bureaucracy of regional governments were not actively involved in the decision making process though they did participate in the awareness-raising and sensitisation programmes organised by Ministry of Revenue. The task force at the federal level did not include representatives from regional governments.

The discussion on revenue assignment between the House of Federation and the regional representatives (January 2003), confirmed that regional governments were not involved in the decision-making process.

The minutes clearly state that 'the value added tax has been decided by the House of Federation and the House of Peoples' Representatives, but the information was not communicated to the regional governments'.[25] The minutes of the 44th regular meeting of the House of Peoples' Representatives (2002) also document that some MPs demanded that the regional governments be asked for their consent to the VAT proclamations. However, the reply from the Speaker of the House was simple and clear: 'the federal government has the power to decide'.[26]

In Tigray and Amhara, the regional bureaucratic officials did not appreciate the assignment of VAT to the central government. One reason for their disquiet was their negative experience with revenue sharing, which had made them distrust the centre. The two regions had no confidence in the central government's capacity to effectively administer the VAT and were not sure that they would get their appropriate share in a transparent manner.[27] They temporarily resisted handing over records of traders with annual turnover of more than Birr 500,000 to the centre until they were given instructions through political channels to do so.[28] They also felt that the VAT decision would sustain regional governments' dependence on the centre. An Amhara official told the author that one of the challenges for the regions was 'recovering the costs incurred by the region for compensating peasant farmers for leaving their plots of land, which are then utilised by private investors, if the tax from the investors is taken by the centre' (Interview, Bahirdar, February 2004). He said the usual response from the central authorities to the regions' misgivings was nothing more than promises that earlier mistakes with revenue sharing would not be repeated.[29] The argument that regional governments should administer VAT is questionable. Given the newness of the system, each regional government could set its own standard tax rates and administrative methods. This would violate the principle of equity in tax administration and would lead to inefficiency in resource allocation, as there would be opportunities for local distortions by regions' setting higher or lower rates.

In addition to the above decisions on revenue assignment, the federal government has introduced various tax policies and amendments during the last decade. Income tax has been amended three times (Federal Proclamations 36/1988 (1995/6); 227/1993 (2000/1); and 286/1994 (2001/2). Sales tax and excise duties have been amended five times (Proclamations 68/1985 (1992/3), 77/1989 (1996/7), 149/1991

(1998/9), 228/1993 (2000/1), 237/1993 (2000/1) and 305/1995 (2002/3)). Taxes on rental income (62/1985 (1992/3)) and capital gains (108/1987 (1994/5)) have been enacted and new tax systems (presumptive tax and withholding tax) introduced.

An official of the Amhara Revenue Department told the author that the region had never been involved in the decisions concerning the above tax rates (Interview, Bahirdar, January 2004). Experts in Tigray (Interview, Mekele, October 2003) and Benshangul-Gumuz (Interview, Assosa, August 2003) confirmed that their regions, too, had been left out of the decision-making process. The informants said all the decisions regarding tax rates come from the centre and the regions are only implementers. Other sources corroborated these assertions. For instance, the 'Minutes of the 16th Regular Meeting of the House of People's Representatives (1998) clearly show that some MPs raised the issue of obtaining consent from regions for the new tax rates. However, in his response, the Speaker of the House did not consider whether the MPs had sufficient knowledge to evaluate the impact of taxes on the regional economy; he just stated, 'Members of the House of Representatives can raise issues regarding regions and decide on their behalf.' Two parliamentarians from the centre summarised the usual process of enacting tax rates and amendments as follows: first, the Prime Minister's Office sends the proposal; second, the Speaker of the House or his deputy reads the proposal to the House of Peoples' Representatives (first reading); third, the Legal and Economic Committee of the House analyses the proposal; and finally, the House approves the original proposal presented during the first reading' (interview, Addis Ababa, May 2004).[30]

4.3.2 Regional governments' experience of taxation power

As outlined earlier, regional governments are constitutionally empowered to enact tax laws on revenue sources reserved for them. During the last decade, regional governments have only enacted laws on agricultural income tax and rural land use fees.

Agricultural income tax is levied on income derived from farming activities. It is based on land area in Amhara and Tigray and on agricultural output in Benshangul-Gumuz. In Tigray, the tax is a fixed amount in birr per hectare of land, while in Amhara the rate per hectare varies with the fertility of land, ranging from Birr 10 to Birr 25 in food-secure areas and from Birr 5 to Birr 20 in food-insecure areas. In Benshangul–Gumuz, the tax rate is progressive, ranging from 5 to 40 per cent, and applies to farmers whose annual agricultural output exceeds Birr 1200.

Rural land use fees are assessed on the basis of plot size. In Benshangul-Gumuz, the fee is Birr 10 for the first hectare and Birr 5 per hectare thereafter. In Amhara, the rate is Birr 8 for the first half-hectare, and rises to Birr 18 for 2.5 hectares and above. The amount of tax charged in the three regions varies by household and business. For instance, in Benshangul-Gumuz, private businesses pay Birr 15 for the first hectare.

Whilst each region has set it is own tax assessment, the process of formulating the tax rates was based on templates from the federal Ministry of Finance. According to informants, the templates provided the content of the tax policies and the range of tax rates, which is between Birr 13 and Birr 45 per hectare.[31] The central government provided this range with the expectation that the central agricultural policy would increase the earnings of peasant farmers, enabling them to pay the taxes.[32] The regional governments were only allowed to fix their taxes within the given range. These regional tax rates did not consider the actual economic situation or annual earnings of the peasant farmers. There was some resistance from the farmers; for instance, in 1997, peasant farmers in Amhara protested and appealed to the country's Prime Minister to lower the rates.[33]

Ethiopia is implementing a second wave of decentralisation. The reform was introduced in 2002 but not implemented until 2004. This reform is intended to put into effect the provisions of the 1995 regional constitutions that gave *woreda*-level governments independent power to collect personal income tax from *woreda* employees and small traders, rental income tax from individuals, rural land use fees, agricultural income tax, licence fees and charges for service rendered by *woreda* offices. It remains to be seen how this new measure will create financially responsible *woreda*-level government.

4.4 Tax Administration in Practice

The federal and regional governments have independent tax administration organs responsible for tax assessment, collection, accounting, delinquency control, audit and enforcement. Until 2001/2, the Federal Revenue Board was responsible for revenue administration at the federal level. The Ministry of Revenue was established in October 2002 to lead and supervise the three revenue administrative organs: Federal Inland

Revenue, Ethiopian Customs Authority and National Lottery Administration. The federal Inland Revenue has regional branch offices for collecting taxes from joint sources and other federal taxes.

Each of the regions has a Bureau of Finance and Economic Development. The official mandate of the bureau is not only assessment, collection and keeping records but also expansion of regional revenue bases and application of an equitable system of revenue collection. The regional bureaus have revenue departments to run the routine tax administration operations. The *woreda* administrations in the regions ensure the collection of rural land use fees, agricultural income tax and other revenues and impose service charges. The *kebele* administrations act as collection agents of rural land use fees and agricultural income tax for the regional bureaus (at present for the *woredas*).

The administrative structure and salary scales of the revenue administration organs in the regions are similar. For instance, each revenue department has a department head, a section head for revenue assessment, a section head for revenue collection, three experts (inspectors), an accountant, a bookkeeper and a cashier.[34] The *woreda*-level revenue unit has a unit head, a tax auditor and an accountant-clerk.

The tax administration organs of the regional governments are to a certain extent independently structured from the centre. The respective layers of government carry out tax assessment, collection and accounting, and the central government does not hire the employees of regional tax organs. On the other hand, the central government uniformly dictates the internal tax administration structure of the regional revenue departments, their staffing plan, salary scale, job descriptions and specifications, which violates the constitutional mandate of the regional governments (this will be discussed further in Chapter 7).

We shall now go on to discuss the system of tax administration in the three regions by focusing on taxpayer record-keeping, assessment and collection, accounting and enforcement, taxpayer education and public participation, and support and coordination by the centre.

Taxpayer record-keeping

Adequate records on taxpayers have to contain data on taxpayers' identification numbers, personal property, paid and unpaid taxes at different periods, and other details required to assess and collect taxes. All the three regional governments and the federal government at large are weak in record- keeping. For instance, a Ministry of Revenue report admits that 'the lack of proper registration of tax payers has been a chronic problem throughout the country'[35]. A report by the Auditor-General to the House of People's Representatives (June 2002) also pinpoints the lack of taxpayer records as a major problem. In many cases, the poor record-keeping of tax agencies often obliges taxpayers to produce their previous year's tax receipts in order to pay their taxes for the current year.

Informants from the three regions identified the various challenges that the taxpayer record-keeping system faces. These include obtaining statistics on individual traders, as many traders do not have business licences and many frequently close one business and start another; obtaining data on farmers, as they have no land title certificates and many frequently stop farming and later start again (moreover, some die, others form new households and still others migrate to towns); identifying people who should be paying tax on rental income, especially in towns, as there is no adequate property registration;[36] and a poor system and procedures for taxpayer registration and insufficient qualified revenue agents. These challenges confront local governments in many poor countries. The literature on decentralisation of African local government reiterates that whilst the local governments expect to raise sufficient revenue from taxpayers within their jurisdictions, the majority of their taxpayers are poor, involved in informal sector activities and difficult to trace and register for tax purposes. Currently, the Ethiopian federal government has introduced reforms of the tax administration system to resolve the above problems.

Tax assessment, computation and collection

The three regional governments strictly follow the federal proclamations that specify the tax assessment and collection procedures, the period of collection, and the rates and bases. Until recently, Proclamation no. 173/1961 and Legal Notice no. 258/1962 were useful in income tax assessment and collection. At present, Proclamation no. 286/ 2002 (concerning income tax) and Council of Ministers Regulation no. 78/2002 are being applied. The proclamations provide procedures for the assessment and collection of the three direct taxes: employee, rental and business income taxes. These include the power of the tax authorities, tax accounting principles, exemption process, declaration of income, assessment of tax (deductible and non-deductible expenses, depreciation, bad debts, and others), payment of tax, tax appeal procedures, penalties, and other details. The following are three illustrations of how taxes are assessed and collected in the three regional governments.

- ***Taxes from peasant farmers.*** Farmers pay agricultural income tax and land use fees. In the regions, the lower tiers of government assess, calculate and collect these taxes. Tax committees in each *kebele* administration calculate the tax liability by estimating each farmer's land area. They are responsible for assessing land area, determining tax liability on the basis of the rates set by the regional government, collecting the tax and transmitting the proceeds to the *woreda* administration. They are also entitled to receive 3 per cent of the tax collection, which is divided among the committee members as personal remuneration for collecting tax. In the regions, committee members are sometimes given orientation sessions on tax assessment and collection. In most cases, tax assessment is partly subjective, as there are no land certificates that show the size of the land. In Benshangul-Gumuz, agricultural output, which is used to determine tax liability, is estimated subjectively. The amount of tax collected from these two bases is only 2.3 per cent of the national total tax revenue. The two commonly mentioned reasons given by regional tax authorities for this are drought and other natural calamities that recur in the regions, and collectors' fear of losing social acceptability in the community.
- ***Taxes from individual traders.*** These taxes are assessed and collected in urban areas by the lower tiers of government. They include tax on business income, sales (goods and services) tax, excise tax and tax on rental income. The federal tax proclamations provide the basis for assessment and collection of taxes in the three regions.[37] They direct that tax liability should be determined by the taxpayer's declaration of income and investigation by tax agents.[38] The regional governments collect taxes from category C taxpayers (traders with an annual turnover of less that Birr 100,000, who are not required to keep records) and taxes are determined on the basis of estimated assessments every fiscal year. The estimation, which is done by visiting the taxpayer's business premises and visually inspecting the stock, has the potential of enabling tax evasion and corruption.[39] A standard assessment method and presumptive taxation system has been

introduced in the regions to determine the income tax liability of category C taxpayers.[40]

- ***Employee income tax.*** This tax is easy to administer and collect. It is deducted by employers and transmitted to the tax authorities. Regions collect employee income tax from civil servants and employees of companies and local NGOs. This source provides the highest tax collection in all the three regions.

The assessment and collection of stamp duties and capital gains taxes are also uniform in all regions. Property taxes are left to the *woreda* administration (for small towns) and municipalities. Non-tax revenue is collected similarly in the regions – small towns and municipalities collect water charges, market charges and fees for other services. Regional governments collect revenue from medical examination services, veterinary services, medical drug sales, sale of forestry resources and royalties, driving licence fees and other related sources. The rates are uniform in all the regions. There has been no attempt in the regions and in the federal government to determine the costs of service provision and the corresponding rates.

Tax accounting and enforcement

The revenue organ of regional governments is responsible for coordinating the overall accounting system. The lowest tiers of government are responsible for recording the taxes collected from the various sources. The procedures are similar throughout the three regions as standard formats are used nationally. The federal government has proclaimed legal provisions to sanction non-compliance. Penalties are also imposed on defaulters in the three regions and the central government's tax proclamation specifies penalties for failure to submit returns, make payments in time and produce books of accounts. The appeal procedures in the regions are also similar and are dictated by guidelines from the central government. Tax enforcement is ineffective as the legal procedure is cumbersome. Regional governments do not have adequate records on legal cases, but an incomplete record from Amhara regional state (2004) shows that from 1998/9 to 2001/2 there were 20,622 pending tax-related legal cases. According to the records, there are a total of 54,000 registered individual traders or businessmen, in Amhara.

Tax education and public participation in making tax policies

In Tigray and Amhara, there are attempts to educate taxpayers. In Benshangul-Gumuz, tax education is limited to using posters in some central places, and this is possible only when the central government provides the posters. The public is hardly involved in tax administration in the three regions; there have been a few attempts in Amhara and Tigray to involve individual traders through discussion forums. The traders who are invited to such events have no interest in the discussions since regional governments have no power to change the rates handed down from the central government, but they are forced to attend.

Informants in Tigray said taxpayers invited to discussions on tax issues frequently demand that they be paid daily allowances for attendance (interviews with an official and experts of the Revenue Department, Mekele, November 2003). This may be seen as an indication of their realisation that their participation is ineffective. The informants recalled that at one meeting in Tigray businessmen raised the issue of equity and complained about having to pay similar taxes and fees to those paid by businessmen in Addis Ababa who have relatively better electricity, transportation and telephone services. Informants in Amhara region also described these forums as a pretence of public involvement in decision-making. The centre is not prepared to listen to regional taxpayers. This was demonstrated in 1997 when the regional proclamation on land use and agricultural income tax was issued and farmers appealed directly to the Prime Minister's Office for reduction of the rates.[41] They were told to go back and take up the matter with the regional government (Interview, Bahirdar, January 2004).

Support and coordination

An adequate system of support and coordination is a prerequisite to help regional governments enhance their revenue capacity and for a smooth and productive relationship between the centre and regional governments. However, the relationship between the two revenue authorities at the centre (Ministry of Finance and Inland Revenue Authority) and the regional Finance and Economic Development Bureaus has been weak (except for attempts to establishment periodic discussion forums for federal and regional finance bodies after 2002). Usually, the central organs correspond with regions only to convey directives from the political leadership and to respond to queries regarding interpretation of tax amendment proclamations. Regions also communicate with central organs to get clarifications on guidelines and proclamations sent to them. In addition, there is a weak working relationship between the federal Inland Revenue Administration branch offices in regions and the regional Revenue Departments. This is mainly due to the constitutional provisions that allow parallel power to the central and regional bureaucratic organs and limit their frequent interaction.

The following cases illustrate the lack of coordination between the central and regional authorities.

- Taxes on business income and profits earned by all businesses in the regions, except individual traders, are levied and collected by the federal government. It is widely believed that during the last decade, most companies did not pay taxes to either level of government.[42] This was due to poor tax administration, which is reflected in, *inter alia*, lack of coordination between the two central tax organs. This situation makes it possible for individual traders operating in the regions to disguise their businesses as private limited companies or other forms of business entities that pay tax to the federal government, without actually paying any taxes. The Finance Minister and Revenue Minister admitted in 2002 that federal tax authorities had failed to collect taxes from many of the companies.[43] They stressed that lack of information exchange, absence of adequate criteria on changing forms of business and lack of coordination had made tax evasion possible. At one point, the Prime Minister confirmed this by saying that 'the federal government is becoming a fortress for tax evaders'.
- Regional tax authorities have had difficulty in carrying out tax assessment and collection due to lack of central government support and coordination. The tax laws and regulations are unclear about tax administrators at the regional level. The centre has made little attempt to give support or clarify the guidelines and the proclamations or to have regional tax agents participate in the design process of the proclamations. Informants told the author that the different tax laws enacted by the central government exacerbate the problems experienced by tax assessors.[44] The various proclamations from the centre have been the references for tax assessment and calculation in all regions. For instance, these include proclamations on direct taxes (Proclamation no. 173/1961(1967/8), Proclamation no. 62/1992

(1999/2000), 108/1994 (2001/2)) and indirect taxes (Proclamation nos. 68/1992 (1999/2000), 77/1997 (2004/5), 149/1998 (2005/6) and 190/1998 (2005/6)).[45]

Recently, however, there have been moves towards providing support to regional governments. This support and coordination started with the tax reform programme and was made possible through discussions in the federal and regional governments' 'financial sector joint-forums'. Up to now, there have been five such forums: Nazereth (March 2002), Bahirdar (November 2002), Mekele (2003), Jijiga (November 2003) and Afar (2004). Formally, the main purpose of the joint forums is to support the fiscal performance of the federal and regional governments, exchange experience, contribute to regional capacity development schemes and clarify issues of common interest. A report by the Revenue Minister says that his Ministry provided training to regional experts on the tax reform programme, especially on taxpayers' identification numbers and presumptive taxation, accounting and auditing. It has also organised orientation events on the new income tax and VAT for representatives of the federal and regional governments.[46]

These discussion forums have served as means of conveying instructions to regional governments on issues concerning tax laws, revenue collection and assessment. Thus, the platforms have been instrumental in instituting a uniform and unified tax system in all the regions. A case in point is the Bahirdar forum in November 2002, where strict and detailed instructions were given to all regional governments on issues such as excise tax collection, tax on the income of employees of local NGOs, tax on bank deposit interest, excise tax on public transport and contractors, tax on privatised public enterprises, sales tax on factories using agricultural inputs, tax on rental income, joint revenue, information exchange, improper tax collection, and so on. An official of the Ministry of Finance and Economic Development told the author:

> These forums are run for a short period (the Nazereth meeting was only one day, the Jijiga two days) and are not actually for listening to regional governments; nor are they intended to give the regional governments a chance to exercise their authority. They are rather opportunities to pass on central directives to maintain uniformity across all the regions in the execution of tax procedures, policies and rates (Interview, Addis Ababa, May 2004).

In short, the tax system in Ethiopia has shortcomings, including an inadequate taxpayer record-keeping system, weak administration and enforcement, pathetic public education and participation in local resource mobilisation, and uniformity in administrative policies and procedures. The country's system of tax administration is neither properly decentralised to maintain the principle of subsidiarity nor adequately centralised to have the advantage of economies of scale.

4.5 Measuring Revenue Assignment

The above discussion indicated that revenue assignment in Ethiopia partially follows many of the principles advocated by the welfare economics model. It also showed that the central government controls the political decision-making power in revenue assignment and that the regional governments are forced to follow central directives in all tax policies and administration, which breaches their constitutional power to make decisions on revenue sources reserved for them and their right to be consulted in national policy decisions. The study now uses quantitative data to analyse central dominance in revenue collection as well as the pattern of revenue collection and per capita revenue collection by the regional governments.

Measuring degree of central control over revenue collection

Central control over revenue sources is measured from seven years of data (1993/4 – 1999/2000) on revenue collection (see Appendix J). Table 4.2 summarises and compares revenue collection by the federal government and all regional governments including Addis Ababa. The figures are in simple decimal values.

The distribution of tax revenue is heavily tilted towards the federal government. During the seven years, the federal government collected 58.5 per cent of the direct tax, 83.5 per cent of the indirect tax and 99.9 per cent of the foreign trade tax. Thus, the centre collected 81.6 per cent of the tax revenue and 85.5 per cent of the non-tax revenue. In comparison, regional governments collected only 17 per cent of the aggregate national tax revenue.

On average, the federal government collected 83 per cent of the total national revenue and has sustained the trend. Both the standard deviation (.013) and coefficient of variation (1.5 per cent) show the absence of

Table 4.2

Federal government's share of tax collection, 19993/4 – 1999/00

	1993/4	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	AV	STD	CV
Direct tax	0.555	0.596	0.645	0.612	0.543	0.564	0.582	0.585	0.036	0.061
Indirect tax	0.882	0.870	0.821	0.821	0.807	0.830	0.811	0.835	0.029	0.061
Foreign trade tax	0.991	1.000	1.000	1.000	1.000	1.000	1.000	0.999	0.003	0.003
Total tax revenue	0.827	0.832	0.824	0.819	0.795	0.807	0.806	0.816	0.013	0.017
Non-tax revenue	0.810	0.885	0.867	0.846	0.834	0.877	0.870	0.855	0.027	0.031
Total	*0.823*	*0.850*	*0.838*	*0.828*	*0.810*	*0.835*	*0.829*	*0.830*	*0.013*	*0.015*

Notes: AV = average; STD = standard deviation; CV = coefficient of variation.

Source: Data in Appendix J.

variation. Both measures of variation indicate an unchanging revenue collection pattern for the centre and the regions.

This pattern of central and regional revenue collection does not fully contradict the assumptions of the welfare economics model on revenue assignment. This is because the central government has full control of foreign trade tax and indirect taxes. However, regional collection of the direct taxes, which is lower than that by the central government, shows the misapplication of the theory. If the revenue collection from the capital city of Addis Ababa is removed, the share of the regional governments from direct taxes is much lower. A closer look at actual regional revenue collection reveals that the contribution of the tax on business profits to the total regional collection for Amhara, Benshangul-Gumuz and Tigray was on the average 4 per cent, 3 per cent and 11.6 per cent respectively (see Appendix K, Tables K.1-K.3). One of the reasons for the low collection of business taxes is the earlier argument on mobility, which enables the centre to dominate the tax from both unincorporated and corporate businesses. Moreover, the regional governments collect only 2.3 per cent of the national revenue collection from the two tax bases over which they have full control.

Measuring similarity and dissimilarity in revenue collection among the three regional governments

The following measurements capture the similarity and dissimilarity in own revenue collection among regional governments. Whilst no assessment has been made of the revenue potential of regional governments in Ethiopia, differences in the pattern of revenue collection can be expected on the basis of the earlier discussion (concerning Table 3.1) on the relative differences in the distribution of manufacturing enterprises, type of agricultural activity, land fertility, poverty, degree of urbanisation, and political history. The theoretical assumption of decentralisation theories that there is variation in regional endowment can also be a reason to expect differences. Given this expectation, we go on to measure the similarity and dissimilarity in actual own revenue collection between 1994/5 and 2001/2 for the three regions (see also Appendix K, Tables K.1-K.3).

The first measure is own tax revenue collection by regional governments. Table 4.3 displays the share of own tax revenue collection from different tax bases. The values give the eight-year average collection and each base as a percentage of the total collection.

Table 4.3
Average tax revenue collection by regional governments, 1994/5 – 2001/2 (million Birr)

	Amhara		B-Gumuz		Tigray	
	Collection	%	Collection	%	Collection	%
Direct taxes						
Employee income tax	37.028	30.00	3.258	59.0	19.579	29.0
Rental income tax	0.203	0.20	0.022	0.4	0.976	1.0
Business profit tax	12.989	10.00	0.307	6.0	10.329	15.0
Agricultural income tax	30.233	24.00	0.632	11.0	4.570	7.0
Tax on dividends & games of chance	0.028	0.02	0	0	0.109	0.2
Capital gains tax	2.297	2.00	0	0	0.904	1.0
Rural land use fee	30.209	24.00	0.651	12.0	5.739	9.0
Urban land lease fee	0	0	0	0	0	0
Total direct taxes	*112. 989*	*90.00*	*4.867*	*88.0*	*42.038*	*62.0*
Indirect taxes						
Excise tax	0.227	0.20	0.006	0.1	0.499	1.0
Sales tax	7.656	6.00	0.281	50.0	18.018	27.0
Service taxes	2.488	2.00	0.350	6.0	2.008	3.0
Stamp sales & duty	2.225	2.00	0.041	1.0	4.730	7.0
Total indirect tax	*12.540*	*10.00*	*0.677*	*12.0*	*25.256*	*38.0*
Total tax revenue	*125.586*	*100.00*	*5.544*	*100.0*	*67.294*	*100.0*

Source: Data in Appendix K, Tables K.1-K.3.

The table shows both similarities and differences in tax revenue collection by the three regional governments. The similarity is evidenced in employee income tax, which is a major source of own revenue for the three regional governments. During the eight-year period, the average collection from this source (30 per cent for Amhara, 29 per cent for Tigray and 59 per cent for Benshangul-Gumuz) represented the tax base with the highest amount in the three regions. The values indicate not only similarity in the case study regions relative dependence on one tax source, but also lack of differences in tax administration effort. As indicated earlier, employee income tax does not require regional tax administrators (for mobilisation, record-keeping, assessment, collection and enforcement) as it is deducted at source by employers and transmitted to the tax authority. Generating more revenue from this source can be a good indicator of the weakness of regional governments' taxation efforts. In addition, Amhara and Benshangul-Gumuz show similarity in their other two major sources of tax revenue: agricultural income tax and rural land use fees.

However, Table 4.3 also shows differences in revenue collection among regional governments. First, unlike in the other two regions, Tigray's second and third major sources of tax revenue are sales tax and business profit tax. Second, Benshangul-Gumuz depends on fewer tax bases than the other two regions.

The second measure in the analysis is per capita tax revenue collection. Table 4.4 summarises the per capita figures for 1994/5 – 2001/2.

Table 4.4

Regional own tax-revenue per capita, 1994/5 – 2001/2 (million Birr)

	Amhara	B-Gumuz	Tigray
1994/5	5.93	2.54	13.63
1995/6	6.19	2.72	18.72
1996/7	7.11	2.84	18.72
1997/8	7.43	4.00	21.20
1998/9	8.49	5.29	17.00
1999/00	8.85	6.26	17.86
2000/1	9.78	6.67	20.93
2001/2	9.52	9.92	18.09
AV	7.91	5.03	18.97
STD	1.47	2.55	3.21
CV	0.19	0.51	0.17

Notes: AV = average; STD = standard deviation; CV = coefficient of variation.
Source: Data in Appendix K, Tables K.1-K.3.

There are relative differences in revenue per capita among regional governments. Tigray has the highest revenue per capita, followed by Amhara and Benshangul-Gumuz. However, the figures show no variation in per capita tax revenue for Tigray and Amhara. The small values of coefficient of variation for Tigray and Amhara indicate that revenue collection does not change much during the period.

Tables 4.3 and 4.4 show that the case study regions revenue collection is very weak. In these regions annual revenue collection per capita is very small, which is on the average Birr 5 (Euro 0.45 cents) for Benshangul-Gumuz, Birr 8 (EUR 0.73) for Amhara and 19 Birr (Euro 1.73) for Tigray. As explained above, some of the reasons for such weakness are central government domination of the lucrative tax sources and the decision-making process in tax policy and administration, the poor tax administration system at both levels of government (an inadequate taxpayer record-keeping system; weak tax administration and enforcement, pathetic public education and participation in local resource mobilisation, and uniformity in tax administration policies and procedures), the weak power of regional governments to make decisions on tax policies and administration, and the minimum attention given by the central and regional political leaders to mobilising tax revenue. As will be explained in the next chapter, this weakness has resulted in regions' heavy dependency on central government grants.

The above measurements also indicate that the central government controls most of the lucrative tax bases and collects the major share of revenue. The measurements do not fully confirm similarity in type of taxes used by regional governments and the pattern of the proportion of revenue collection from these sources. Nonetheless, two observations can be made. First, there are differences in the tax sources used by Tigray and the other two regions. One possible reason for this is the type of economic activity in the regions. The number of individuals involved in trading activity in Tigray is higher than in the other two regions. Amhara collects more tax revenue from agriculture-related tax because of the high peasant population as compared with the other two regions. Benshangul-Gumuz collects less tax revenue because of underdeveloped economic and agricultural activities in the region. Secondly, there is a similarity among the three regions: they collect more revenue from employee income tax than any of the other tax bases. There is also less divergence in tax collection in Amhara and Tigray during the eight-year period.

4.6 Summary and Reflections on Decentralisation Theories

This chapter discussed the legal framework and the practice of revenue assignment in Ethiopia. The legal framework on Ethiopian revenue assignment shares some of the criteria for revenue assignment suggested by the welfare economics model. The details of revenue assignment are partially structured according to the principles of the model. These include progressive and distributive taxes, like corporate income taxes, VAT, capital gains tax, and national lottery prizes, which go to the centre; and immobile taxes, like land-related taxes and user charges, which go to the regions. The assignment of two other tax bases to regional governments – tax on individual income and royalties for the use of forest resources – are not in line with the assumptions of the model, which suggests that these should be under the domain of the central government as they are instruments of stabilisation and distributive functions. Some writers who advocate assignment of individual income tax to lower levels of government suggest that lower levels of government cannot fully collect and utilise the proceeds of individual income tax but can only 'choose an add-on to the central government tax rate' (Bahl, 1999: 8).

The Ethiopian Constitution gives sub-national governments formal power to levy and collect taxes and have separate tax administration. However, some federal proclamations oblige the governments at both levels to use a unified and harmonised tax system to avoid overlapping taxation power between the central and regional governments. Such harmonisation contradicts the assumptions of the welfare economics model, especially Oates (1972), who advocates tax harmonisation only for highly mobile taxes but rejects uniform rates. In Ethiopia, however, by imposing uniform rates the central government reduces the regional governments' autonomy to differ from each other in response to own needs and demands. The institutional approach and the democratic decentralisation theory also advocate sufficient sub-national government taxation power – to enact tax bases and rates, and collect and use the proceeds for those taxes assigned to that level – for effective local autonomy and accountability. The anomaly in the Ethiopian case shows a situation 'where the centre gives with one hand and takes it with the other'. A similar observation was made in expenditure assignment.

The assumption of the welfare economics model that lower-level governments have more autonomy in tax administration is undermined by excessive central control and a poor revenue administration system. The Ethiopian case demonstrates that the three case study regions have independent revenue organs but their internal management has a uniform internal structure and the rules and procedures of tax registration, assessment, collection, record-keeping, and so on, are also similar. The tax bases and rates, with the exception of agricultural income and land use fees, are uniform throughout the three regions. The frequently amended manuals and directives from the centre are not coherent and clear and have resulted in a cumbersome tax collection system. The central support and coordination system is weak in enhancing regions' revenue-raising capacity, but effective in dictating a uniform system of taxation. Generally, in all case study regions the central government regulates tax administration, mandates salary levels of regional tax administration employees and provides uniform instructions on tax bases and rates.

The decision-making processes in revenue assignment are not in accordance with the original policy articulated in the Ethiopian Constitution. The House of Federation and House of Peoples' Representatives rubber stamp the decisions of the executive organ of the centre. Generally, as in the process to prioritise expenditure, issues concerning raising of revenue are decided at the central political level and those decisions are passed down as directives to regions. This practice breaches the formal power given to regional governments to set their tax laws and to participate in consultations on tax policy decisions. The regional political leaders, executives and councils simply accept instructions from the central party executive committee. The involvement of the bureaucracy, especially at the regional level, is invisible. The recently introduced taxes (VAT, tax on interest from bank deposits) and systems of taxation (presumptive taxation) are cases in point that show lack of regional government involvement in the decision-making process. The assumption of the welfare economics model that decentralisation would lead to innovation and creativity is not pertinent. The Ethiopian case shows that central dominance stifles regional governments' initiatives for raising revenue. As an informant told the author, the regions 'passively accept whatever revenue happens to come from whatever source'. As pointed out in the discussion on expenditure assignment, the central dominance hinders application of the welfare economics model's recommendation for innovation and flexibility in tax administration at lower levels of government and increased autonomy to lower levels of government in policy and implementation of assigned revenue sources.

The selection of tax bases as mobile or otherwise is also confusing in the Ethiopian context. The welfare economics model's assumption on mobility is based on the existence of a corporation or non-incorporated business that operates in or provides goods and services to different sub-national jurisdictions and uses inputs from different regions. Thus, assigning taxation power to each sub-national government involves setting different standards for transactions, tax rates and methods of administration, which would ultimately induce profound administration and compliance costs as well as locational inefficiency. The Ethiopian practice clearly shows that there is misunderstanding of the theoretical assumptions on mobility and misapplication of them. Mobility is measured in terms of the nature of business enterprises (sole proprietorship or partnership) and their working capital. Business organisations whose activities and services (buying of inputs and selling of outputs) are in most cases confined to one locality with no branches outside a given area, like restaurants, bakeries, small clinics and local hotels, are considered to be mobile economic units and come under the central government. Tigray and Amhara have serious concerns over this issue. This situation has also created an opportunity for the businesses to evade tax as it is very difficult for the central government to trace them and as they are not legally required to pay tax to regional governments. The assumption of the welfare economics model that local governments are capable of capturing local taxes because they are familiar with the local economic units does not apply in Ethiopia due to central government domination.

The assignment of profit and excise tax from non-incorporated businesses is another problematic issue in Ethiopia. According to Oates (1972) and Musgrave (1989), these taxes are considered highly progressive, mobile and productive and are recommended for the central government. This allows the centre to have enough resources to carry out its redistributive and stabilisation functions and to control unnecessary competition among regional governments in attracting businesses entities. The principle, however, can be waived if taxes are not highly progressive, are immobile or if earnings from the sources are meagre. In the

Ethiopian case, there is rigid application of the principle without adequate study of the yield from the tax base and the degree of mobility of business entities. Many of the economic units considered to be big and mobile business enterprises are in reality retail businesses that can be subject to retail sales tax. This situation has been a point of grievance for the Amhara and Tigray regional governments.

As indicated when discussing expenditure assignment in Chapter 3, the welfare economics model assumes that elections are a mechanism for revealing voters' expenditure/tax preferences. Tiebout's 'voting-with-feet' argument further considers that revenue assignment provides residents with the opportunity to choose jurisdictions that meet their preferences and lead to competition among lower levels of government. In Ethiopia the link between elections and revelation of tax preferences hardly exists; and lower-level governments have never made decisions on tax rates taking into account the preferences of their constituents. Thus, the argument by Smoke (1994) and Prud'homme (1995) that in the absence of political choice, there can be no mechanism to reveal tax preferences is valid in the Ethiopian case.

Although some proponents of the intergovernmental relations school question the validity of the welfare economics model's proposals on the division of taxation powers, the proposal is important. However, its application is wanting in the Ethiopian case. The main reasons for this are: many of the concepts (especially mobility) are misunderstood, voters' preferences on taxes are not considered, local elections are not effective, and the central government tightly controls tax policies and administration. This might induce one to appreciate the argument of the institutional approach that institutional differences may impair the relevance of theoretical principles developed in a first world context. The institutional approach suggestion that one should consider the political framework (elections and civil society participation), capacity, incentives, information, and so on, in the assignment of revenue sources is applicable in Ethiopia. The argument by Tanzi (2001) for establishing institutions related to the tax administrative system is relevant.

The intergovernmental relations school assumption, especially that of Shah (1999) on shared responsibility for tax design, administration and collection among levels of government, is crucial to alleviating some of the problems of revenue assignment in Ethiopia. This arrangement has the potential of mitigating the perennial evasion of profit and income tax by proprietorship and partnership businesses in the regions due to the administrative weakness of the central government in collecting such taxes, the lack of coordination in tax administration and collection among levels of government, and the dissatisfaction of the regional government over inability to treat taxpayers equally. Regional governments can be involved as collection agents and allowed some piggybacking on centrally determined taxes. Such a vertically coordinated arrangement can also be used in the future to effectively collect VAT taxes in the country. The need for cooperation and agreement as well as asymmetric decentralisation, as suggested by the intergovernmental relations school, is important to take into account. Nonetheless, given the disposition of Ethiopia's central political leadership to control the regional governments, the application of the school's proposal would be problematic.

The argument by one of the exponents of the intergovernmental school, Prud'homme (1990: 117-30), needs some careful consideration. He outlines four distinct models of centralisation/decentralisation of taxes and expenditure. These are: complete centralisation of taxes and expenditure, complete decentralisation of taxes and expenditure, centralisation of taxes and decentralisation of expenditure, and decentralisation of taxes and centralisation of expenditure. He recommends centralisation of taxes and decentralisation of expenditure for fair maintenance of the role of the central government in controlling macroeconomic magnitude (stabilisation). He describes that option as moderately good in responsiveness to local needs and realities (efficient allocation) and in enabling important subsidies to be given by the centre to local governments (distribution). The suggestion is especially applicable in poor countries where local governments have a meagre economic base. However, the application of the option is problematic. In a big country like Ethiopia, with poor infrastructure (road network and communications), dispersed local environments and economic bases, and inadequate capacity at the centre, it would be difficult for the centre to concentrate all the tax bases. Central control perpetuates centralisation and regional dependency, and completely de-links expenditure and revenue assignment (Bahl, 1999). Moreover, as Tanzi (2001: 12) points out, reversing the decision on revenue decentralisation once a country has officially declared it as a policy would be problematic. It is preferable, as Shah (1998) suggests, to make adjustments and create appropriate and viable revenue responsibility-sharing mechanisms, and, as proposed by Tanzi (*op. cit.*), improve institutions for effective implementation of revenue assignment.

New public management proposals on charges and vouchers are not attainable in the near future. The observation by Bird (1993: 212) that the use of improved user charges to finance local government remains more potential than reality holds true in Ethiopia. Regional governments' revenue collection from user charges is very low and is likely to remain so because of lack of autonomy to mobilise local resources and poor revenue administration.

The argument of democratic decentralisation for local government accountability and people's participation in deciding local services and local taxes is relevant. The assumption of the theory, which links democratic governance with people's willingness to pay more taxes and avoid tax evasion, explains the situation in Ethiopia. While a deeper study that includes surveys of taxpayers could provide richer insights, the author's interviews with regional officials and experts do confirm the validity of the democratic decentralisation predication.

Generally, the fiscal position of regional governments in Ethiopia is far from satisfactory. The Ethiopian case is additional evidence to that in the literature showing the problems of revenue assignment to lower levels of government in developing countries.[47] The analysis of the three case study regions reveals that they lack sufficient resources and freedom to alter the level and composition of their revenues. It also shows that the distribution of tax revenue is heavily inclined towards the federal government and that regions have inherently weak revenue sources and tax bases that are difficult to collect. On the basis of data on total national revenue from different types of taxes between 1993/4 and 1999/2000, the study found that the federal government's average share of the revenue collection was 83 per cent. On average, regional governments collected only 17 per cent of the national revenue. This shows that regions have limited access to tax sources. The two tax bases that are covered by laws enacted by regional governments – agricultural income tax and rural land use fees – only contributed 2.3 per cent of the aggregate national revenue. The major source of tax revenue for the three regional governments is employee income tax, which indicates a degree of similarity among the regions in the pattern of collection and weakness in revenue mobilisation. The highly centralised tax system and weak revenue collection by regional governments make the two expected important outcomes of revenue assignment - local autonomy and local accountability – problematic to achieve.

To sum up, the Ethiopian case demonstrates that revenue assignment is a complex issue. The analysis in this chapter has indicated that central dominance and poor tax administration limit revenue assignment in Ethiopia. This has led to ineffective application of the welfare economics model and the other decentralisation theories on revenue assignment. The complexity of the issue is further reflected in the question: Would there be any possibility of regions being capable of raising enough revenue if the central government provided effective taxation power, given the country's poverty, weak private sector, and inadequate economic base? In other words: Would sub-national governments in countries like Ethiopia be able to raise enough revenue from property taxes, user charges and fees, or, as NPM suggests, from vouchers and cost-recovery charges, if the central government allowed them to do so?

In the Ethiopian context, these complex issues demand investigation of two critical problems. The first is failure in the design of the Ethiopian revenue assignment system, which was not based on proper conceptualisation of the theories. There was no attempt to consider the revenue potential of regional governments and that of the country by relating expenditure assignment to revenue assignment, understanding the political and administrative system at regional and central government level and securing consensus among the various stakeholders. It was important to keep in mind the rule of fiscal decentralisation by Bahl (1999), which states that economically efficient assignment of revenues requires knowledge of expenditure assignment. The theory of democratic decentralisation, which emphasises the need for local political inclusiveness, gives a partial answer to the problem. The second critical problem is the heavy-handedness of the central government, which has constrained regional governments' power, initiative and flexibility. This has not only limited the autonomy of regional governments and facilitated similarity in the pattern of revenue collection among the regions, but also restricted application of the proposals of the decentralisation theories on revenue assignment. Of course, this does not apply to all the theories; this study argues that some of the decentralisation theories fail to consider the administrative and political factors that shape revenue assignment in countries like Ethiopia. As with expenditure assignment, understanding the administrative and political institutional arrangements that shape revenue assignment is necessary.

At present regional governments are in a poor fiscal position and are dependent on central government subsidies, which could possibly further undermine the autonomy and vitality of decentralised decision-making as well as induce regional governments to underutilise their own tax bases. In this light, the next chapter discusses intergovernmental fiscal transfers.

Notes

1 The objectives and principles are found in articles 3 and 4 of Federal Proclamation no. 3/1992. They are also referred to in the minutes of the 94th regular meeting of the Transitional Government Council (April 1994) and the 21st meeting of the House of Peoples' Representatives 1996.

2 World Bank (2000: 16) observes that 'Tax assignment in Ethiopia is somewhat unusual in the sense that the jurisdictions of the federal and regional governments are, to a considerable extent, structured according to taxpayer categories rather than by type of taxes.' The same observation is made in 'Study on Revenue Assignment within the Tiers of Regional Governments' by Ministry of Capacity Building (2002a, in Amharic).

3 This is simply a copy of Proclamation 33/1992, which was developed by the Transitional Government when regional self-governments had not yet been formally established.

4 Interview with official of the Ministry of Finance and Economic Development (Addis Ababa, May 2004). The information was also reported in the 'Minutes of the 94th Regular Meeting of the Transitional Government Council' (April 1994).

5 Interview with official of the Ministry of Finance and Economic Development (Addis Ababa, May 2004).

6 Extracted from the Finance Minister's speech, 'Minutes of the Workshop Organised by the House of Federation and Regional Representatives to Discuss Joint Revenue Issues and Undesignated Taxes' (Addis Ababa, August 2002, in Amharic).

7 Interview with an official of the Revenue Department in Amhara Region (Bahirdar, January 2004).

8 'Minutes of the House of Federation, 2nd year, 2nd meeting' (March 1997).

[9] The House of Federation is granted this power by article 62(7) of the federal Constitution (1995).

[10] 'Minutes of the House of Federation, 2nd year, 2nd meeting' (March 1997).

[11] *Ibid.*

[12] However, the assumptions on mobility and externality may apply in the developed world, where there are multi-national corporations, local corporations or big enterprises selling their goods and services beyond the jurisdiction of a given sub-national government and using inputs from different regions.

[13] 'Minutes of the Workshop Organised by the House of Federation and Regional Representatives to Discuss Issues of Joint Revenue and Undesignated Taxes' (Addis Ababa, August 2002, in Amharic). The discussion was based on information collected from regions from June to August 2002 by members of the House of Federation.

[14] 'Minutes of the Discussion Among Members of the House of Federation, Representatives from Regional Governments and Federal Government Officials, Organized by the House of Federation, Addis Ababa, January 2003.'

[15] This statistic was given by the Finance Minister (*Ibid.*).

[16] The admission came from the Revenue and Finance Ministers (*ibid.*).

[17] Interviews with a Tigray Revenue Department official (Mekele, October 2003) and Amhara Revenue Department official (Bahirdar, January 2004).

[18] 'Minutes of the Discussion Among Members of the House of Federation, Representatives from Regional Governments and Federal Government Officials', Organized by the House of Federation, Addis Ababa, January 2003.

[19] *Ibid.*

[20] *Ibid.*

[21] Value added tax is charged at a standard rate of 15 per cent. It is not levied on taxable transactions such as export of goods and services. Turnover tax is charged at 2 per cent on goods and services sold locally, contractors', grain mills, tractors and combine harvesters; and at 10 per cent on other goods and services.

[22] Proclamation no. 173/61 and Legal Notice no. 252/62, issued during Emperor Haile Sellassie regime, had set the following bands for income tax: in category A were businesses with an annual turnover of Br. 250,000 or more; in category B were those with a turnover of between Birr 48,000 and Br. 250,000; and in category C were those with a turnover of less that Birr 48,000. Federal Proclamation no. 286/2000 has introduced new bands: category A covers value added taxpayers or any business having an annual turn-

over of Birr 500,000 or more; category B covers turnover taxpayers or any business having an annual turnover of Birr 100,000 – Birr 500,000; and category C covers presumptive taxpayers or any business having an annual turnover of up to Birr 100,000.

[23] The new taxes were introduced as part of a programme to revamp the system of tax policy and administration. The programme has five sub-programmes: tax laws and policy; taxpayer identification numbers; a presumptive taxation project; implementation of the value added tax; and operation, system and procedures, high taxpayers, branch offices structure, taxpayer education and publicity. The programmes are coordinated by the Federal Ministry of Revenue and run by a unit staffed by 11 experts (nine nationals and two expatriates). Another tax reform task force comprising representatives of the different federal ministries advises on the overall operation. The final decisions regarding the tax reform programme outputs are made by a ministerial committee led by the Super Ministry of Capacity Building.

[24] Ministry of Revenue (2004) 'Tax reform Program Task force Report'. Addis Ababa.

[25] 'Minutes of the Workshop Organised by the House of Federation and Regional Representatives to Discuss Issues of Joint Revenue and Undesignated Taxes' (Addis Ababa, August 2002, in Amharic).

[26] 'Minutes of the 44th Regular Meeting of the House of Peoples' Representatives' (2002).

[27] An informant in the Amhara region Revenue Department, Bureau of Economic Development and Finance told the author that the centre had released the share of the region in the VAT collected, but he was not quite sure how the figure had been reached and which taxpayers had paid the VAT (Interview, Bahirdar, February 2004).

[28] Interview with an official of the Ministry of Finance and Economic Development (May 2004, Addis Ababa).

[29] This is also documented in the 'Minutes of the Workshop Organised by the House of Federation and Regional Representatives' (Addis Ababa, January 2003, in Amharic).

[30] Interview with two members of Parliament (Addis Ababa May 2004).

[31] Interview with Revenue Department officials in Amhara (Bahirdar, January 2004) and Benshangul-Gumuz (Assosa, October 2003). In Benshangul–Gumuz the official revealed that the region had simply copied its tax rates from another region, Southern Nations, Nationalities and Peoples.

[32] This information was given at the 39th regular meeting of the House of People's Representatives (July 1997).

[33] *Ibid.*

[34] This structure was developed by the centre and passed to the regions. However, most of the positions are usually vacant or filled by under-qualified individuals. During the field research, the author observed that most of the positions are vacant. The problem is most serious in Benshangul-Gumuz. In August 2003, of the required 10 employees, there were only four (a section head for revenue assessment, section head for revenue collection, an accountant and an expert).

[35] Ministry of Revenue (May 2002) 'The need and content of the tax reform program for public discussion' Addis Ababa (in Amharic).

[36] Tenants and landlords often reach an informal arrangement under which there is no legal notice signed between both parties.

[37] Tigray and Amhara regional governments recently enacted income tax laws in which there were some minor adjustments to what the centre had specified.

[38] There are three categories of taxpayers. Category A are required to maintain balance sheets and profit and loss statements. Category B have to keep profit and loss statements (or, under the old law, statements of daily revenue and expenditure). Category C taxpayers are not expected to maintain account books and tax is levied on the basis of an estimated assessment (or, under the new law, through standard assessment). If a taxpayer fails to declare his or her income within the time specified by law, the tax authorities assess the tax by estimation. The income tax authority also has the right to verify statements made by taxpayers and to send inspectors to check records, account books, vouchers and stocks maintained by them.

[39] Regional tax agents have authority over the taxpayer. In most cases, there are informal relationships between the tax agent and the taxpayer, which could result in corruption and tax evasion.

[40] The new practice started in Addis Ababa. Tax assessment committees estimate the taxpayers' yearly turnover by visiting every trader. The estimated amount is used to calculate the tax, using the standard presumptive tax rate determined by the centre. That amount then remains unchanged for three consecutive years.

[41] 'Minutes of the 39th Regular Meeting of the House of Peoples' Representatives', Addis Ababa, 1997.

[42] However, in the absence of proper records on taxpayers, there is no way to determine how many businesses failed to pay taxes.

[43] 'Minutes of the workshop Organised by the House of Federation and Regional Representatives to Discuss Issues of Joint Revenue and Undesignated Taxes (Addis Ababa, August 2002, in Amharic).

[44] Benshangul (Assosa, August 2003), Tigray (Mekele, October 2003); Amhara (Bahirdar, February 2004).

[45] The Revenue Minister has also identified lack of clarity of the proclamations and the difficulty taxpayers have in understanding them as one of the critical problems in Ethiopian tax administration. Ministry of Revenue (May 2002) 'The need and content of the tax reform program for public discussion' Addis Ababa (in Amharic).

[46] 'Report of the Revenue Minister at the 4th 'Federal and Regional Governments' Financial Sector Joint-Forum' (Jijiga, October 2003).

[47] The literature indicates that the problems are mainly, among others, weak national and local economies; nationally imposed tax policies (local taxes are in reality national taxes); inconsistently defined, intrinsically unstable and poorly administered revenue bases; tax bases and rates that are unresponsive to population growth, increased service demand and inflation.

5 Intergovernmental Fiscal Transfers and Sub-national Borrowing

5.1 Introduction

Fiscal transfers from the central government to sub-national governments are one of the basic elements in intergovernmental fiscal relations. The decentralisation theories discussed in Chapter 2 provide different perspectives and proposals regarding objectives and types of transfer systems as well as modalities of designing and administering them.

The welfare economics model recognises that the assignment of revenue and expenditure among the levels of government cannot always result in efficient resource use. Oates (1972) labels this 'imperfect correspondence in the provision of public goods'. The model proposes different grant objectives and forms. Musgrave (1998) and Oates (*op. cit.*) recommend grants to correct differences in fiscal capacity or per capita income among lower levels of government; equalising the terms of provision for particular public services, and correcting externalities or benefit spillovers. Both authors propose matching grants to ensure an adequate level of basic public services and to correct positive externalities. To maintain horizontal equity among sub-national governments, Oates prefers unconditional grants; Musgrave, however, suggests matching grants. Both agree that revenue sharing in a form of unconditional grants would maintain an equitable and efficient overall tax system. The model cautions that grants should not interfere with the decision-making power or autonomy of lower-level governments.

The intergovernmental relations school proposes fiscal transfers from the centre to sub-national governments to resolve the mismatch between revenue and expenditure. Whilst it agrees with the three objectives of grants proposed by the welfare economics model, it suggests an additional one – bridging fiscal gaps or vertical imbalance through general non-matching transfers. An exponent of the school, Winkler (1994), suggests sector-specific grants or categorical grants for correcting differences in fiscal capacity and needs, but rejects unconditional grants. Nonetheless, Shah (1998) suggests block grants, albeit not under all circumstances and for all purposes. The school also provides guidelines for designing and administering intergovernmental transfer programmes. These include: determining grants objectively and openly; applying a well-established formula (transparent, simple and based on credible factors); giving responsibility to an administrative agency; making grants relatively stable from year to year to permit rational sub-national budgeting; and determining the grant pool as a fixed proportion of total central revenues subject to renegotiation every three to five years (Shah, 1994).

The institutional approach follows the proposals of the intergovernmental relations school. The approach links institutions with the transfer system. For instance, it suggests an inbuilt incentive structure (like expenditure and performance conditionality) to reward efficiency and accountability, penalise unwanted political goals and promote the provision of important services (health and education) by sub-national governments. The new public management theory criticises the heavy emphasis on the grant system. It also rejects formula-based or input-based grants and recommends competitive and output-based grants, that is, those that have market characteristics. The theory of democratic decentralisation has no specific proposals on intergovernmental fiscal transfers. The theory follows the recommendations of the intergovernmental relations school and emphasises the need for a transparent and participatory intergovernmental fiscal transfer system.

This chapter analyses the practice of intergovernmental fiscal transfer in Ethiopia. First, it discusses the vertical and horizontal imbalances in Ethiopia, which are widely considered to be twin outcomes of a mismatch between expenditure and revenue assignment. Second, it examines the legal framework and role of the central and regional governments in deciding the distribution pool and transfer formulas (indicators and weights) and the administration of Ethiopia's intergovernmental transfer system. Third, it examines application of decentralisation theories on fiscal transfer systems to Ethiopia. Finally, it explains sub-national borrowing, on which there is little discussion because regional borrowing in Ethiopia has been scanty.

5.2 Vertical and Horizontal Imbalances in Ethiopia

The analysis in Chapter 4 showed that from 1993 to 2000, the central government collected on average 83 per cent of the aggregate national revenue, compared with 17 per cent collected by regional governments, and that this has remained unchanged over the past decade. Some of the major reasons for the low regional revenue collection are weakly articulated design of revenue and expenditure assignment, poor revenue administration systems and central government control over high-revenue-yielding tax bases and its dominance in regional decisions concerning revenue rates, bases and tax administration. Vertical imbalance in Ethiopia – which is the disparity between own revenue and expenditure at regional government level – results from central dominance over the regions.[1]

Table 5.1 shows indices of vertical imbalance calculated using a standard formula; that is, subtracting from 100 per cent the calculated regional share of total national revenue over regional share of total national expenditure. The index value approaches zero when sub-national governments are fully financing their expenditure; it approaches one when sub-national governments are completely dependent on the centre to finance their expenditure. The indices are calculated from expenditure and revenue data provided in the earlier chapters (see Appendices G and K).

The vertical imbalance indices in the table are high, indicating that regional governments are not covering their expenditure needs from their own revenue sources. Whilst this is a common phenomenon in many federalised countries, the vertical imbalance in Ethiopia is relatively high in comparison with some federalised countries. For instance, World Bank (2000a: 25) provides the following vertical imbalance indices: Argentina, 0.03 (1995); Australia, 0.24 (1996); Germany, 0.15 (1996); India, 0.28 (1995); Mexico, 0.36 (1994); and South Africa, 0.88 (1995).[2]

The vertical imbalance in Ethiopia was low at the beginning of the seven-year period. It increased for three consecutive years and then started to decline. The regional expenditure and revenue values in the table indicate that the decline in vertical imbalance is not due to increase in regional revenue collection, but, rather, to decrease in regional government expenditure. The coefficient of variation, at 25 per cent, is not high, showing little divergence in vertical imbalance during the period.

Table 5.1

Vertical imbalance in Ethiopia, 1993/4 – 1999/00

	1993/4	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	Average
Regional share of total expenditure (%)	34.40	38.30	41.20	43.50	39.60	30.50	23.30	35.820
Regional share of total revenue (%)	17.70	15.00	16.20	17.20	19.00	16.40	17.40	16.980
Vertical Imbalance	0.49	0.61	0.61	0.60	0.52	0.46	0.25	0.51

Source: Data in Appendices G and K.

Table 5.2

Horizontal imbalance in Ethiopia, 1994/5 – 2001/2

	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2	AV	STD	CV
Tigray	0.20	0.29	0.26	0.25	0.26	0.29	0.26	0.23	0.25	0.03	0.12
Amhara	0.17	0.19	0.19	0.20	0.20	0.24	0.20	0.21	0.20	0.02	0.09
B-Gumuz	0.07	0.06	0.06	0.07	0.06	0.10	0.08	0.08	0.07	0.01	0.18

Notes: AV = average; STD = standard deviation; CV = coefficient of variation.
Source: Data in Appendices G and K.

Horizontal imbalance is the second outcome of the mismatch between revenue and expenditure assignment. The horizontal imbalance index measures differences among regional governments' capacity to cover their expenditure needs from their revenue means. When the index, which is the ratio of regional revenue to regional expenditure, approaches one, a region has the capacity to finance its expenditure; when the index approaches zero, it does not have that capacity. The indices in Table 5.2 are worked out using expenditure and revenue data provided in earlier chapters (see Appendices G and K).

The three regional governments are clearly not capable of financing their expenditures. However, Tigray is relatively better off than the other two regions. Benshangul-Gumuz, which finances 7 per cent of its expenditure on average, is worst off. The table shows not only the existence of horizontal imbalance among the regional governments, but also the lack of change during the eight-year period. The standard deviation and coefficient of variation for each region are small, indicating no change in horizontal imbalance. Thus, there has been no alteration in the horizontal imbalances observed at the beginning of the Ethiopian decentralisation reform, which are caused due by many interrelated factors, especially differences in regions' historical and political development, type of economic activities, population and area.

The discussion on vertical and horizontal imbalances in Ethiopia brings out central government dominance over the regions' revenue assignment and the weak capacity of regions to finance their expenditure from own revenue sources. World Bank (2000a: 26) finds that regional governments were able to finance, on average, 30 per cent of their expenditures from their own revenue sources, with the federal government financing the remaining 70 per cent. The regional financial capacity would be much lower than 30 per cent if the two major urban areas, Addis Ababa and Diredawa, were taken out of the calculation.
During the past decade, the central government has been trying to correct the horizontal imbalance through fiscal transfers. Table 5.3 shows the central subsidy as a percentage of total national expenditure.

The regional government subsidy as a percentage of total national spending was on the average 24 per cent. The coefficient of variation is not large, indicating somehow a constant trend in the subsidy percentage over the eight years. Taking 1995/6 as the base year, total national expenditure and the regional subsidy increased by 128 per cent and 81 per cent respectively by 2002/3. Given the high dependency of regional governments on subsidies, the data indicate the dominance of the central government in total national expenditure. In the fiscal year 1999/0, the share of the regional subsidy was low, perhaps because of the Ethiopia-Eritrea war.

Table 5.3
Regional governments' subsidy as percentage of total national expenditure, 1995/6 – 2002/3

	Regional subsidy (bn. Birr)	**National expenditure (bn. Birr)**	**Subsidy (%)**
1995/6	2.61	9.21	28
1996/7	3.02	9.99	30
1997/8	3.23	11.33	28
1998/9	2.93	14.92	20
1999/00	2.59	17.18	15
2000/1	3.86	15.38	25
2001/2	3.92	16.68	24
2002/3	4.72	21.04	22
CV			19

Note: CV = coefficient of variation.
Sources: Data in Appendix L for subsidies; World Bank (2001b, 2004) for total national expenditure. Data for 2002/3 are estimates and the rest are pre-actual data.

Intergovernmental fiscal transfer in Ethiopia – referred to as regional subsidy – takes different forms. The first is unconditional or block grants, which in practice have both unconditional and conditional elements. They include transfers from foreign loans and external assistance, which are specific and involve matching funds; and transfers from the central government Treasury, which are unconditional. The second transfers are restricted grants for specific purposes and include transfers from the Road Fund, the Ethiopian Social Rehabilitation and Development Fund (ESRDF) and funds for HIV/AIDS, Food Security, Water Harvesting, and so on. However, the funds from the restricted grants are not included in the annual budget subsidy and thus are not accounted for by the central and regional Treasuries. This chapter analyses transfers that are officially regarded as 'block grants' and are accounted for and transferred through formal government arrangements.

5.3 Legal Framework for Fiscal Transfers

The initial legal framework for intergovernmental fiscal transfers was Federal Proclamation no. 33/1992, issued by the Transitional Government of Ethiopia. Article 7 of the proclamation listed the objectives of regional subsidies including promoting social services and economic development of regions; accelerating development of historically neglected regions; narrowing the gap in per capita income among regions; and controlling negative economic externalities and strengthening activities with positive externalities. The country's 1995 Constitution contained similar types of objectives. Article 89 of the Constitution declared that 'the government has the duty to ensure that all Ethiopians get equal opportunity to improve their economic conditions and to promote equitable distribution of wealth among them and to provide special assistance to Nations, Nationalities and Peoples least advantaged in economic and social development.'

The Constitution conferred power to determine and approve subsidies on the House of Federation. The Ministry of Economic Development and Cooperation was given the responsibility of drafting the regional subsidy proposal by Council of Ministers Regulation no. 17/1997. Later, Proclamation no. 251/2001 gave powers of both, preparation and determination of the subsidy, to the House of Federation.[3] Article 35 of the proclamation declares that 'the House shall set a reliable and an ongoing improvement formula of subsidies which the federal government may provide to the states, based on the information it secures from relevant executive organs'. The House is also responsible for undertaking studies to assess the impact of subsidies and for taking corrective measure to rectify defects in the intergovernmental fiscal transfer system.

The legal framework provides guidelines for notification of subsidy, audit and reporting. Council of Ministers Regulation no. 17/1997 instructs the federal government to advise the state governments of their budget subsidy ceilings in time for them to prepare their annual regional budgets. Article 94 of the 1995 Constitution gives the federal government power to audit and inspect the proper utilisation of subsidies by the regions. The Ministry of Finance has the official power to access regional financial accounts in order to conduct audits on the utilisation of subsidies received from the federal government.

The above discussion yields three observations. First, the overriding priority of Ethiopia's intergovernmental transfer system is to correct horizontal imbalance (maintain equity) and externalities. Second, regional governments' power or degree of involvement in decisions regarding determination of the distribution pool and transfer formula is limited to providing information and requesting subsidies (Proclamation no. 33/1992 and Council of Ministers Regulation no. 17/1997). Third, the power and involvement of the House of Federation and House of Peoples' Representatives in decisions regarding determination of the distribution pool lacks clear specification.

The legal framework for intergovernmental fiscal relations upholds one of the objectives specified by the welfare economics model: narrowing horizontal inequalities. It also shares some of the principles suggested by the intergovernmental relations and institutional approaches, which give the federal government power to monitor sub-national governments' use of grants and emphasise the need for timely notification of subsidies and development of a reliable formula. The following sections discuss how the intergovernmental fiscal transfer system in Ethiopia has operated during the past decade.

5.4 Determining the Distribution Pool in Practice

Determination of the distribution pool involves complex economic and political variables. Schroeder and Smoke (2003) present three basic approaches to determine the size of the distribution pool: on the basis of a fixed proportion of central government revenue or GDP; on an ad hoc basis or annually in the same way as any other budgetary expenditure, and on the basis of a formula linked to the spending plans of sub-national governments. Both the intergovernmental and institutional approaches recommend the first approach. Bahl (2000: 5-9) elaborates the three approaches as follows:

- ***Shared taxes:*** The central government allocates a share of the national collection of some taxes to sub-national governments. This approach has the advantage of offsetting the mismatch between sub-national expenditure and revenue. It is widely used in many developing and transition countries.

- ***Ad hoc transfers:*** This is a centralised approach, which gives full discretion to the parliament or the head of state to decide the pool. It is subject to political manipulation and is non-transparent. The central government has maximum flexibility to implement a fiscal stabilisation programme or to reduce fiscal transfers at times of fiscal austerity, to change spending priorities without changing expenditure assignment, and to offload the budget deficit to sub-national governments by reducing transfers. For sub-national governments it creates great uncertainty about the flow of funds, which discourages effective fiscal planning and budgeting, leads to weak accountability at the lower level and could give local leaders sufficient pretext to blame the centre for any service delivery failure. Despite its shortcomings, it is a widely used approach.
- ***Cost reimbursement:*** Under this system, the pool is determined by considering the services that the central government wants sub-national governments to deliver. The pool can be open-ended (the central government covering all expenditure) or close-ended (the central government covering only a certain level of expenditure). As it carries conditionalities, the approach allows the central government to invest in high-priority national needs, ensure uniformity of standards across the country and control the amount of funds allocated to sub-national governments. It can result in compromising local choice or discouraging local initiative and retarding true fiscal decentralisation. It can also impose monitoring costs (to ensure satisfactory performance) on the central government and compliance costs (frequent reports on the use of funds) on sub-national governments.

In principle, the process of determining the distribution pool entails three considerations: the decision requires comprehensive review of central and regional governments' expenditure needs and revenue means; the pool should provide levels of government with adequate resources subject to overall resource constraints; and the pool has to be predictable and stable in order to enable governments to plan expenditures from the short-, medium- and longer-term perspectives adequately (Schroeder and Smoke, 2003).

In Ethiopia, the determination of the distribution pool is ad hoc and follows the same procedure as the annual budget decisions. The initial step is projecting the countrywide total resource envelope (forecasts on GDP, federal and regional revenues, external loans and assistance, and domestic borrowing) as well as federal and regional recurrent and capital expenditure requirements.[4] The second step is determining the pool annually by subtracting federal recurrent and capital expenditure (Treasury funding) from the total national resource envelope. If the pool is not sufficient to cover regional expenditure, there is a trade-off between regional capital expenditure and federal capital expenditure financed from the central Treasury. The Ministry of Finance and Economic Development, in consultation with the Economic Affairs Department of the Office of the Prime Minister, follows the above two steps and drafts the distribution pool proposal. A special committee in the Council of Ministers, chaired by the Prime Minister, gives final approval. The full session of the Council of Ministers rubber stamps the proposal. Finally, the House of Peoples' Representatives authorises it during the annual budget session.[5]

During the last decade, the House of Peoples' Representatives has never made revisions or readjustments to the distribution pool after the Council of Ministers committee has approved it. However, the debates in the House of Federation indicate that at times some members have been dissatisfied. For instance, the minutes of the 55th regular session of the House (June 1997) and of the 1st year, 4th regular meeting (September 2000) record that some members questioned the accuracy of the information base and the decision-making process, and demanded a change from the annual ad hoc approach to central government revenue sharing. The central executive body responded by summarising the procedures followed and explaining the challenges of adequately forecasting aggregate national revenue resources and developing an adequate revenue-sharing formula. The challenges were, among others, difficulty of predicting revenue from taxes on imports and exports, especially from coffee exports as the international price of coffee is volatile; unreliability of the GDP forecast as it is affected by unexpected natural and man-made calamities; lack of national and regional revenue capacity studies; and requirement by international financial institutions to contain the budget deficit and domestic borrowing.[6] A Ministry of Finance official told the author, 'Some members of parliament, who are not members of the ruling party, have raised questions regarding the share of regions versus the centre and the share of regions versus allocation for military expenditure, but there have never been any alterations to address such issues' (Interview, Addis Ababa, May 2004).[7]

Informants in Amhara and Tigray revealed that some high-level and middle-level regional bureaucratic officials had demanded that the system of allocating residuals to the distribution pool be changed and that the regional governments should participate in the decision-making process.[8] However, the regions have neither influence nor direct representation in the Council of Ministers. Some informants observed that, despite this, there is political will at the centre to help the regions. As one put it, 'Whilst regions are not represented in the decision-making process, there is political will on the part of the central political leadership to increase the share of the regional governments and to fill unexpected fiscal gaps of regional governments.'[9] A case in point was the salary increment (cost of living adjustment) for civil servants throughout the country in 1997/8, which was decided and financed by the central government. Nonetheless, the constant subsidy percentages in Table 5.3 suggest that whatever political will there is, the change in the regions' dependency on the centre is limited.

In general, during the past decade, distribution pools have been determined ad hoc and without adequate information. The literature indicates that ad hoc determination gives the central government maximum flexibility to respond to national fiscal conditions; however, it also creates revenue uncertainty for sub-national governments and thus undermines fiscal planning while exposing them to fluctuating economies and the vagaries of political negotiation. In Ethiopia, the possibility of uncertainty arising out of political negotiation is non-existent. There has never been adequate discussion among members of parliament, and when doubts have been expressed, they have never altered the decisions made by the political leaders at the centre. Regional governments, for their part, have never been involved in the decisions on important issues that determine their annual subsidy.

5.5 Ethiopia's Experience in Formulating and Approving Fiscal Transfer Formulas

The distribution of the transfer pool across sub-national governments involves a number of approaches. These include tax-sharing transfers, cost-sharing transfers, transfers allocated on the basis of an objectively defined formula, and ad hoc decisions by the granting authority. In Ethiopia, the last two methods have been in use; ad hoc transfers were made during the initial year and formula-based transfers have been in place since 1994/5. The next sub-sections analyse the decision-making process and content of the transfer formula during the past decade.

5.5.1 Intergovernmental fiscal transfers during Transitional Government period

Ad hoc fiscal transfers to regions began in 1993/4. At that time, the centre decided transfers for recurrent expenditure on the basis of regional requests; and for capital expenditure (education, health and roads) on the basis of regional population and priority to war-affected and lagging regions. The transfers were reduced by the amount of regional own revenue collection. This had an element of equalising regional governments' fiscal capacity. Regional governments that were able to mobilise more revenue than expected by the centre had the privilege of using the extra money. The central political leaders considered this an incentive for the regions to collect more revenue.[10] There was little debate in the Transitional Government Council as transfers were a new development and the regions were not asking for bigger budgets. For instance, Benshangul-Gumuz was not even capable of developing its own budget and experts from the centre had to give it technical support to do so.[11]

In 1994/5, the transfers were based on a formula. Capital expenditure grants were determined on the basis of five indicators: population (30 per cent); I-distance (25 per cent); tax effort (20 per cent); capital expenditure in 1992/3 (15 per cent) and area (10 per cent). The I-distance indicator measured the degree of underdevelopment in each region. The calculation was complex and covered the length of rural roads, share of rural population in total population, per capita industrial production, per capita crop production, density of telephone lines, number of post offices, hospital beds per head of population, and number of pupils in primary school per head of population. Tax effort was measured by the ratio of the regional government's own revenue to its expenditure. Recurrent expenditure grants were determined separately on the basis of the number of zones and *woredas* in the region, structure of the bureaus, number of civil servants, expenditure needed for maintenance of rural roads and the 1992/3 recurrent expenditure.

The 1995/6 grant formula made no distinction between capital and recurrent expenditure and used three indicators: population (33.3 per cent), I-distance (33.3 per cent) and budgeted state revenue (33.3 per cent). The first two indicators were meant to address horizontal imbalances and the third to provide an incentive for regions to generate more own revenue.

The above three formulas were used during the transition period. There were changes from ad hoc determination to a formula-based approach and from separate formulas for capital and recurrent expenditure to a single formula for both. The process of preparing and approving the transfer proposal was similar in all cases: after the Ministry of Economic Development and Cooperation used the formula to determine the regional subsidies, the Council of Ministers, dominated by the TPLF, endorsed it and the Transitional Government Council rubber stamped it.[12] During the discussions, only some members of the Transitional Government Council requested additional subsidies for their respective regions. Among these were members belonging to the Gambella People's Democratic Party and Horial Democratic Party in 1994/5 and 1995/6.[13]

5.5.2 Intergovernmental fiscal transfers after Transitional Government

The decision-making process and the calculations used to determine regional subsidies came under increasing criticism after regional governments were formally established, the 1995 Constitution ratified and the House of Peoples' Representatives and House of Federation established.

In 1996/7 the grant formula developed during the transition period was applied with minor modifications.[14] The Ministry of Economic Development and Cooperation used the modified formula to prepare the proposal, the Council of Ministers approved it, and both the House of Federation and House of Peoples' Representatives debated and endorsed it. During the approval process, some members of the House of Federation demanded an improved formula; the Minister of Economic Development and Cooperation responded that the formula was being revised but lack of adequate data on the regions was hindering the process. Some members of the House of Peoples' Representatives also expressed doubts about the validity and reliability of the information used to determine the grant. They observed that the 1994 census had not covered all the regions, especially Somali, and had been manipulated by the central political leadership; the data on regional revenue collection were erroneous; the decision-making process for determining the subsidies and preparing the proposal was not transparent; and the application of the budget offset system, which subtracted a region's own revenue from its subsidy, was unacceptable. However, members of the Executive responded that the House of Peoples' Representatives could not challenge the allocation decisions because the House of Federation, which had the constitutional mandate to decide the allocations, had already approved them. After the debate, the subsidy was accepted without alternations. Of the 488 members attending the session, only two objected to the proposal.[15]

In 1997/8, the Ministry of Economic Development and Cooperation developed a modified grant formula with three indicators: population (60 per cent), development index (25 per cent) and revenue effort (15 per cent). Thus, I-distance was replaced by a new development index encompassing six sub-indicators: education, health, road density, telephone lines, electricity consumption, and access to potable water.[16] The following issues were raised during the debates in the House of Federation and House of Peoples' Representatives.[17]

- Regional representatives demanded different approaches. Benshangul-Gumuz, which has a smaller population and revenue collection capacity than Amhara and Tigray, rejected weights attached to population and revenue. Amhara, which is relatively better off, condemned the weight attached to the development index. Tigray, which has better development but a relatively small population, felt that both indicators were to its disadvantage. Whilst Amhara and Tigray opted for exclusion of the sub-indicators for telephone lines, electricity consumption and asphalt roads, Benshangul-Gumuz argued for their inclusion. The region also demanded a shift from the use of a uniform formula to a special allocation system to improve its infrastructure.
- Regional representatives suggested a plethora of indicators and sub-indicators. These included, among others, poverty, food security, intra-regional income disparity, urban and rural population, unit cost of construction, regional climatic conditions, availability of construction materials, distance, area, capacity, and incentives for fiscal performance. They contested the data used to calculate the allocations (for population, revenue raising, education, health, electricity consumption, and telephone lines) and the process of designing the formula, which was not contextualised to the country's reality but simply copied from the experiences of Germany and India.

- Representatives of the central Executive, especially the Ministry of Economic Development and Cooperation, gave the following responses: regions that were disadvantaged in terms of population would be compensated by the development index; indicators for poverty and food security had not been included because those problems were caused by natural disasters and required central intervention; indicators for electricity consumption, telephone lines and asphalt roads had been included to measure the degree of development in a region; and population had been assigned more weight to maintain equity in national resource distribution. The Minister of Economic Development and Cooperation told the House of Peoples' Representatives that information from federal offices had been used to calculate the subsidy because the data submitted by the regions were unreliable. 'In 1996/7, regions were once asked to report the regional population and when the figure was summed the country's population was found to be 110 million while it was expected to be 55 million,' he said.
- Some members of the House of Peoples' Representatives questioned the fairness and objectivity of the transfer system and demanded clear information on the decision-making process. The Prime Minster responded that 'the owner of the issue is the House of Federation and there is no need to debate on the same'. He told the questioner, 'before questioning the fairness of the formula it will be better to look into the inefficient and corrupt use of budget subsidies in some regions.' He referred to a case where a 10-year-old boy had reportedly been paid a monthly salary as a regional official and also accused some regions of making rush purchases and buying unnecessary capital such as four-wheel drive vehicles. The misuse of resources, he said, included construction of lavish office buildings with opulent furnishings, per diems for officers and other expenditure that reflected local capture. Recently the centre has cracked down on such misuse. In 2004/5, the centre issued a directive that all government vehicle purchases had to be approved by the Ministry of Finance and Economic Development or the Prime Minister's Office. The restriction has now been enacted as a law and is being applied in the regions.

The 1997/8 grant formula satisfied neither the emerging regions nor the relatively developed regions, but was accepted as there were no alternatives. The Ministry of Economic Development and Cooperation promised the House of Federation members that their comments would be taken into account in future revisions of the formula.[18]

Despite the demands and debates in both Houses, the formula remained the same in 1998/9 and 1999/2000. The index page, or the information base for calculating the actual allocation, was updated without altering the formula. The Executive justified the continuation on the grounds that it would be costly to change the formula every year and promised a new formula for the coming year, which would address regional concerns about enhancing the development level of the relatively backward regions and increasing the pace of development of the relatively advanced regions.[19]

A revised formula was introduced for 2000/1– 2002/3. It used four indicators: population (55 per cent), level of poverty (10 per cent), level of development or expenditure needs (20 per cent) and revenue-raising effort and sector performance (15 per cent). The major changes were: modification of the level of development index – exclusion of some indicators (electricity consumption, telephone lines and asphalt roads) and addition of new indicators (variation in recurrent expenditure needs, rural roads and unit cost of construction) while retaining others (education, health, water); introduction of the poverty index to reflect food insecurity; appending of a 4 per cent weighted sectoral output performance indicator (changes in primary school participation rate, number of health centres and length of rural roads) to revenue-raising effort. Officially, the formula is expected to cover a portion of regional expenditure needs, address horizontal imbalance (maintaining equity), provide an incentive to raise own revenues, and improve fiscal performance (efficiency).

The House of Federation debated and approved the subsidies.[20] During the debate, members raised various regional concerns, leading the Speaker to instruct them to downplay parochial interests.[21] These concerns included complexity of the formula; unreliability of the information base on population, health, education and potable water;[22] the poverty index;[23] the disproportionate weight attached to equity (96 per cent) and efficiency (4 per cent); exclusion of the three indicators (electricity consumption, telephone lines and asphalt roads), and exclusion of regional government executives and councils from the decision-making process. Members questioned the inclusion of the new sectoral performance indicator (education, health and rural roads). One asked; 'Does it mean a region that spends more on the water sector is not performing adequately?"

In reply to the points raised by the members, the Executive admitted the inaccuracy of data and lack of participation in decision-making by regional executives. However, the explanations for the inclusion and exclusion of indicators were confusing. As chronicled above, in 1997/8 electricity consumption, telephone lines and asphalt roads were included as indicators in the formula because the centre considered them to be good yardsticks of level of regional development; but in 2000/1, it excluded them because they were not expenditure responsibilities of the regional governments. The poverty index was excluded in 1997/8 on the assumption that poverty is mostly caused by the vagaries of nature, but it was included in 2000/1 as a measure of the gap between agricultural expenditure and food insecurity.

A revised formula, known as the interim formula, was introduced in 2003/4. This formula, proposed by the Ministry of Finance and Economic Development,[24] used three indicators: population (65 per cent), level of development (20 per cent) and revenue raising and sectoral performance (15 per cent). The Ministry revised the earlier formula because of its failure to address differences in sectoral per capita expenditure, questions raised by regional governments, recurrent budget requirements for existing infrastructure, and potential differences in revenue capacity. The major changes in the new formula included reduction of the four indicators to three, modification of the weights assigned to the indicators, removal of the poverty index indicator, and modification of the development index to include an additional indicator for people exposed to natural and man-made disasters.

The formula and subsidy amounts were debated in the House of Federation. As in the earlier debates, members raised concerns such as inadequacy of data, complexity of the formula, and inappropriate assignment of weights to indicators, especially population. Some members questioned the new indicators for people exposed to natural and man-made disasters, pointing out that such calamities required an emergency fund or other special grant arrangement. They also demanded increased weight for recurrent expenditure, as regional governments could not fully cover salary costs, especially after the deployment of more civil servants to the *woredas*. The debate on the exclusion of indicators for access to electricity and telephone service was intense. Some members argued that if the exclusion of electricity supply and phone service is on the grounds that they are not the mandate of the regions, it should also apply to the allocations for health and education services, which followed the national strategy and were determined in consultation with donors and federal ministries.

The decision-making process was unusual this time round. In view of strong criticism of the weights for the indicators, the House made slight adjustments to those weights, especially for level of development (from 25 per cent to 20 per cent) and revenue-raising and fiscal performance (from 10 per cent to 15 per cent). Finally, the House agreed to the preparation of new formulas for 2004/5 based on the Australian model, which takes into account both fiscal capacity and fiscal need.

In 2003 the House of Federation also organised a discussion forum that included members of the House of Federation and high-level executives of the regional and central governments.[25] The issues raised were similar to those that surfaced during the House debate and included inadequacy of information, lack of direct participation by the regions in the decision-making process, lack of transparency, need for the formula to be simple and clear, lack of studies on the country's reality before introducing the system, and blind imitation of other countries' experience. Some participants questioned the increased weight assigned to population, describing it as being against the population policy of the country and penalising regions that were attempting to control population pressure. Others said the development index was a disincentive to regions that had achieved a good growth rate. Some regions suggested that the federal government should subsidise *woredas* directly as regional governments had difficulty financing additional expenditures caused by the new *woreda* decentralisation policy.

Experts and officials in Tigray, Amhara and Benshangul confirmed these problems to the author.[26] The following points summarise the major issues identified by the informants:

- The information collected from the central agencies was inadequate and unreliable. For instance, the statistics on primary education in Benshangul-Gumuz and female education in Amhara were erroneous.
- The frequent changes in the formula as well as its lack of transparency and clarity were major concerns.

- The lack of participation by regional governments in the decision-making process for the distribution pool and indicators and weights in the formula was unconstitutional and a focus of grievance.
- Regions indicated the need for changes in the indicators, including introduction of new ones. Tigray demanded indicators on rehabilitation of war-affected regions (referring to the recent Ethiopia-Eritrea war and 300,000 displaced people in Tigray) and community mobilisation efforts. Amhara and Tigray wanted increased weights for food insecurity and poverty as well as sector performance. Benshangul-Gumuz demanded inclusion of new indicators on settlement patterns and living conditions of the people, degree of urbanisation, and availability of banking and insurance institutions, as well as more weight for the development index.
- Benshangul-Gumuz demanded reduction in the weight given to population, inclusion of indicators on electricity, telephone lines and asphalt roads, and exclusion of indicators for revenue-raising efforts and sectoral performance.

On the basis of the above discussion, four observations can be made about the changing formula.

First, the overriding priority in the Ethiopian fiscal transfer system is to maintain equity or correct horizontal imbalances. To illustrate this, Table 5.4 summarises the indicators and weights used in Ethiopia's transfer formula during the past decade.

The indicators for fiscal needs have higher weight than those for fiscal capacity and efficiency. Population, followed by level of development index, are the two most important indicators of differences in fiscal needs among regions. The centre has been making continuous and confusing changes in sub-indicators that measure differences in level of development among regions.

Secondly, revenue-raising effort measures fiscal capacity. From 1995/6 – 1999/2000, the capacity of regions to cover their expenditure from own revenue (ratio of total own revenue over total regional expenditure) measured revenue-raising effort. The intention was not to measure the fiscal gap, but to provide regions with incentives to increase own revenue collection. The system allowed budget offset or subtraction of own revenue from the central transfers, which penalised regions for raising more revenue. Since 2000/1, the ratio of per capita own revenue to per capita income multiplied by proportion of regional population has

Table 5.4

Main indicators and weights in transfer formula, 1995/6 – 2003/4 (%)

	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2	2002/3	2003/4
Fiscal needs	*66.6*	*66.6*	*85*	*85*	*85*	*85*	*85*	*85*	*90.0*
Population	33.3	33.3	60	60	60	55	55	55	65.0
Level of devt.	33.3	33.3	25	25	25	20	20	20	25.0
Poverty						10	10	10	
Fiscal capacity	*33.3*	*33.3*	*15*	*15*	*15*	*11*	*11*	*11*	*7.3*
Revenue-raising effort	33.3	33.3	15	15	15	11	11	11	7.3
Efficiency	*0*	*0*	*0*	*0*	*0*	*4*	*4*	*4*	*2.7*
Sectoral performance						4	4	4	2.7

Source: Minutes of the House of Federation, , Addis Ababa, 1995/6 – 2003/4.

measured revenue-raising effort. This is a complex and confusing formula because the per capita income is almost equal to the per capita subsidy, especially in Benshangul-Gumuz, which is highly dependent on central transfers. In other words, the central government subsidy is indirectly measuring the revenue-raising power or fiscal capacity of the regions. Moreover, the weight assigned to fiscal capacity has been decreased from time to time. Although there is no formally given justification, it is likely that the central government has realised that measuring differences in fiscal capacity is futile, as regions are not showing much improvement in raising significant resources of their own.

Thirdly, the index of fiscal efficiency – which encourages economical spending of limited resources – is not a priority. Measurement of fiscal efficiency started in 2002/3 with a weight of 4 per cent, but declined to 2.7 per cent in the subsequent period. The indicator used to measure fiscal efficiency has an inherent flaw because it only focuses on selected sectors. Using selected sectors biases regional governments to spend more on those sectors. For example, the system penalises regions with more allocations to the road or water sectors if the selected sector is education and health.[27] Moreover, the formula used to measure efficiency lacks reliable information on differences in input costs and capacity among regions, which influences the total cost of providing a service.

Finally, a closer look at Table 5.4 shows that there were changes and adjustments in the formula (indicators, sub-indicators and weights) but these changes lacked a pattern and were difficult to draw meanings from. Despite such changes in the formula, time-consuming debates and regional governments' apprehensions, the formula has altered the actual allocation only marginally. Table 5.5 presents the three regional governments' actual share of subsidies out of the distribution pool between 1993/4 and 2002/3. (Appendix L provides actual subsidy data for all regional governments).

The standard deviation and coefficient of variation are not very high and do not indicate substantial variation. Thus, the formula-based transfer (1995-2003) is no different from the earlier ad hoc approach (1993-95). This finding is in line with the lack of divergence in vertical and horizontal imbalances and the share of the regional subsidy in total government expenditure during the past decade (Tables 5.1, 5.2, and 5.3). The unchanging share of the regional subsidy indicates that the annual allocation to regions is determined using an incremental approach and is decided by the central leaders along with the distribution pool every year.[28] This study contends that the annual subsidy is simply determined by considering regional recurrent expenditures (salaries of civil servants and other O&M costs) and centrally mandated capital projects. This state of affairs suggests that the central political leadership is keenly interested in enabling the regional government machinery to provide minimum services as well as maintain law and order.

Table 5.5
Regional governments' actual share of subsidies from distribution pool, 1993/4 – 2002/3

	Amhara	B-Gumuz	Tigray
1993/4	0.201	0.033	0.106
1994/5	0.250	0.030	0.107
1995/6	0.242	0.026	0.103
1996/7	0.240	0.040	0.100
1997/8	0.221	0.049	0.083
1998/9	0.253	0.052	0.083
1999/00	0.210	0.047	0.082
2000/1	0.217	0.040	0.082
2001/2	0.227	0.045	0.076
2002/3	0.214	0.045	0.890
AV	0.23	0.04	0.09
STD	0.02	0.01	0.01
CV	0.08	0.21	0.12

Notes: AV = average; STD = standard deviation; CV = coefficient of variation.
Source: Data in Appendix L.

5.6 Administration of Intergovernmental Transfers

The elements in the administration of the subsidy are notification, disbursement of subsidy, auditing, and the administrative agency.

5.6.1 Notification of subsidy

Both the intergovernmental relations school and the institutional approach emphasise the principles of predictability, transparency and simplicity in intergovernmental fiscal transfer systems. Predictability ensures a reasonable degree of certainty about the flow and timing of resources.

Timely notification of annual and medium-term subsidy projections (three to five years) is desirable to develop informed sub-national fiscal planning. It minimises the possibility of large swings in resource availability, a situation that can compromise service delivery and frustrate sub-national governments' constituents.

The Ethiopian legal framework enjoins the federal government to notify regions about their subsidies six months before the start of the fiscal year. In practice, the centre gives regions this notification after they have started their budget period and in most cases only one month before the fiscal year begins. The minutes of the House of Peoples' Representatives (1995-2004) show that whilst the Ethiopian budget year starts in July, subsidies were approved in June for 1996/7, 1997/8, 1998/9, 1999/00, 2001/02, 2002/03, 2003/04 and 2004/05. The subsidy in 1995/6 was approved in August after the budget year had commenced. In 2000/01, it was approved three months after the budget year had started (because of the Ethiopia-Eritrea war). The central government has not provided mid-term projections on subsidy flows to regional governments.

Frequent revisions and modifications of the subsidy formula act against predictability. The frequent changes have not brought about substantial change in the size of the annual subsidy; but they have created a feeling of uncertainty among the regional governments. This has also resulted in repetitive budgeting by the regions; that is, first budgeting without the subsidy ceiling, known as 'blue-sky budgeting', and then budgeting after the subsidy ceiling has been communicated to them.[29] Moreover, as Chapter 3 explained, regional medium-term development plans have been formulated without forecasts of financial resources, intersectoral allocation of resources and costs of achieving the various programmes. One of the causes is the lack of medium-term subsidy projections.

5.6.2 Disbursement of subsidy to regional governments

After being notified about the level of their subsidy by the central government, the regions redevelop annual recurrent and capital budgets separately. The budgets are submitted to the central Ministry of Finance. The central Treasury then releases funds for recurrent expenditure on a monthly basis. For capital expenditure, the Ministry of Finance gives standing instructions to the National Bank of Ethiopia to release the funds upon request by the regional governments. At the end of each month, the bank notifies the central Treasury about the amounts released to regional governments so that the Treasury can keep accounts and control and monitor the funds. The following issues concerning the process of disbursement deserve attention.

The ***own revenue collected by regional governments*** used to be deducted from the subsidy released to regional governments. The centre determined the amount of revenue that regions collected on the basis of the preceding year's reported revenue plus a percentage increase. The intention was to discourage regional governments from under-reporting their revenue in order to obtain the maximum possible subsidy. The subtraction of own revenue from the subsidy was a point of grievance by the regional governments as well as an issue of concern to international agencies such as the World Bank. World Bank (2000a: 30) observes: 'It appears that the revenue incentive factor built into the budget subsidy formula is largely cosmetic and does not create a direct incentive for regions to generate own revenue. In reality the formula provides a disincentive for revenue effort.' The practice was discontinued in 2000/1.

External loans and assistance flowing to the regions are subsumed in the distribution pool and disbursed through the formula-driven federal subsidy. The letter of grant notification from the Ministry of Finance and Economic Development to regional governments indicates the amount of transfer from the three sources: Treasury, loans and external assistance. According to informants, the allocation of external loans and assistance depends on the selection and approval of specific projects by the donors.[30] The loan and external assistance element of the subsidy specifies both the sectoral (agriculture, water, education, health,) and intrasectoral allocations (for instance, an allocation for health might show specific funds for rural and urban health services, nutrition, environment, sanitation, and so on). For some of the allocations the regional governments provide matching funds; these can range from 15 to 20 per cent and come from funds released by the Treasury or unconditional grants.

The actual disbursement of the external loans and assistance is done through three channels: Ministry of Finance, sectoral ministries and directly to regions. Funds released through the Ministry of Finance from International Development Assistance, African Development Bank and other similar sources mostly use the first channel. Other multilateral and bilateral funding agencies transfer funds to the regions through sectoral ministries. Direct transfers in most cases are not captured in the annual budget subsidy.

There are various problems regarding disbursement of external loans and assistance. First, the regional budget subsidy used to be reduced by an amount equal to the funds received from external sources for the regions, which was considered as budget offset. The official justification for this was to maintain equity among regions by avoiding distortions induced by the flow of external funds. However, the practice constrained regional governments from mobilising resources from external sources, especially where the central government had no obligation to repay the funds received. It enabled the central government to dominate not only expenditure and revenue assignments but also resource mobilisation from external sources.

Regions had been continually complaining about the budget offset. Because of the complaints from regional government and comments from international advisors, the central government adjusted the offset system in the fiscal year 2000/01. It reduced the 100 per cent offset for external loans and assistance to 70 per cent and 30 per cent respectively. Nevertheless, there is no change in the policy of denying regions the right to mobilise external resources.

Second, regions are discouraged from seeking external loans and assistance by cumbersome procedures and detailed planning as well as uncertainty regarding the actual flow of funds. World Bank (2000a: 30) reports: 'Discussions with regional officials revealed that donor projects are not aggressively sought because they simply crowd-out federal financing of projects. Donor projects, particularly those from the multilateral institutions, are seen as excessively cumbersome (in terms of regulatory requirements, book-keeping and reporting) and there is a marked disinterest among the regional governments in obtaining donor funding.' An African Development Bank study on public expenditure management in Benshangul-Gumuz, too, reports complaints by regional officials about cumbersome donor procedures and unreliability of aid flows, which make the regions prefer Treasury resources (African Development Bank, 2001). This concern also keeps coming up in the discussions between regional government authorities and the centre as well as in the debates of the House of Federation and the House of Peoples' Representatives. In one of the debates, some MPs proposed that the central government utilise all the money from loans and assistance, as it has the competence to meet donors' procedural and documentation requirements, and leave the money from the Treasury to the regional governments.

The third problem is that external loans and assistance destined to be given directly to regions are highly unpredictable. Table 5.6 shows the degree of predictability of disbursement from the three sources (Treasury, loans and assistance). The coefficient of predictability, which is the ratio of actual disbursement to planned disbursement, shows the degree of predictability. When the coefficient approaches or exceeds one, it indicates a high degree of predictability, and when it approaches zero, it shows complete unpredictability insofar as actual disbursement is concerned.

The calculation shows that the budget subsidy released from the Treasury is highly predictable. The average value for the three regions is more than 100 per cent. The standard deviation and coefficient of variation are small, indicating small variation in predictability. This is consistent with the finding with regard to Table 5.5, that there are no major changes over time in the budget subsidy released from the Treasury. This is because decisions are made by the centre incrementally, the decreases or increases being dependent on the amount of funds available in the country.

The funds released from loan and assistance sources are unpredictable. The coefficient of predictability is low and the standard deviation and coefficient of variation are high. Funds from external assistance are particularly unreliable, with the coefficient of variation reaching 150 per cent in some cases. The reasons for regions' incapacity to tap the resources are mainly the budget offset system; donors' cumbersome procedures and conditionality; and, as pointed by African Development Bank (2001), 'lack of clarity whether aid resources communicated to the regions are just promissory (that is, yet to be negotiated) or are resources already committed and available for spending'. This results in greater actual subsidy transferred from the Treasury than from assistance and loans. Between1996 and 2003, the shares of the central Treasury, external assistances and loans in fiscal transfers to regional governments were 94.4 per cent, 0.3 per cent and 5.3 per cent respectively.

The fourth problem with external loans and assistance is lack of transparency in calculating the budget offset. Regions have no informa-

Table 5.6

Coefficient of transfer predictability for Tigray, Amhara and Benshangul-Gumuz, 1996/7 – 2002/3

	Tigray				Amhara				Benshangul-Gumuz			
	Tr.	***Loans***	***Ass.***	***Total***	***Tr.***	***Loans***	***Ass.***	***Total***	***Tr.***	***Loans***	***Ass.***	***Total***
1996/7	1.06	0.71	0.001	*0.95*	0.99	0.58	0.02	*0.91*	1.06	0.36	0.380	*0.98*
1997/8	1.02	1.40	0.002	*0.92*	0.96	1.98	0.03	*0.93*	0.93	0.93	0.050	*0.91*
1998/9	0.95	0.41	0.006	*0.78*	0.88	0.88	0.67	*0.87*	0.91	0.92	0.002	*0.83*
1999/00	1.03	0.77	0	*0.88*	0.93	0.34	0.22	*0.79*	0.90	0.91	0.350	*0.90*
2000/1	1.25	0.02	0	*0.83*	1.17	0.29	0	*0.90*	1.12	0.01	0	*0.83*
2001/2	1.26	1.26	0	*0.81*	0.81	0.56	0	*0.93*	1.12	0.57	0	*0.95*
2002/3	1.02	0.64	0	*0.87*	0.99	0.24	0	*0.88*	0.99	0.42	0	*0.78*
AV	1.09	0.65	0.006	*0.860*	1.02	0.69	0.14	*0.89*	1.00	0.62	0.11	*0.88*
STD	0.12	0.42	0.009	*0.058*	0.12	0.61	0.25	*0.05*	0.09	0.4	0.17	*0.074*
CV	11.2	64.1	149.9	*6.7*	11.4	87.1	183.7	*5.59*	9.32	64.4	155.3	*8.38*

Notes: Tr. = Treasury; Ass. = assistance; AV = average; STD = standard deviation; CV = coefficient of variation.
Source: Ministry of Finance and Economic Development Annual Financial Report, various years.

tion on the type of loans and assistances that count towards the offset. EU *Macro-net Rapport 14* (2001) on Tigray identifies three issues in this regard: there is confusion over what is and what is not taken into account under the offset formula; the region is only the indirect recipient of funds and not the main negotiator, or has little or no leverage over the discussions held and decisions reached with donors, especially under Sector Development Programmes; and the realisation of donor pledges is unreliable. Amhara and Benshangul-Gumuz have no information on how the offset system works. An informant in the Ministry of Finance and Economic Development told the author that the Prime Minister's Office decides which foreign funds have to be included in the offset system (interview, Addis Ababa, May 2004). This could be because only the central political leadership knows the terms and conditions on which the funds are released.

Regions also lack information on agreements made between donors and the central government and on how donors select specific regions. According to informants in Benshangul-Gumuz, the central political leadership influences donors' selection of regions (interviews with officials, Assosa, July 2003). The informants pointed out that Tigray receives funds from, among others, Irish Aid, GTZ and Italian Aid, and Amhara receives funds from SIDA and international NGOs, but Benshangul-Gumuz has only a few financially weak NGOs supporting it. EU *Macro-net Rapport 14* (2001) partially confirms this when it observes that 'off-budget donor and NGO expenditure is very important in Tigray, representing in 1998/9 and 1999/0 more than the regional Government's capital expenditure'. Although the information is incomplete, the estimated off-budget contribution by donors and NGOs to Tigray for four years (1997/8 – 2000/1) was Birr 407.13 million (*ibid*). A related study in Benshangul-Gumuz found that off-budget donor funding for five years (1996/7 – 2000/1) was only Birr 70.34 million (African Development Bank, 2001).

Moreover, regions have no knowledge of the procedures and indicators used by the central government to select locations for big infrastructural projects such as telecommunications, electricity, roads and airports. The centre dominates a large share of external loans and assistance for financing such projects, which have important implications for regional economic development. The centre does not clarify such issues to regions, members of the House of Federation and House of Peoples' Representatives and the public at large. Except in some cases, regional officials do not openly discuss such issues. A case in point was the discussion in the House of Peoples' Representative in 1997, where an MP asked the Prime Minister for the justifications for allocating more projects to Tigray than other regions. The Prime Minister simply responded, 'for individuals who consider a given ethnic group as an enemy, justice and equality is a bitter pill to swallow'.[31] He also said that the government was doing its best to allocate resources on the basis of various socio-economic considerations. This non-transparent allocation of projects and decision-making about donor assistance are the Ethiopian version of 'pork-barrel' politics and are typical of neo-patrimonial regimes in Africa.

In addition to the above budgetary resources, the central government also disburses grants for specific purposes. The main ones include the Road Fund, Ethiopian Social Rehabilitation and Development Fund (ESRDF) and funds for HIV/AIDS, water harvesting and food security. There is no information exchange and effective coordination between the agencies responsible for releasing the funds and the Ministry of Finance and Economic Development. These funds are not in the records of the Ethiopian consolidated budget. The regions have no idea of how the transfer of specific-purpose grants works, which is typical of the secretive nature of the regime. This issue has caused growing tension with emerging regions like Benshangul-Gumuz.

5.6.3 Auditing of regional subsidies

The Ethiopian Constitution confers on the central government (the Ministry of Finance and the Office of the Auditor-General) the authority to audit and inspect the expenditure of regional subsidies. The Ministry of Finance and the Auditor-General report to the central Executive and the House of Peoples' Representatives respectively. The Budget and Finance Committee of the House of Peoples' Representatives acts as a public accounts commission and oversees the work of the Auditor-General. The Ministry of Finance prepares the public accounts and the Auditor-General audits them.

Auditing by the Ministry of Finance is infrequent and is in the form of casual inspections by the Ministry inspectors. Rarely do the experts of the Ministry inspect regional book-keeping systems and verify payment receipts in some regions.[32]

Auditing of regional subsidies by the Office of the Auditor-General formally started in 1998/9, that is, eight years after the present government took power. However, no federal subsidies were audited during that year because there were no separate regional accounts for subsidies and other sources of income; and regional governments were unwilling to let their accounts be audited.[33]

The Auditor-General's Office audited the 1998/9 transfers in 1999/2000. This audit did not cover all the regions and all the regional sector offices. The audit revealed the following failures: expenditures were not recorded at the year the payment had been effected; the standard operating procedures for procuring services and equipment were not followed; regional bureaus did not transfer unutilised funds back to the regional Treasury at the end of the year; fixed and movable assets were not recorded separately; funds received by the regional bureaus from donors were not reported to the regional bureau of finance; payment records were not properly maintained; and some payments were registered without accompanying vouchers. The Auditor-General also reported that the working language of the regional governments, especially in Tigray and Oromia, had made it impossible to carry out the audit properly.[34]

Regional governments' financial accounts for 1999/2000 were not audited. The audit report for 2000/01 concentrated on financial management by the emerging regions and identified similar shortcomings to those in the previous year's report. Additional problems were, among others, reluctance to cooperate by the lower tiers of regional government, poor internal control and audit systems, failure to perform timely bank reconciliations, instability of tenure for heads of bureaus, cash shortages, excessive cash in the custody of bureau cashiers, excessive unaccounted payments and receivable vouchers, unutilised budgets, payments made without receipts, and rush purchases.[35]

The above discussion has elucidated the central government's efforts to audit the fiscal management of regional governments and the dire situation of regional governments' financial management systems. During the past decade the Office of the Auditor-General has not effectively audited utilisation of subsidies by regional governments; it has only inspected the routine accounting and purchasing procedures. This is due to reluctance of regional governments, difficulty of segregating subsidy and non-subsidy accounts, and the capacity of the Auditor-General's Office to cover all the regional offices. The auditing system is also not organised to inspect subsidy expenditure on the basis of the input-process-output loop. It only concentrates on the input side without considering the effectiveness and impact of the subsidies. The national budget system is being reformed currently to emphasise cost- and performance-based budgeting. Time will tell to what degree the reform is successful in dealing with the problems.

In addition to this formal process, there are different political forums through which the federal leaders (the Prime Minister and other high-level political officials) assess the regional governments' budget performance. Informants in Benshangul-Gumuz told the author that it is common for the federal government to summon regional political officials to the centre through the party structure to report on their fiscal performance on a quarterly basis (interviews with officials, Assosa, July 2003). These forums are also used to convey directives to regional political leaders.

5.6.4 Administrative agencies in fiscal transfer system

Various countries' experiences show that when specific agencies are responsible for managing fiscal transfers, the system is more efficient. For instance, in Australia a permanent independent agency (Commonwealth Grants Commission) determines intergovernmental grants on the basis of formulas worked out through continuous research. In Canada, the Ministry of Finance has the overall authority. In India, two agencies carry out the task: the Planning Commission, which is a permanent agency of the central government, and the Finance Commission, which is a constitutionally mandated independent institution set up every five years to make recommendations on tax sharing and grants.

In Ethiopia, the House of Federation has the constitutional mandate to manage the overall transfer system; that is, to prepare, determine, revise and take corrective action relating to it. In practice, during the past decade, the House of Federation has been incapable of carrying out this mandate and the Ministry of Economic Development and Cooperation (at present the Ministry of Finance and Economic Development) has been doing it. For the most part, the House of Federation has merely rubber stamped decisions made by the Executive.

The lack of a competent and independent administrative organ to manage the fiscal transfer system is of concern to regional governments and officials at the centre.[36] As the Amhara Regional President told a high-level discussion forum, 'The members of the House of Federation, who are expected to decide the regional subsidy at the federal level, are coming to the regions to ask about the amount of transfer to the region. This indicates that members of the House of Federation are inactive in the decision-making process.'[37] Members of the House of Federation accept their shortcoming and acknowledge that the House is institutionally weak and its members do not have adequate knowledge to carry out their mandate on the fiscal transfer system.[38]

Informants in the Ministry of Finance and Economic Development confirm the lack of a neutral institution to manage the fiscal transfer system, and the lack of an appropriate organ within the Ministry with responsibility for this task and for conducting research and performing analyses (Interviews, Addis Ababa, May 2004). A temporary task force consisting of selected experts from the Ministry usually carries out these tasks. The Ministry of Finance and Economic Development conducts studies on subsidies whenever there are donor funds to do so. USAID and the German government have so far funded two studies.[39] Some officials doubt the need for a permanent agency if the distribution pool is determined by the central political leaders. Regional governments recommend an independent national commission with qualified members from the federal and regional governments to carry out the tasks related to fiscal transfers.[40]

5.7 Concluding Remarks and Reflections on Decentralisation Theories

This chapter analysed the Ethiopian intergovernmental fiscal transfer system. It discussed the unchanging vertical imbalances in Ethiopia, caused by the weakly articulated design of revenue and expenditure assignment, poor revenue administration system, and central government control over high-revenue-yielding tax bases and dominance in regional decision-making on revenue rates, bases and tax administration. It also showed that the horizontal imbalances at the beginning of the decentralisation programme, which are caused due by many interrelated factors, especially differences in regions' historical and political development, type of economic activities, population and size, have been sustained during the past decade. The discussion on the legal framework revealed that the overriding priority of the transfer system is to correct horizontal imbalances and benefit externalities rather than to enhance fiscal capacity and fiscal efficiency. The legal framework gives formal power to the House of Federation to manage the transfer formula but does not adequately address the power of regional governments and the House of Peoples' Representatives in determining the distribution pool and transfer formula.

The distribution pool is determined ad hoc and the central government makes decisions about it as part of its annual budgeting process. The pool is simply the resources left over after the central government covers its recurrent and capital expenditure needs. The ad hoc system allows Ethiopia's central political leadership to control the determination of the annual regional subsidy. This is not in line with the option recommended by the intergovernmental relations school and institutional approach, which determines transfer pools on the basis of a fixed proportion of central government revenues or GDP, subject to renegotiation every three to five years. At times regional governments and their representatives have demanded this approach. Implementing this approach in poor countries like Ethiopia would pose several challenges. In Ethiopia it is difficult to project national annual and medium-term fiscal resources with a reasonable degree of accuracy, as the country depends heavily on rather unpredictable foreign loans and assistance and the economy is subject to man-made and natural disasters. Ethiopia's fiscal resources are also vulnerable to macroeconomic shocks, for example by coffee price fluctuations in the world market.

The political decision-making on the distribution pool in Ethiopia involves neither regional representatives at the centre (the House of Federation and House of Peoples' Representatives) nor regional executives and councils. Only the central political leadership makes the final decisions on the transfer pool, which determines the annual subsidies of regions. As indicated in the discussion on expenditure and revenue assignment, this practice contravenes the general constitutional provision for participation by regional governments in decisions made on national issues that affect their regions.

Ethiopia's fiscal transfer system shares many of the features of the welfare economics model, which assigns redistributive functions to the central government and gives priority to subsidies that correct horizontal imbalances and benefit externalities. However, the effectiveness of applying this proposal in Ethiopia is questionable, as can be seen from Table 5.7, which shows two contradictory outcomes emerging from the regional per capita subsidies to Tigray, Amhara and Benshangul-Gumuz.

Table 5.7
Per capita subsidies to Tigray, Amhara and Benshangul-Gumuz, 1994/5 - 2001/2

	Amhara	B-Gumuz	Tigray
1994/5	42.2	151.8	79.2
1995/6	43.4	142.6	81.7
1996/7	48.4	224.9	84.2
1997/8	46.3	307.6	77.2
1998/9	46.8	291.9	67.7
1999/00	33.3	225.6	57.4
2000/1	50.2	277.7	83.3
2001/2	51.9	307.4	77.1
Average	45.3	241.2	76.0

Source: Data in Appendix L.

The backward region, Benshangul-Gumuz, receives a higher subsidy per capita because it covers only 7 per cent of its annual expenditure from own sources. This conforms with the objective of the Ethiopian grant programme, which emphasises that regions with a low index of horizontal imbalance should get a higher subsidy. However, comparison between Amhara and Tigray yields a picture which contravenes the objective. Amhara and Tigray cover 20 per cent and 25 per cent of their annual expenditure respectively (see Table 5.2). Following the argument on equity, Amhara should receive a higher per capita subsidy than Tigray. However, Tigray's per capita subsidy is higher than that of Amhara. This mismatch between per capita subsidy and horizontal imbalance is indicative of failure to achieve the equity objective of the Ethiopian transfer system.

Table 5.7 yields different results from those obtained by calculating the regional governments' absolute share of the central subsidy. As shown in Table 5.5, the Amhara's share is 23 per cent whilst Tigray and Benshangul-Gumuz get 9 per cent and 4 per cent respectively. One possible reason for the mismatch is the denominator effect of the per capita formula. As observed in Chapter 1, Amhara has the highest population.

Benshangul-Gumuz has the least population and hence the highest per capita subsidy. Moreover, between 1995/6 and 2003/4 the total regional subsidy grew by 81 per cent (see Table 5.3). Among the regions, Tigray's subsidy increased by 56 per cent , Amhara's by 60 per cent, and Benshangul-Gumuz's by 205 per cent (see Appendix L for details). This does not mean that the regional governments are getting more financial power through the subsidy than the central government. Apparently, the percentage increase in the regional subsidy is due to an increase in total government expenditure in the country. As demonstrated in Table 5.3, the regional subsidy's share of total government expenditure is decreasing; it plummeted from 30 per cent in 1996/7 to 22 per cent in 2002/3. Interestingly, even though Tigray's per capita subsidy is higher than that of Amhara, Amhara's per capita subsidy increased by 3 per cent more than that of Tigray. Given the heavy concentration of resources in the hands of the central government, the central dominance in financing the major share of regional expenditures and the ad hoc nature of the transfer system, such confusing results are to be expected.

The discussion in this chapter has also showed that neither the better-off regions (Tigray and Amhara) nor the one lagging behind (Benshangul-Gumuz) are satisfied with the intergovernmental fiscal transfer programme. This is because the increased central government subsidy does not result in regional governments' raising more revenue or decrease their dependency on the centre and improve their social and economic infrastructure. Despite the higher per capita subsidy, historically backward regions like Benshangul-Gumuz claim that little is being done to improve their economic infrastructure. Tables 1.2 and 5.2 substantiate the continuing weakness of regional governments, demonstrating that, during the past decade, there have been no changes in regions' capacity to finance their expenditure from own sources and their dependency on annual central government subsidies.

Given the above contradictory issues, it is possible to argue that Ethiopia's annual regional subsidies, especially from the central Treasury, are determined incrementally to finance regional governments' recurrent expenditure. Subsidies financed from external assistance and loans, especially in the health and education sectors, are decided at the central level by considering the availability of donor funds. As argued earlier, the issues discussed above and the unchanging horizontal imbalances show that the central political leadership is keenly interested in enabling the regional government machinery to provide minimum services as well as maintain law and order. This substantiates the contention of the theory of the intergovernmental relations school that the grants proposed by the welfare economics model do not offer wealth or assets to lower levels of government (Helmsing, 1991: 101); they merely provide funds to satisfy immediate needs. One can also see the realisation of the flypaper effect prediction, that subsidies increase the lower-level governments' expenditure rather than raise the income of constituencies. The assertion by Schroeder and Smoke (2003: 36) that subsidies cannot improve the vertical balance as local governments simply substitute the grant for local revenue, holds true in the Ethiopian case. In Ethiopia, regions are consistently dependent on the centre and have not improved their own revenue collection. Moreover, they are not capable of mobilising external resources because the central government does not allow them to look for development aid or seek economic ties and business/investment agreements with the external world.

Regional governments' dissatisfaction with the intergovernmental transfer system and their sustained dependency on subsidies imply the need for other fiscal transfer mechanisms. The intergovernmental relations school provides different forms of grants to address different objectives. Winkler (1994) suggests the need for categorical or sector-specific grants to improve the delivery of critical services such as education, health and roads in developing countries, although such a system can limit the discretion of sub-national governments. Schroeder and Smoke (*op. cit.*: 38) also contend that large grants to backward regions of developing countries are inefficient and they propose special grants to correct past neglect. They also note that Australia uses a system of equalisation transfers that focus on recurrent expenditures and has different arrangements for capital expenditure (*ibid*: 42). Such a system can resolve the difficulties in conceptualising and measuring capital deficiencies relative to the often-diverse needs of individual sub-national jurisdictions.

In Ethiopia, however, the central government rigidly applies 'block grants' shaped by fiscal need and ignores other mechanisms to overcome past neglect of infrastructure or address other regional development objectives. The intergovernmental relations school proposal for vertical agreements among levels of government would be an important mechanism to reduce the dissatisfaction of regional governments. Given the dominant nature of the central political leadership and its obsession with sustaining regional dependency on the centre to keep the regional administrative machinery afloat, it is highly unlikely that the intergovernmental relations school proposals for cooperation and agreement and alternative systems of fiscal transfer will be applied in Ethiopia.

During the past decade, the central political leadership has made frequent changes in the indicators and weights of transfer formulas. The decision-making process has been dominated by the central political leadership or the executive branch of the central government. The regions have not been actively involved and the central leaders have not fully recognised the right of members of the House of Peoples' Representatives to debate the issue, on the pretext that it is not their constitutional prerogative. The House of Federation, which is formally responsible for managing the transfer system, has been acting as a rubber stamp. The debates in the House of Federation have not been effective in changing or adjusting the draft formulas presented to the House (except for the minor modification made to the weights assigned to indicators in 2003/4).

This makes the calculation of the annual allocation formula a futile exercise; the trend in the regional subsidy has remained unchanged despite the changes of indicators, sub-indicators and weights in the formula and the debates in the House of Federation. There was only marginal change between the ad hoc allocation during the transition period and the formula-based allocation in the subsequent periods. As indicated earlier, this also shows that the central political leaders determine the annual subsidy simply on the basis of the existing expenditure needs of regional governments. Using population as a criterion to attain the equity objective is also a formality as the absolute share of regional subsidies in the distribution pool, per capita subsidies and per capita sector expenditure (Tables 3.2, 5.5 and 5.7) present a confusing picture. This is because Amhara receives a higher share of the regional subsidy but has lower per capita expenditure and a lower per capita subsidy than Tigray and Benshangul-Gumuz. Benshangul-Gumuz has a lower share of the regional subsidy but a higher per capita subsidy and higher per capita expenditure.

With regional subsidies, especially from the central Treasury, being determined on the basis of regional expenditure so that the regional administrative machine will not collapse, the gap in the regional per capita subsidy is breeding resentment among the ethnic elite. Comparing only the data for Amhara and Tigray regions, without taking into account those for Benshangul-Gumuz, contending political elites accuse the TPLF/EPRDF of ethnic patronage or favouring the Tigray region (Merera, 2002). The Ethiopian grant system does not address the equity objective; rather, it reflects the argument by Schroeder and Smoke (2003: 42) that grants cannot lead to equalisation of income among individuals or are blunt instruments for redistribution of personal income and wealth.

As pointed out earlier, Ethiopia's fiscal transfer system does not articulate the relationship between fiscal capacity and fiscal needs and it gives more emphasis to the latter. In the transfer formula, fiscal capacity not only has less weight but is also measured in a complex way, using revenue-raising effort as an indicator. Schroeder and Smoke (*op. cit.*: 39) recommend measuring revenue-raising effort by using reasonably accurate measures of gross regional product or local income and estimated size of the revenue bases of each region. The Ethiopian transfer system has used different approaches over time to measure revenue-raising effort or fiscal capacity. From 1994/5 to 1999/2000 the revenue-raising effort indicator was the ratio of total own revenue to total regional expenditure. Since 2000/1, the index has been the ratio of per capita own revenue to per capita income multiplied by proportion of regional population. This formula is confusing as it uses regional per capita income, which is almost equal to the annual regional subsidy, especially in regions that are heavily dependent on the central subsidy. In other words, the previous year's subsidy of a region is the denominator to measure its fiscal capacity. This implies that the previous year's subsidy is used to measure the subsequent year's subsidy. The two important measures of fiscal capacity – gross regional product and total regional taxable resources – which are recommended by proponents of the intergovernmental relations school (Schroeder and Smoke, *op. cit.*: 39) are not used in Ethiopia. The data necessary to use them are hardly available in Ethiopia currently.

This chapter has discussed the administrative arrangements for fiscal transfers, which include notification, disbursement, auditing and the selection of an agency to manage the process. Regions do not get advance notification of resources, which has resulted in their having to do repetitive budgeting and develop mid-term plans without basing them on financial resources. The move to discontinue the practice of subtracting revenue collection from the regional subsidy is encouraging. The observed weaknesses of the auditing system emanate from the failure of the central government to monitor and follow up regional subsidies. There is also weakness in the House of Federation, the institution responsible for administering the transfer system. Moreover, the budget offset system, which subtracts external loans and assistance destined for regional governments from central Treasury transfers, penalises regions for raising resources and is unusual. Regional governments are not willing to mobilise financial resources from external sources because they will lose their share of the national Treasury resources.

Ethiopia's fiscal transfer system reflects the widely cited problems, especially by exponents of the intergovernmental relations school and institutional approach, in constructing transfer formulas in developing countries. These include the lack of timely and adequate data for measuring fiscal needs and fiscal capacity; insufficient knowledge of defining adequate indicators and sub-indicators; confusion over types of expenditure functions that should be equalised (inclusion and exclusion of electricity, telecommunication, asphalt roads, poverty, health, and education in indicators); lack of proper care in choosing factors to avoid unintended consequences (for example, although simplistic, the effect that attaching more weight to population will have on the population control policy); and disagreements between regional and central executives on the population census and on the data used to measure backwardness, poverty and sector performance (this has been a subject of sustained debate for the last 10 years). Moreover, lack of institutional capacity, newness of the system, and difficulty of reconciling the various demands of regional governments have been additional challenges.

The transfer formula has also been complex and inconsistent, in some cases involving up to 25-30 sub-indicators. The formula has been misunderstood not only by regions and their central representatives, but also by the experts that are involved in the task. Schroeder and Smoke (2003: 26) point out this inherent problem in the Ethiopian transfer formula: 'There is sometimes a tendency to try to meet too many objectives with a single transfer program, and so many indicators are added to the formula that its overall effect are not clear as in the case of Ethiopia.'

The above discussion shows that the welfare economics model partially orients the Ethiopian transfer system, although in practice the implementation has been inconsistent. The system does not uphold one of the proposals of the model, which is correcting regional externalities by employing conditional matching grants. However, the system does maintain the other proposal of the model, which emphasises closing the regional fiscal needs gap. Nonetheless, Ethiopia's case clearly bears out the criticism by the intergovernmental relations school that transfer systems based on fiscal needs perpetuate regions' dependency and delink fiscal need from fiscal capacity.

The intergovernmental relations school recommendations of cooperation and agreements between the centre and regional governments and using different forms of grants to achieve different objectives are important. Their application has the potential of resolving the resentment of regional governments over the manner in which the grant pool and transfer formula are determined. Also valuable are the argument by Smoke (1999) for careful research prior to transfer system design, the proposal by Shah (1999) on different forms of grants and that of Winkler (1994) on sector-specific grants. However, their application is questionable in the Ethiopian context.

The intergovernmental relations school, institutional approach and theory of democratic decentralisation provide basic principles for an effective fiscal transfer system. These include objectivity, transparency, stability and predictability, grant pools based on a fixed proportion of central government revenue or GDP, and credible indicators of capacity and needs. These principles have yet to be applied in Ethiopia. The new public management approach of output-based and competitive grants is not practised as the Ethiopian system follows the input model of grants.

In short, Ethiopia's intergovernmental fiscal transfer system is generally weak. First, the discussions in the House of Federation and House of Peoples' Representatives have not resulted in any change in the annual transfer formula and distribution pool, but have been used as a political tool by the central political leadership to create the impression of a just distribution of the national cake. Second, the transfer system is an instrument to show that the central political leadership has a higher financial position than the regional governments, and to make regional governments accept that their financial survival depends on the will of the central leadership. This is evidenced by the central government's lack of interest in correcting the wide vertical imbalances and its prohibition of direct access to assistance from donors by regional governments. Third, the unchanging pattern of the annual subsidy amount, especially from the central Treasury, covers the recurrent expenditure of regional governments (especially salaries). This indicates that the central political leadership is primarily interested in maintaining the running of the regional government machinery. Fourth, the limited information on the distribution of off-budget funding facilitates favouritism towards Tigray by the central political leadership. Fifth, the lack of transparency in allocation of centrally funded major infrastructure facilities and donor funds to the different regional governments shows the secretive nature of the central political leadership. Sixth, the differences in per capita subsidy among the three regions show the weakness of the transfer system in attaining its equity objective.

To sum up, the design and implementation of Ethiopia's intergovernmental fiscal transfer system is not in line with the assumptions and proposals of most decentralisation theories. Whilst the Ethiopian transfer system shares some features of the welfare economics model, the application of the model's proposals is disappointing. Like the earlier empirical chapters, this chapter argued that Ethiopia's administrative and political institutional arrangements for intergovernmental fiscal relations are not well suited to application of the decentralisation theory proposals. The next two chapters will elaborate the extent to which the political and administrative institutional arrangements shape Ethiopia's intergovernmental fiscal relations reform. Before that, the next section focuses on sub-national borrowing.

5.8 Regional Borrowing

Decentralisation theories assume that the objectives of sub-national borrowing are to match sub-national annual expenditure needs with annual revenue flows, and to finance sub-national governments' capital expenditure. The theories recommend different modalities of financing sub-national borrowing: bond financing, direct loans from the market or borrowing through national government financial intermediaries. However, there are differences among the theories. For instance, the welfare economics approach restricts sub-national borrowing for capital expenditure financing and recommends only bond financing in order to avoid irresponsible sub-national borrowing as it has implications for macroeconomic stabilisation. The other theories, especially the intergovernmental relations and institutional approaches, suggest that sub-national governments should borrow to attain the two objectives, but emphasise the need for institutional arrangements such as bail-out rules or bankruptcy laws and information systems to counteract the moral hazard problem.

The legal framework in Ethiopia (Federal Proclamation no. 33/92, article 10; the 1995 Ethiopian Constitution, article 51, s. 6; and Federal Proclamation no. 57/1996) and regional financial administration proclamations give regional governments the right to borrow from domestic sources; and the central government the power to determine the conditions and terms under which regions can borrow. The law requires regions to develop proposals on the following basis: a project feasibility study, loan request, own revenue forecast with economic indicators, and consolidated budget. The central executive organ has taken on the full mandate to approve the proposals after evaluating their feasibility and impact on the national economy. The financial intermediary is the National Bank of Ethiopia, which acts on behalf of the national government to disburse loans. The 1996 federal proclamation allows regions to borrow from entities other than the National Bank of Ethiopia, but the regions and the Ministry of Finance make decisions jointly. The initial Proclamation no. 33/92 simply states that regions can take the 'loan amount required to cover their deficit'; there is no indication of the type of deficit to be financed, that is, recurrent or capital. The relationships between regional borrowing vis-à-vis expenditure assignment; revenue assignment; and fiscal transfers are not clearly articulated.

In the past decade, regional governments have not borrowed to finance capital investment projects aimed at enhancing regional economic development or financing budget deficits. There is only one instance of indirect regional borrowing from the central government-owned banks (Commercial Bank of Ethiopia and the Development Bank of Ethiopia). As explained in Chapter 3, this was during implementation of the agricultural extension programme in Ethiopia. Regions borrowed by using their annual budget as collateral to provide input credits to farmers, to enable them to purchase fertilisers, pesticides, high-yield seeds and other agricultural inputs. The borrowing followed instructions by the central political leadership to do so[41] and it was given administrative approval by the Ministry of Finance.

This indirect borrowing has had negative effects on regional governments as well as the poor peasantry. The central directives did not fully take into account the regional governments' exposure to the risk of crop failure, natural disasters or widespread default by farmers. It only suggested a low interest rate (1.5 per cent) to compensate for the risk factor. When the farmers were unable to repay the loans because of crop failure and natural disasters, the authorities forced them to sell their assets. The World Bank's *Ethiopian Regionalisation Study* (2000a: 34-5) gives the following account of the situation:

> In the Amhara region, the bank lent about 32 million Birr in the 1996-7 crop season, but only recovered 21 million, leaving the regional government to pay 11 million Birr, or 35% of the credit from its own budget. The regional government increased pressure on farmers to pay their debts by cutting the zones' budgets according to the default rate in each area. The zones, in turn, cut Woreda budgets, thus reducing the money available for commitments to build schools, health posts, and other necessities. While this strategy has reportedly enabled the regional government to collect most of the year's outstanding debt, it may have penalized communities who were hit by crop failure or other unavoidable reasons for default.

In the subsequent years, the centre arranged different modalities to protect regional governments against the risk of default by farmers. The party-owned macro credit institutions in Amhara and Tigray, and lately farmers' cooperative societies, took on the burden of disbursing and collecting the loans. The central political leadership gave directives to the local political cadres in the regions to push the peasantry to take input credits and pay 12 per cent interest on the loans. However, this provoked uproar among the peasantry because they were forced to repay the loans by selling their only resources (oxen, cows and sheep) and those who did not have anything to sell were jailed. The central political leadership consequently stopped forcing the peasantry to take loans to purchase agricultural inputs.[42]

This study cannot provide detailed analysis on sub-national borrowing. However, on the basis of interviews conducted by the author[43] and the above discussion, it is possible to make the following observations:

- The central political leadership is not willing to allow regional governments to go into such ventures as they may cause macroeconomic instability. This justification is based on the experiences of other countries (Brazil, Argentina and India) (World Bank, 2000a).
- The financial infrastructure is poor and regional governments have little or no direct access to capital markets or commercial lending. Until recently, the only banks in the regions were branches of the government-owned Commercial Bank of Ethiopia. Private banks

started operating in Tigray and Amhara only a few years ago. In Benshangul-Gumuz, there are still no private banks, only a branch of the government-owned commercial bank. Neither the government owned nor the private banks in the regions are strong capital markets, as they do not give loans beyond five years.

- In most cases, regional governments have no incentives to borrow because they can get resources for some capital investments through the central government subsidy. Investments for schools and clinics are financed from foreign loans channelled through the central government; the regional governments are not responsible for repaying the principal or interest on such loans. However, such loans are difficult to obtain. The rest of the investments that would require long-term borrowing, such as telecommunications, power and electricity, and main roads, are totally the responsibility of the central government.
- Informants in Amhara and Tigray have mixed attitudes towards borrowing. Some suggested that, given the chance, they would be willing to borrow and invest in infrastructure for agricultural development (dams and irrigation schemes); urban housing and marketplaces (to generate additional income for regional economic development). Some also complained that regional governments lack autonomy to determine their own programmes as they strictly follow the programmes and strategies developed by the centre. Others indicated lack of technical capacity to develop feasible projects that could potentially be financed through borrowing from other sources.

Generally, the legal framework follows some elements of the welfare economics model, which prohibits regional governments from borrowing, in order to protect the federal government from the effects of irresponsible regional borrowing. As the regions have no autonomy and the political decision-making and administrative arrangements for sub-national borrowing are under the complete control of the central government, there is no evidence of the application of the theories of decentralisation. Moreover, the weak capital market in the country makes the theories of decentralisation less applicable.

Notes

[1] World Bank (2000a) describes vertical fiscal imbalance in Ethiopia as 'a by-product of the constitutional division of spending and taxing powers between the Federal and Regional governments'.

[2] Whilst the Ethiopian vertical imbalance is lesser than that of South Africa, World Bank (2000a) reports that the share of regional government spending in total government spending is higher in Ethiopia than in South Africa. In 1995, the share in Ethiopia was 41.2 per cent, while in South Africa it was 30.9 per cent.

[3] 'Proclamation no. 251/2001: A proclamation to Consolidate the House of the Federation of the Federal Democratic Republic of Ethiopia and to Define its Powers and Responsibilities', Addis Ababa, 6 July 2001.

[4] Regional governments' revenue and expenditure are projected by the central Ministry of Finance and Economic Development.

[5] Interview with official in the Ministry of Finance and Economic Development, Addis Ababa, May 2004.

[6] 'Minutes of the 2nd year, 2nd Regular Meeting of the House of Federation', Addis Ababa, March 1997.

[7] *Ibid.*

[8] Interviews with officials in the regional Bureaus of Finance and Economic Development (Bahirdar, February 2004; and Mekele, October 2003) and in the Ministry of Finance and Economic Development (Addis Ababa , May 2004).

[9] *Ibid.*

[10] 'Minutes of the 78th Regular Meeting of the Transitional Government Council of Ethiopia', Addis Ababa, 1994.

[11] *Ibid.*

[12] The Transitional Government Council acted as the legislative body during the transition period.

[13] 'Minutes of the 78th Regular Meeting of the Transitional Government Council of Ethiopia', Addis Ababa, 1994; and 'Minutes of the 106th Regular Meeting of the Transitional Government Council', Addis Ababa, 1995.

[14] The sub-indicators for I-distance were reduced from eight to five: number of health clinics, number of primary schools, electricity consumption, length of rural roads and number of telephone lines.

[15] 'Minutes of the 30th Regular Meeting of the House of Peoples' Representatives', Addis Ababa, June 1996.

[16] The coefficients for each factor, except roads, were calculated in proportion to regional population. A weighted-average method was used to compute the indices and the results summed up to provide one aggregate index.

[17] 'Minutes of the 2nd year, 2nd Regular Meeting of the House of Federation', Addis Ababa, March 1997; and 'Minutes of the 30th Regular Meeting of the House of Peoples' Representatives', Addis Ababa, June 1996.

[18] 'Minutes of the 2nd year, 2nd Regular Meeting of the House of Federation', Addis Ababa, March 1997.

[19] 'Minutes of the 3rd Year, 2nd Regular Meeting of the House of Federation', Addis Ababa, April 1998.

[20] 'Minutes of the 5th year, 1st and 2nd Regular Meetings of the House of Federation', Addis Ababa, 2000.

[21] The Speaker instructed the members of the House to discuss common issues for attaining equitable development among regions and how the Ethiopian people could benefit from the resources of the country (*ibid.*).

[22] Some members said the data on potable water had been collected before 1994 and could not reflect the current situation (*ibid.*).

[23] The surveys used to determine the poverty index excluded non-sedentary populations in the regions and was based on information gathered from household surveys, in which respondents usually exaggerate their family size with the expectation of getting more food aid (*ibid.*).

[24] The Ministry of Finance and Economic Development is a new ministry, formed in 2002 by combining the earlier Ministry of Economic Development and Cooperation and Ministry of Finance.

[25] 'Minutes of the Discussion Among Members of the House of Federation, Representatives from Regional Governments and Federal Government Officials', organized by the House of Federation, Addis Ababa, January 2003.

[26] Interviews with experts in the Regional Bureaus of Finance and Economic Development (Mekele, November 2003; Bahirdar, February 2004; and Assosa, July 2004.

[27] This issue was raised by representative of Benshangul-Gumuz at the House of Federation 5th year, 1st and 2nd Regular Meetings (Addis Ababa, 2000).

[28] This was corroborated by an informant in the Ministry of Economic Development and Cooperation, who said that usually transfers are determined incrementally on the basis of the amount of resources the central government generates through loans and assistance (interview, Addis Ababa, May 2004). He also stated that the formula-preparation process has many flaws but the

good aspect is that the central leaders are willing to allot more resources to regions whenever they can do so.

[29] Interviews with experts in the Regional Bureaus of Finance and Economic Development (Mekele, November 2003; Bahirdar, February 2004; and Assosa , July 2003).

[30] Interviews with Ministry of Finance and Economic Development official and experts, Addis Ababa, May 2004.

[31] 'Minutes of the 55th Regular Session of the House of Peoples' Representatives', Addis Ababa, June 1997.

[32] Interviews with officials in the Ministry of Economic Development and Finance, Addis Ababa, May 2004.

[33] 'Minutes of the 25th Regular Session of the House of Peoples' Representatives', Addis Ababa, June 1999.

[34] 'Minutes of the 35th Regular Session of the House of Peoples' Representatives', Addis Ababa, June 2001.

[35] 'Report of the Auditor-General to the House of Representatives', June 2003.

[36] Interviews with experts in the Regional Bureaus of Finance and Economic Development (Amhara, January 2004; and Tigray, August 2003).

[37] 'Minutes of the Discussions Among Members of the House of Federation, Representatives from Regional Governments and Federal Government Officials', organized by the House of Federation, Addis Ababa, January 2003.

[38] *Ibid.*

[39] *Ibid.*

[40] Interview with an official in the Ministry of Finance and Economic Development, Addis Ababa, May 2004.

[41] 'Minutes of the 27th Regular Meeting of the House of Peoples' Representatives', Addis Ababa, April 1996.

[42] The measure to stop forcing peasants to take loans followed the split in the TPLF. The issue is also raised in one of the documents compiled by Prime Minister Meles Zenawi, 'Rural Development Strategies and Policies in Ethiopia', Addis Ababa, 2001.

[43] Interview with officials of the Ministry of Finance and Economic Development (Addis Ababa, May 2004), and Regional Bureaus of Finance and Economic Development (Mekele, November 2003; Bahirdar, February 2004; and Assosa, July 2003).

6 Impact of Neo-patrimonialism on Intergovernmental Fiscal Relations Reform in Ethiopia

6.1 Introduction

The earlier empirical chapters analysed the design and implementation of Ethiopia's intergovernmental fiscal relations reform and reflected on the perspectives and proposals of the decentralisation theories. The analysis revealed that the reform, which aims at creating regional governments with devolved administrative, political and fiscal power, has been derailed. Controlled by a few political leaders of the Tigray People's Liberation Movement (TPLF), the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) central political leadership dominated the process of designing the reform. Policy directives and specific implementation instructions were conveyed from the central political leadership to guide expenditure and revenue assignments in the case study regions.

The regions have little discretion in deciding their sectoral expenditure plans, determining the tax base and rates, managing their revenue administration systems, setting policies that differ from the central government's, and attending to their constituencies' needs and aspirations. The centre controls the major revenue sources in the country and annually collects 87 per cent of the national revenue on the average. There are also some similarities in the pattern of intersectoral expenditure allocations and pattern of revenue collection in the three case study regions. The intergovernmental transfer system is deficient as it is based on a complex and inconsistent formula primarily used to keep the administrative machinery of regional governments afloat. It is also dominated by the central political leadership, with regions having little involvement in the process to decide the distribution pool and annual subsidy formula. During the past decade, the regions' capacity to finance their expenditure from their own sources has changed little, they continue to be dependent on annual central government subsidies and their pattern of intersectoral expenditure allocation remains unchanged. Regional governments rarely borrow from the internal capital market to finance regional development projects.

On the basis of the main findings in the last three chapters, it is clear that many interrelated factors limit the successful design and implementation of reforms in intergovernmental fiscal relations. As spelled out in Chapter 1, this study's conceptual framework emphasises the administrative and political institutional arrangements in a neo-patrimonial setting that shape the design and implementation of intergovernmental fiscal relation reform in Ethiopia. Using this framework, Chapters 6 and 7 analyse how political and administrative institutional arrangements have shaped Ethiopia's intergovernmental fiscal relations reform in the three case study regions. This chapter focuses on the political institutional arrangements in Ethiopia's neo-patrimonial regime setting.

The chapter argues that some theories of decentralisation, especially the welfare economics model and the new public management model, fail to incorporate detailed and critical evaluation of the impact of political institutional arrangements in a neo-patrimonial setting on the design and implementation of intergovernmental fiscal relations. The welfare economics model concentrates on economic aspects of decentralisation with certain assumptions concerning political processes. Basing its assumptions on the political development of the Western world, the model assumes the existence of a well functioning system of elections, multiparty politics, adequate legislature-Executive checks and balances, and a capable bureaucracy desirous of serving society (Musgrave, 1998; Oates, 1972). Exponents of the intergovernmental relations school who concentrate on decentralisation reforms in developing countries criticise the assumptions of the welfare economics model. Prud'homme (1995), Smoke (2000, 2001) and Winkler (1994) argue that political choice mechanisms are either non-existent or weak in developing countries. These mechanisms are, among others, voting by ballot in local elections to communicate local preferences, accountability and responsiveness of elected officials to constituencies' demands and aspirations, the risk public officials face of not being re-elected, adequate capacity, and willingness of bureaucracies to promote the welfare of residents.

Exponents of the institutional approach argue that certain institutions (elections, capacity, incentive structure, civil society, political and legal framework, and so on) are necessary for successful decentralisation. Bahl (1999) lists the necessary and desirable conditions, especially political autonomy, for effective intergovernmental fiscal relations. The theory of democratic decentralisation pays considerable attention to the dysfunctional nature of the political choice mechanisms in many African countries and emphasises local political processes, rather than central political processes, for effective decentralisation (Olowu and Wunsch, 2004).

In short, the welfare economics model and new public management theory take for granted the existence of political choice mechanisms such as an effective multiparty political system, accountable and responsive local politicians and officials, and fair elections. The assumptions of the intergovernmental fiscal relations school, institutional approach and theory of democratic decentralisation do not explicitly depart from a neo-patrimonial political context. Nonetheless, their assumptions about political institutions suggest the need for elections, a multiparty political system, involvement of civil society, political autonomy and political officials with the will and capacity to serve society. Whilst such factors could be important in another setting, they are not strong enough to explain the success or failure of decentralisation reforms under neo-patrimonial regimes. Under such regimes, elections are façades to maintain the dominance of one party and its leaders rather than mechanisms to reveal voter preferences and hold public officials accountable. Multiparty politics and popular participation become political tools to dupe donors and citizens, and civil society is not given a subsidiary sphere in the political process.

This chapter contends that specific political factors have to be considered when explaining decentralisation under neo-patrimonialism. These include interparty relationships, intraparty relationships, State-party relationships and legislature-Executive interactions, all of which cause the derailment of decentralisation reforms in neo-patrimonial regimes like Ethiopia. On the basis of the above understanding, this chapter examines the extent to which the EPRDF regime acquired neo-patrimonial characteristics and derailed the decentralisation reform from its original objectives through these specific political institutional elements.

First, the chapter provides a conceptual discussion on the elements of the political institutional arrangements. It focuses on neo-patrimonialism in relation to the specific elements of political institutional arrangements. It then analyses intraparty relationships (relations between central and regional ruling parties), interparty relationships (relations between ruling and opposition parties), the party-State relationship (the ruling party vis-à-vis the State by examining the election processes), and legislature-Executive interactions at both levels of government. It also discusses the influence of political institutional arrangements on the four elements of intergovernmental fiscal relations (expenditure assignment, revenue assignment, fiscal transfer and sub-national borrowing). The discussion on State-party relations shows how elections are used to maintain the dominance of the central political leadership and challenges the assumption of decentralisation theories that elections are a mechanism for revealing constituencies' tax and expenditure preferences. The chapter concludes by reflecting on the conceptual issues of neo-patrimonialism and decentralisation theories.

6.2 Conceptual Discussion on Neo-patrimonialism and Political Institutional Arrangements

After exploring the concept and typology of the party system, this section discusses the concept of neo-patrimonialism and how it shapes intraparty, interparty and State-party relationships. The section also elaborates the concept of legislature-Executive interactions.

6.2.1 Concept and typology of party system

A system of government where political parties compete to assume state power is an institutionalised phenomenon in the Western world, but an evolving one in many developing countries. In all cases, as Smith (2003: 135) observes, 'political parties are reflections of the fact that government is no longer the prerogative of an hereditary elite or alien oligarchy but rests to some degree on the support and mobilisation of the masses'. Defining political parties, however, is difficult as there are enormous varieties in terms of their historical evolution, organisation, strategy, ideology, social base, nature of interaction, and so on.[1] The difficulty is more pronounced in developing countries, where, as Randal (1988) points out, 'political parties wax and wane; disappear and return'. Distinguishing parties from movements, interest associations, State bureaucracies and the military is also problematic. A commonly accepted definition of political parties is provided by Coleman and Rosberg (1964) who describe them as 'associations formally organized with the explicit and declared purpose of acquiring and/or maintaining legal control, either singly or in coalition or electoral competition with other similar associations, over the personnel and the policy of government of an actual or prospective sovereign state' (cited in Smith, 2003: 136; Randall, 1988: 4). However, whilst this definition provides a general understanding of political parties, it does not fully capture their detailed roles.

According to Smith (2003: 136-8), Salih (2003: 4-5) and Randal (1988: 183-7) the normative roles of political parties in developing countries are to endow regimes with greater legitimacy by providing ideologies, leadership or opportunities for political participation; act as a medium for political recruitment, thus creating opportunities for upward social mobility; provide opportunities for the formation of coalitions of powerful political interests to sustain government; assist in the process of political integration by forming coalitions among ethnic or regional parties; act as conduits of upward pressure from the rank and file membership and affiliated organisations representing special interests such as women, youth and trade unions; contribute to political socialisation, affecting the attitudes of party members and the wider public on such matters as the management of the economy, national identification and legitimacy of government; act as major influences on public policy by devising programmes to attract a workable aggregation of interests or through the application of official ideology to current problems; and provide political stability in societies by absorbing and increasing the level of political participation of the new social force generated by modernisation.

The political science literature provides two common typologies of political parties. The first classifies political system in terms of number of parties. Doorenspleet (2003: 174-6), identifies one-party systems, two-party systems, two-and-half party systems, multiparty systems and dominant one-party systems. The second typology, provided by Gunther and Diamond (2003), attempts to set many of the commonly used conceptions of parties into a framework that captures the diversity of party types that have emerged in recent decades. In this typology, parties are classified in terms of their formal organisation, ideology or programmatic commitments, social basis of representation, and strategy and behavioural norms. Gunther and Diamond identify 15 types of parties grouped under five general categories.[2] From the two typologies, this study selects the following three types of parties that reflect Ethiopia's political reality.

- ***Dominant one-party system.*** This is a variant of a multiparty system where only one party is constantly in office and often governs alone. It takes two forms. In one, political parties are allowed to compete freely, although they do not receive enough votes to have a realistic chance of winning. In the other, some political contestation by opposition groups is allowed, but the parties are subjected to varying degrees of official harassment, the electoral system is designed to put the opposition at a disadvantage, and in some cases there is outright electoral fraud.
- ***Leninist party.*** The party has a highly selective recruitment process, engages in intensive ideological indoctrination, has strict internal discipline and demands total loyalty and obedience from members. Decision-making within the party is highly centralised and authoritarian. It promotes 'democratic centralism', which allows open debate prior to taking an official stand but the decision of central key political elites prevails. The party establishes hegemonic control over the political and economic system, abolishing or taking over established social organisations. As a populist party, it sees itself as nothing less than the vanguard of the proletariat and organised expression of the will of society. The party directs the activities of the State and presides over the recruitment of governing elites.
- ***Ethnicity-based party.*** The party's primary base for electoral and legitimation potential is identity mobilisation of an ethno-territorial community. The objectives of such a party include gaining autonomy for the ethnic group it represents within the existing State structures, and securing material, cultural and political benefits as well as protecting the ethnic group in its competition with other groups. The party lacks any ideological agenda but mobilises members by using emotive symbolic issues of identity (common history, religion, language, territory). It differs from nationalist parties and non-ethnic regional parties.[3] Ethnic parties or ethno-regional parties form a multi-ethnic state through an ethnic congress party. The ethnic congress party is a coalition, alliance and federation of ethnic parties or a political machine, although it may take the form of a single and unified party structure. In some cases, one ethnic party within the congress

can assume hegemony over other ethnic groups, through demographic majority, violent conflict or electoral fraud and census rigging.

As will be demonstrated later in the discussion, the above three types of parties characterise those that are dominant in the Ethiopian political system. However, some opposition parties display features of nationalist parties and electoral parties.

6.2.2 Interparty, intraparty and State-party relationships under neo-patrimonialism

There are two main approaches for understanding interparty, intraparty and State-party relationships. The first is an earlier model that depicts the experiences of Western European countries, with the relationship being among political parties that claim to represent deeply divided segments of a given society in terms of religion, ideology, language or ethnicity. The second is a model proposed in African political science literature.

The first approach is consociational democracy. Lijphart (1977: 1-3) notes that the approach was used in the 1950s and 1960s and successfully transformed Western European countries (especially Austria, Belgium, Switzerland and the Netherlands) from societies marked by deep socio-political and religious cleavages to democratic states. He indicates that the main factors in the process are the cooperative attitudes and behaviour of the leaders of the different segments of the population. The other critical features of the approach are a grand coalition of the political leaders of all significant segments of the plural society (a grand coalition cabinet in a parliamentary system, a grand council or committee with important advisory functions, or a grand coalition of a president and other top office-holders in a presidential system); the mutual veto or 'concurrent majority' rule, which serves as additional protection of vital minority interests; proportionality as the principal standard of political representation, civil service appointments and allocation of public funds; and a high degree of autonomy for each segment to run its own internal affairs (*ibid.*: 25). This framework, however, does not fit the current democratic discourse as it undermines the existence of and strong role that opposition parties play. In other words, it neglects the competition aspect of Dahl's (1971) characterisation of polyarchy as competition and participation.

The second approach is neo-patrimonialism, which explains the interparty, intraparty and State-party relationships and even the Executive-legislature relationship in many developing countries. Earlier and recent writings explain the relevance of this theory to understanding political processes in many African countries. Hyden (2000: 18) notes that the theory has its roots in Max Weber's notion of patrimonial authority, that is, exercise of power in small-scale face-to-face types of traditional communities where a person rules due to his personal power and prestige and the followers are subjects. Neo-patrimonialism is, however, a phenomenon in the context of a modern state, that is, one in which there is a modern bureaucracy and a modern political system. Bratton and Van de Walle (1994) and Abbink (2006) argue that neo-patrimonialism has been an institutional hallmark of African politics since independence and is a durable feature in African political life. Chabal and Dazol (1999: 3-4) also point out that 'the state in Africa was never properly institutionalised because it was never significantly emancipated from society'. In other words, many African states have not triumphed over patrimonialism and effectively embraced the Weberian approach of State formation (*ibid*).

Medrad (1996) characterises neo-patrimonialism as a system that reflects nominal features of a bureaucratic-legal State structure with personalised, 'traditionalist' forms of domination, via clientelistic networks and loyalties of ethnicity and kinship (cited in Abbink, 2006: 175). Hyden (2000: 19-21) observes that under neo-patrimonialism, the formal institutions of the modern State system are highly personalised and '…dyadic relations between the "strong man" and his acolytes allowed to take their place'. According to Hyden (*ibid.*) neo-patrimonialism has three dimensions: absence of public accountability, as State affairs are private and secret; patriarchy, as it treats women as second-class subjects; and ascriptive systems, as it encourages recruitment based not on merit but on factors such as ethnicity.

Interparty and State-party relationships under neo-patrimonialism

Interparty and State-party relations are interrelated concepts used to explain interactions between the ruling party and opposition parties and between the ruling party and the State respectively. Bratton and Van de Walle (1994: 474-84) use Dahl's conceptual framework of competition and participation as features of polyarchy to identify four overlapping dimensions of neo-patrimonialism. These dimensions, which are important for understanding interparty and State-party interactions and the policymaking process under neo-patrimonialism, are:

- ***Personal dictatorship.*** In this dimension, the rule of the game is exclusionary politics. Opposition parties, human rights organisations and trade unions are fragmented and impoverished; political competition is banned and political opponents are physically eliminated or indefinitely incarcerated. The institutions of participation and the formal political structure, which are either weak or under the control of the leader, cannot check the absolute powers of the chief executive. The leader, who is referred to as the 'Strongman' or 'Big Man' and emerges from the army or a dominant political party, rules by decree and rules personally by controlling the flow of public revenues and selectively distributing rewards to a narrow entourage of familial, ethnic or factional clients. The 'Big Man' takes exclusive charges of policymaking (rather than relying on technocratic planning or accepting alternative policy options from other sources) and implements instructions through personal emissaries (rather than formal institutions). He pre-empts his removal from office through decrees and the disposition of the regime is synonymous with the personal fate of the supreme ruler.
- ***Plebiscitary one-party system.*** The system pretends to follow inclusionary politics but it is a façade, as the 'Big Man' orchestrates political rituals of mass endorsement for himself, his office-holders and his policies. There is no political competition as opposition political parties are proscribed and only one candidate from the official party appears on the ballot. The regime employs a party machine to distribute patronage to a wider array of economic and regional interests. The system has participation forums for members of the singly party; and national conferences where national elites are summoned to address the country's political problems and attempt to formulate new constitutional rules. Both are self-deceiving exercises done to appeal to both opposition and ruling elite, although the regime considers them as politically useful. The opposition is typically composed of several dozen poorly organised parties (a few with national appeal or programme and others with particularstic interests). The regime in power creates some political space for the emergence of nascent opposition.

- ***Military oligarchy.*** This system is neither competitive nor participative. There are no elections of any kind; political parties and many civil institutions are banned. Small networks of military men make major policy decisions behind closed doors. A relatively professional civil or military hierarchy implements policy. Leaders come to power by force, govern with force, and are reticent about handing power to civilians. They initiate managed transitions, either without great sincerity or in response to popular protest and pressures.
- ***Competitive one-party system.*** In this system, there is a semblance of competition and participation. Some degree of pluralism is tolerated, as the system allows room for opposition parties to compete for government. The pluralism is a fallacy because the single ruling party controls the press and electoral machinery and uses public funds to finance itself. Voters have a restricted electoral choice and are allowed to elect only from among candidates of a single official party. Elections are conducted as mechanisms for retaining power because rulers are confident that they will win election as they control the election resources and limit voters' choice. Policy formulation and implementation is under the domain of a single party network. Such regimes are vulnerable to collapse when economic crises and donor-mandated economic policy reform programmes cut the resources available to the ruler for managing the political game.

The overlapping dimensions of neo-patrimonial regimes outlined above share several common elements: incapacity of the regime to utilise a bureaucratic formula to construct authoritative State institutions, absence of formal governing coalitions between organised State and social interests, blurred distinction between private and public interests, domination of the policymaking process by a few political elites rather than the process being a reflection of organised interests, and lack of subsidiary spheres for civil society organisations to influence the policymaking process. As pointed out by Bratton and Van de Walle (1994: 458), these common features make neo-patrimonial regimes in developing countries a contrast to corporatist regimes in Western countries.

Intraparty relationships under neo-patrimonialism

Intraparty relationships are those between the ruling party (ethnic congress or other form) and independent political parties that form the congress or coalition (member parties or affiliate parties). As this study focuses on Ethiopia's party system, which is dominated by ethnicity-based parties, the following conceptual discussion addresses the relationship between members or affiliate ethnic parties and an ethnic coalition party.

Several authors turn to clientelism to explain the relationship among political parties in many developing countries. Among them are Lemarchand (1972) on Tropical Africa, Scott (1972) on South East Asia, and Smith (2003) and Clapham (1985) on politics in developing countries. Scott (*op. cit.*: 92) argues, 'If we are to grasp […] why political parties seem more like ad hoc assemblages of notables together with their entourages than arenas in which established interests are aggregated, we must rely heavily on patron-client analysis.'

The concept of a patron-client relationship has two main variants, traditional and modern. The traditional form, especially in the African context, had four sub-divisions: patrimonial (king-chief), feudal (noble-serf); mercantile (trader-customer); and saintly (religious leader-follower) (Lemarchand, *op. cit.*). The modern form comprises the complex forms of relationship between different actors in modern political institutions: the bureaucracy and political parties (Scott, *op. cit.*). Employing the definition given by Lemarchand (*op. cit.*: 69), the patron-client relationships can be viewed as 'a more or less personalised relationship between actors (patron and clients), or sets of actors commanding unequal wealth, status and influence, based on condition of loyalty and involving mutually beneficial transactions'. Scott (*op. cit.*) also uses the concept of a 'patron-client pyramid' in which vertical linkages are introduced from the centre to the village level. He refers to the 'client as middleman or broker' and 'client as local patron'. A local notable can be a broker if he becomes the head of his village's political party and acts as a middleman between many villagers and the resources controlled by higher party officials. However, when the central political party gives the local client more direct control and fiscal resources or grants in the area, it thereby enhances his resources for becoming a local patron on a larger scale and commands authority over the local clients.

Lemarchand (1972) provides an important analysis of the relationship between ethnicity and the patron-client relationship, which is vital for understanding the relationship between central and regional ethnic parties, or intraparty relationships. While ethnicity is a means of maintaining horizontal solidarity, the patron-client relationship is for vertical integration. Lemarchand notes that 'in the case of ethnicity, perceptions of mutual interests are dependent upon, and limited by, perceptions of cultural affinities; clientelism, on the other hand, extends these perceptions beyond the realm of primordial loyalties and establishes vertical links of reciprocity between ethnically or socially discrete entities'. Thus, patron-client politics amalgamates ethnic identities within the boundaries of a more inclusive political system (central government and bureaucratic structure). The main features of the patron-client relationship are as follows:

- Clientelism and ethnicity have overlapping memberships, where some individuals stick to the ethnic substructure and others act as intermediary links between the ethnic group and the higher reaches of the clientelistic pyramid.
- The relationship does not always exclude maintenance of traditional clientelistic solidarities at the local level. In some cases, it reinforces ethnic solidarity.
- Patron-client ties are not necessarily dyadic and unidirectional, but may involve a network of reciprocities. The mutually rewarding transactions are patronage, economic security and protection (transactions by the patron), which are exchanged for personal loyalty and obedience (transactions by the client).
- The relationship demonstrates strong inequality and power differences. The central party structure controls not only economic and political resources but also technical resources and expertise. It also defines the organisation of the State structure and is co-extensive with its field of operation.
- The relationship between the ethnic parties and the central political structure varies substantially. For the ethnic political leaders, securing material benefits in some cases becomes an end in itself. In other cases, expectations of material payoffs are only part of a larger complex of motivations (status, wealth, protection, authority or legitimacy). In all cases, however, ethnic political actors cast their lot with the central political authorities because they expect certain rewards to accrue from the relationship.
- The strength of the patron-client relationship between the central and ethnic parties is dependent upon the distributive capacity of the central party organ. Exceedingly lopsided distribution of resources can bring dissatisfaction, revolt or ethnic strife. But as long as these exchange processes are seen as mutually satisfying by the central po-

litical leadership and the party leaders in the countryside, the system retains its homeostatic qualities.

- Elections, with or without violence, provide conditions for the emergence of a dominant party, often sharing the characteristics of a political machine. Voting support is a mechanism to meet demands for goods and services in the rural sector by government agencies. Moreover, clientelism is a potent tool for neutralising political opposition.

Several authors accept many of the above characteristics of a patron-client relationship.[4] Smith (2003: 151-2) emphasises that the links between central and regional parties are highly personalised and party leaders often support and provide protection to those who accept and support their leadership. Conflicts among members are not ideological; rather, they are disagreements over control of State resources, authority to influence key positions in the party and government decision-making structure, and the ability to gain enough followers to win office (*ibid*). Clapham (1985: 56) describes the patron-client relationship in the following way:

> A political party leader at the national level looks around for local leaders who command appreciable support within their own areas. They offer the local leader (or perhaps one of his close relatives or associates) a place in the party as a candidate in his home constituency. The local leader gets the vote, essentially through contacts and authority, and delivers it to the national party. The national party in turn – assuming it wins power – delivers benefits to its local representatives, in the form either of economic allocations from the centre to the constituency or a purely personal pay-off or of central government support in local political conflicts.

6.2.3 Concept of legislature-Executive interactions[5]

The relationship between executive and legislative branches of government differs, depending on whether the country has a presidential, parliamentary or hybrid political system.[6] Although each country has its own variant of these forms of government systems, the following are some general characteristics regarding power relationships between the executive and legislative power in the three systems of government.

Parliamentary system

The legislative body is an elected law-making body. It has two houses, lower and upper. The lower house enacts laws and policies and the upper house has the power to review and propose amendments and perform other related duties. The executive branch is a cabinet headed by a prime minister, who is also the head of government and often leader of the leading party or group of parties. The head of state has a separate responsibility, which is mainly performing ceremonial duties. The cabinet members, some or all of whom are elected members of parliament, are collectively responsible for government policy and make decisions through consensus. The prime minister has a constitutional power of appointment and dismissal of ministers. The civil service is a permanent politically neutral organisation that supports government ministers in carrying out their executive duties.

As the leading party controls both branches of government and the Executive is answerable to parliament, there is fusion of power between the executive and legislative branches of government, or party and State. In this system, the party structure, such as party caucuses, makes important policy decisions, rather than the legislature itself. Strong party discipline ensures that members of parliament of all major parties vote according to party policy because deviation from the party line could result in bringing down the government. As the ruling party sets the legislative agenda, in most cases opposition parties have little political power to introduce their own legislative initiatives.

A check-and-balance relationship is maintained between the executive and legislative branches through different mechanisms. The most important is the legislative branch's power of a 'vote of no confidence'. In other words, the legislature has the power to pass a no-confidence motion or defeat a confidence motion and to reject an Executive budget. In this system, the parliament can remove the Executive through a vote of no confidence. This makes the Executive generally dependent upon the support of the legislative branch. The Executive also has the power to dissolve the parliament and call extraordinary elections. Opposition politicians can play an important check-and-balance role as they have the power to question the Executive, vote as a bloc, provoke internal dissent among members of the leading party and file a no-confidence motion. Standing legislative committees oversee the Executive (these are weak in the United Kingdom but strong in Germany and Australia) by investigating and holding hearings on bills, collecting evidence and keeping an eye on the activities of government departments.

Presidential system

The congress is an elected bicameral legislature comprising different political parties and has substantial legislative power. It has permanent standing committees and subcommittees, with a number of professional staff, to help draft, review and amend legislation. The executive body is the president (who is both, head of state and head of government) and his cabinet ministers have to be approved by the legislative branch. The President cannot introduce bills but he can issue executive orders, provided they are not in conflict with the laws approved by the congress.

Parties in presidential systems are less structured. Disagreement among party members does not threaten the incumbent government's hold on power. As members of congress are usually elected directly from particular regions, many members see their duty to their constituencies as their first priority and allegiance to party commitments as secondary. This creates challenges to the president from his own party. The political makeup of the legislature, or the political positions of supporters and opponents in the legislature, also influences the power of the president.

The separation of power in the system maintains checks and balances. The system establishes the presidency and the legislature as two parallel structures, which allows each structure to supervise the other. In this system, the executive and legislative branches are elected separately and have equally valid mandates from the public. However, the congress does not have the power of vote of no confidence and cannot force the removal of the president from power prior to the end of his electoral term. Another critical check-and-balance mechanism is legislative oversight, which is mainly conducted through the powerful standing committee structure and in a wide variety of congressional activities. These include, among others, authorisation and appropriations; investigative and legislative hearings; specialised investigations by select committees; and programme evaluation and Executive reporting.

Semi-presidential system

This system features both a prime minister and a president. Elected separately, both are active participants in the day-to-day functioning of government. The legislative body has a bicameral structure but limited power of initiating bills. Individual MPs and the Executive (the prime minister and the cabinet) introduce bills but the introduction of Executive-initiated-bills takes precedence over members' bills. The president can also bypass the legislature by taking a bill directly to the public through a national referendum.

The division of power between the president and prime minister varies among countries. In the French system, for instance, the president enjoys more power than the prime minister and cannot be removed prior to his/her electoral term. He can appoint a prime minister from the leaders of the ruling coalition, dismiss the prime minister, elect his own cabinet without parliamentary approval, and dissolve the lower house of parliament. The day-to-day running of the government is in the hands of the prime minister, who is in effect head of the cabinet and the legislature. While in office, parliamentarians may not concurrently hold ministerial posts. As in the parliamentary system, party discipline is enforced, as deviation would potentially bring down the majority party and its prime minister.

Different mechanisms maintain the checks and balances. First, the system allows the existence of a president and a prime minister, often from rival parties. This can create an effective system of checks and balances although it can also lead to instability. Secondly, the legislature has the power of vote of no confidence. The lower house has the power to reject Executive bills and can force the government (the prime minister and legislative leaders) to resign by passing a motion of no confidence. Thirdly, different oversight procedures affirm government accountability to the parliament. These include oral and written questions by deputies during parliamentary sessions, periodical submission of information reports to the parliamentary assemblies by the government, formation of special and permanent committees of inquiry, and parliamentary missions for each executive agency.

The discussion so far has outlined the concepts of the party system as well as interparty, intraparty and State-party relations under neo-patrimonialism. It has also summarised the main features of legislature-Executive interactions under different systems of government. As argued in Chapter 1, during the past century Ethiopia has had political systems that share the features of patrimonialism and neo-patrimonialism. Employing the analysis of patrimonial relationships provided by Lemarchand (1972), the Menelik era can be characterised as a traditional patrimonial regime where there were patrimonial (king-chief) and feudal (noble-serf) relationships. According to the Bratton and Van de Walle (1994) classification, the Haile Sellassie and Dergue regimes were neo-patrimonial political systems characterised by personal dictatorship and military oligarchy respectively. The Haile Sellassie regime did not have political parties but formally allowed a parliamentary form of government. The Dergue allowed only one party, which displayed the features of a Leninist party.

This chapter argues that the EPRDF regime displays the features of neo-patrimonialism. The interparty and State-party relationships share the three dimensions of neo-patrimonialism identified by Bratton and Van de Walle. The intraparty relationship is hierarchical and displays the attributes of a patron-client relationship as discussed by Lemarchard and others. Except for the short-lived harmonious interparty relationship during the initial phase of the Transitional Government, the Ethiopian multiparty political system has never been participatory or competitive. Rather, the party system is a dominant one-party state, which contains political parties that mainly show features of ethnic and Leninist parties. Whilst the EPRDF regime officially claims to follow a parliamentary form of government, in practice one party dominates both executive and legislative branches. The legislative branch is an ineffective institution. The rest of the chapter provides evidence of the neo-patrimonial nature of the political system and the extent to which it shapes the four elements of intergovernmental fiscal relations.

6.3 Intraparty and Interparty Relationships in Ethiopia

In Ethiopia's modern political history, the Haile Sellassie regime (1941-74) did not accommodate political parties while the Dergue (1974-91) recognised the existence of only one vanguard party known as the Workers' Party of Ethiopia. The current regime (1991 – present) formally introduced a multiparty political system to allow equal representation of all groups in the political process. Countrywide political parties and regional ethnic parties are technically empowered to participate in political activities to achieve political power through democratic processes. All parties have to meet certain conditions on party establishment and sources of finance.[7]

Since 1991, the EPRDF has been ruling the country through four member parties and five affiliate parties. Opposition parties within and outside parliament have also been operating in the country's political landscape. The following sub-sections examine the relationship between the EPRDF (the ethnic coalition party) and the regional ruling parties (the member and affiliate parties) which display features of both ethnic and Leninist parties.

6.3.1 Intraparty relationships

The interaction between the central ruling party, Ethiopian Peoples' Revolutionary Democratic Front (EPRDF), and regional (member and affiliate) ruling parties is an intraparty relationship characterised by patron-clientelism. The analysis of the emergence of the parties, their unequal relationship in terms of power and resources, exchange mechanisms, party ideology and party discipline mechanisms will focus on the regional parties' degree of autonomy as well as their accountability and responsiveness to their constituencies. In other words, the discussion will reflect on how the political institutional arrangements sustain central government control over regions and impact on expenditure assignment, revenue assignment and intergovernmental fiscal transfers.

EPRDF and the four regional member parties

Formed in 1989, the EPRDF was an insurgent group that took control of Ethiopia's State power and resources after the fall of the Dergue in 1991. Since then, it has become a dominant party and an umbrella political organisation for four regional ethnic political parties that claim to represent the four large regions of the country containing 86.41 per cent of the population: Amhara (25.6 per cent), Oromo (35.3 per cent), Southern Nations, Nationalities and Peoples (19.8 per cent) and Tigray (5.8 per cent). These regional ethnic parties are Amhara National Democratic Movement, Oromo Peoples' Democratic Organisation, Southern Ethiopian Peoples' Democratic Movement and Tigray Peoples' Liberation Front. A non-ethnic party, the Ethiopian Democratic Officers Revolutionary Movement, whose membership comprises prisoners of war with officer rank, was a member of the EPRDF in 1991, until the TPLF/EPRDF dissolved it. Its members were absorbed into other ethnic parties in 1994.

There are two narratives about the origin of the EPRDF. The first claims that two political groupings, the Tigray Peoples' Liberation Front (TPLF) and Ethiopian Peoples' Democratic Movement (EPDM), which had forged an alliance to oust the Dergue, formed the party (EPRDF, 2001). The second traces the origin of the EPRDF back to the control of Tigray by the TPLF during the war against the Dergue in 1988. TPLF leaders, who had realised that it was meaningless to have an economically viable independent state of Tigray while the Dergue continued to pose a constant threat,[8] organised the EPRDF as a coalition to extend the armed resistance to all of Ethiopia (Pausewang *et al.*, 2002; Young, 1998). The second narrative, about the TPLF creating the EPRDF out of political expediency, is plausible in the light of the formation of EPRDF member parties and power relations between the TPLF and the other parties. The following discussion explains the origin of the EPRDF member parties.

The TPLF is one of the political movements that surfaced in the mid-1970s during the final days of the Haile Sellassie regime.[9] All those movements were either groups that deemed the Ethiopian socio-economic and political crisis to be 'a question of nationality' (ethnic oppression), or those that considered the problems 'a question of class' (class oppression). The common denominator for all political groups was resistance to the Dergue's complete control of State power and resources and its refusal to share those with the politically conscious middle classes or the emerging regional political elites.

Militant Tigrayan students who were fighting the Dergue in ethnicity-based movements established the TPLF in 1975. Based among the peasantry, it conducted an armed struggle for 14 years and took control of Tigray region in 1989. Since then, having a dominant role within the EPRDF, it has been ruling Tigray regional state.

The TPLF organised the Amhara National Democratic Movement, which was at first called the Ethiopian Peoples' Democratic Movement (EPDM), in 1980. The members were a faction of the Ethiopian Peoples' Revolutionary Party (EPRP). The EPRP was one of the prominent class-based political movements that emerged in 1972 to challenge the imperial regime, but the Dergue crushed its urban armed struggle in 1977 and the TPLF partially crippled its rural movement in 1978.

The EPDM was a relatively small armed group in the early 1980s, but it grew gradually by drawing into its army many of the prisoners of war captured by the TPLF and EPLF in their battles with the Dergue. In January 1994, the EPDM renamed itself the Amhara National Democratic Movement (ANDM) with no change in structure, political agenda and leadership. The TPLF decided the change in nomenclature was important because it gave the Amhara ethnic group representation and maintained the EPRDF as the only multinational political organisation in Ethiopia. More importantly, the emergence of an opposition ethnic political party, the All Amhara People's Organisations, made the EPRDF realise that the EPDM was failing to achieve acceptance within the Amhara ethnic group. The ANDM has ruled Amhara regional state since 1991.

The Oromo Peoples' Democratic Organisation (OPDO) was organised by the TPLF in 1989. The first members were prisoners of war and members of the EPDM of Oromo origin. OPDO has ruled Oromo regional state since 1991.

The Southern Ethiopian Peoples' Democratic Movement (SEPDM)[10] was organised by the TPLF in 1994 and it included members from the 23 ethnic political groups in the southern part of the country. The original members of these groups were prisoners of war captured by the TPLF during the armed struggle with the Dergue. These members were trained and organised by the TPLF/EPRDF and were positioned to mobilise and lead their ethnic communities after the fall of the Dergue. Since 1994, the SEPDM has ruled the Southern Nations, Nationalities and Peoples regional state.

After the fall of the Dergue, over time, these ethnic regional parties increased their membership with young teachers, government employees, urban dwellers, rural farmers and others from different segments of society. There are no accurate official figures about the number of party members.

Having created and organised the member parties, the TPLF took a dominant role in the leadership of the EPRDF, although it formally stated that the four regional parties have equal status (EPRDF, 2001a). To quote Young (1998), 'in spite of the nominally coalition structure of the EPRDF, from the beginning the TPLF provided the leadership, ideological direction and majority of the fighters of the movements'. The domination of the TPLF within the EPRDF is clear from the following facts:

- Since its formation, the leadership of the EPRDF has been controlled only by the chairman of the TPLF, who was the country's President during the transition period (1991-1995) and has been Prime Minister since 1995.

- Until the 2001 fracture, TPLF veterans managed and administered the EPRDF office. Of the nine members that led the office, seven were from the TPLF and one from the ANDM and one from the OPDO. The SEPDM were not included in the top leadership at all.
- Businesses owned and managed by member parties (therefore termed parapartals instead of parastatals, which are owned and managed by the state) have been engaged in the manufacturing and service industries. However, the TPLF dominates here as well. Although there is no public information regarding the nature, capital, operation and management of these businesses, some unofficial sources estimate that the TPLF has more than 50 parapartals with capital of over Birr 3.5bn (roughly €320m), the ANDM has five with capital of Birr 350m (€32m), OPDO has seven with capital of Birr 150m (€14m) and the SEPDM has only one with capital of Birr 12m (€1.1m) (Bogale, 2004; Anonymous report, 2003). Vaughan and Tronvoll (2003: 77) also reveal the dominant economic power of the TPLF in terms of owning and managing parapartals in agriculture, trade, cement, textiles and garments, livestock and leather, mining and exploration, transportation, engineering, construction, consultancy and the finance sector.
- High-level political leaders of the TPLF have a de facto mandate to select and appoint individuals for regional party leadership positions.

EPRDF and the five regional affiliate parties

EPRDF's four member parties control the four largest regions and the affiliate parties rule the other five regions. The EPRDF guides, facilitates and controls the establishment of affiliate political organisations in Afar, Somali, Harari, Benshangul-Gumuz and Gambella, which constitute 9.1 per cent of the country's population. These include: Afar National Democratic Party, Somali People's Democratic Party, Harari National League, Benshangul-Gumuz Peoples' Democratic Unity Front, and Gambella Peoples' Democratic Movement. The following brief discussion on Benshangul-Gumuz region demonstrates how the central party controls the regional affiliate parties.

Benshangul-Gumuz comprises more than 11 ethnic groups, but only five are native to the region: Berta (26.7 per cent), Gumuz (23.4 per cent), Shinasha (7 per cent), Mao (0.6 per cent), and Komo (0.2 per cent). The other 42.1 per cent of the population are settlers or outsiders.

Two armed resistance groups in the region fought against the Dergue regime, operating around the border with Sudan in the late 1980s under the guidance and with the military support of the OLF and TPLF.[11] Since 1991, the Benshangul-Gumuz regional political leadership has experienced frequent changes. After the fall of the Dergue in 1991, the EPRDF organised the two resistance groups under one party, the Berta People's Liberation Movement, which it mandated to rule and represent the region in the central Transitional Government Council. In 1993, the EPRDF reorganised another three political organisations representing the native ethnic groups of the region. These were the Gumuz People's Democratic Movement, Boru-Shinasha People's Democratic Movement, and Mao/Komo Peoples' Democratic Movement. In 1994, the EPRDF reorganised the Berta People's Liberation Movement and the three other parties under two major political parties: the Benshangul and North Western Ethiopian Peoples' Democratic Unity Party and the Benshangul and Western Ethiopian Peoples' Democratic Party. The pretext for having only two parties was to reduce the ethnic fractures in the region.

In 1995 candidates from these two parties as well as independent ones stood in the elections, and the presidency of the regional government was assigned to one of the minority ethnic parties, the Gumuz Party. Subsequently, an armed struggle broke out between the Gumuz and Berta parties, as they could not agree on the distribution of positions in the regional government structure. The Berta ethnic group, which claims to be bigger in terms of population and its contribution in the fight against the Dergue, resisted the appointment of a regional president from the Gumuz party. In 1996, the EPRDF intervened and held a 'Peace and Democracy Conference', [12] and the four political parties were merged into one, the Benshangul-Gumuz Democratic Unity Front. The TPLF selected 250 loyal political cadres from the members of this ethnic group for a three-month training course on the EPRDF's political programme and on party internal working procedures. It also provided the newly established party with a duplicate of the ANDM/EPRDF political programme.

Since then, the political feuding between the ethnic political elites of the region has continued. The EPRDF has provided momentary solutions through arbitration, divide-and-rule techniques, imprisoning and demoting those suspected of inciting disturbances, and assigning central political cadres to monitor and give directions on regional political development. During the fieldwork in 2003, the author observed conflict among the ethnic political elites and direct intervention in the form of arbitration by the central political leadership. The key issue behind the political feud was the domination of the regional state by a member of the Gumuz Party who has been appointed and maintained in his senior position since 1995 by the TPLF/EPRDF because of his loyalty and obedience to central rule.

The political party system in Benshangul-Gumuz illustrates two issues. First, the EPRDF continuously leads and follows up the development of affiliate parties through direct intervention in the political affairs of the regions and by appointing the president, vice-president and other top political leaders in every region from among the ethnic groups.[13] Second, the root cause of political conflict between the different ethnic elites is control over the regional state structure, which is the major provider of finance and political resources. Vaughan and Tronvoll (2003: 134) identify five mechanisms through which the central ruling party influences the five emerging regions: direct membership of elected EPRDF representatives on regional state councils, attachment of key EPRDF political advisors to the regional executives, a wide range of seminars and training for party officials and bureaucrats to disseminate and streamline the EPRDF's 'way of thinking', direct disciplining of regional party members and removal of 'unwanted members' from their political positions, and intervention through federal armed and security forces to assume direct control when regions fail to maintain stability.

The above discussion about intraparty relations shows that the EPRDF has been dominating Ethiopia's political landscape through member and affiliate parties. The member parties do not have equal leadership status within the EPRDF, where the TPLF is dominant and the ANDM a junior member. The other two member parties, representing the Oromo and Southern peoples, especially before the TPLF crisis, had little say in party policymaking; they merely implemented guidelines provided by the EPRDF. The affiliate parties also had no say in party policymaking and only implemented EPRDF directives with the assistance and under the control of centrally assigned political and economic advisors.

The regional ruling parties did not evolve through regional political processes; they were organised, reorganised and guided by the TPLF/EPRDF (see also Clapham 1995: 130). This state of affairs limits the autonomy and accountability of regional parties to their regional constituencies. Thus, the EPRDF has a patron-client relationship with the regional (member and affiliate) parties, in which the patron provides security for the client, who reciprocates by proving his loyalty and obedience to the patron. The exchange transactions in patron-client relationships vary and include protection, grants or subsidies in return for loyalty and vote support. In Ethiopia, the power of the central political leaders to provide protection to the regions has legal backing. The 'Big Man' enacted this after the TPLF crisis and his subsequent total domination of power in Ethiopia. Federal Proclamation no. 359/2003 gives the Prime Minister authority to deploy the federal police or defence forces to arrest a deteriorating security situation in a region as well as to set up a provisional administration and suspend the regional council and executive organ if they endanger the constitutional order of the country. As there is no definition in the proclamation of what constitutes endangering constitutional order, the proclamation effectively gives the power to the central political leader to protect loyal regional leaders and penalise disloyal competing regional political elites.

Lemarchand (1972) and Clapham (1985) observe that one of the mechanisms in the clientelist relationship is intergovernmental fiscal transfers, which sustain the sub-national governments' administrative machinery. As explained in Chapter 5, the role of fiscal transfers in maintaining clientelism in Ethiopia is revealed by the ad hoc nature on which the transfer pool is decided, heavy dependency of regional governments on central transfers, the power of the central leadership in commanding patronage, ostentatious discussions on the grant formula that make little difference to the final decision, and the incapacity of the grant system to provide assets, improve infrastructure (in Benshangul-Gumuz) or alleviate regional poverty (in Tigray and Amhara). The discussion on elections in this chapter will provide further details on how clientelism operates in Ethiopia. The following sub-section explores the peculiar nature of Ethiopia's patron-client relationship between the central and regional political leaders – the party ideology and party discipline mechanisms, which undermines the virtues of decentralisation, especially those suggested by the welfare economics model.

6.3.2 EPRDF's party ideology and disciplinary mechanisms

This sub-section discusses the three important mechanisms that shape the relationship between the EPRDF and the regional (member or affiliate) parties: ideology, the party evaluation system and democratic centralism (EPRDF, 2001; ANDM, 2001).

Party ideology

EPRDF's ideology, known as 'Revolutionary Democracy'[14], tries to merge concepts of Marxism-Leninism with the new understandings of liberal democracy, especially post-Washington Consensus, which puts governments of developing countries back into 'the driver's seat'.[15] Although the EPRDF recommends the 'capitalist path of free market economy' for Ethiopia, it rejects the main liberal arguments of limited involvement of the State in macroeconomic stabilisation, distribution and allocation; non-involvement of the State in profit-making ventures; and complete banning of State provision of private goods. On the basis of some common justifications, especially the weak role of the private sector in the economies of poor countries, the EPRDF advocates an unrestricted role for the State in leading, coordinating and being involved in all economic activities. Pointing to the experience of South Korea and Taiwan, it suggests that the State has adequate vision, implementation capacity and political will to play this role successfully.

Revolutionary Democracy categorises businessmen into two groups: 'rent collectors', who need to be strictly controlled and discouraged, and 'value creators', whom it supports. Surprisingly, it promotes the existence and development of parapartals, alternatively termed 'the foundations', which are established and managed by regional ruling parties. The EPRDF maintains that it is building an egalitarian society and claims to represent the interests of the whole society, including the 'value-creating' business group. It questions some of the liberal assumptions and it concludes that Western liberalism promotes the interests of capitalists or 'rent collectors', the exploiting class in a society.

The other principles of Revolutionary Democracy are copied from the post-Washington Consensus agenda and include elements such as primacy of capacity building, popular participation in all phases of economic and social development efforts, active involvement of civil society organisations and other development partners, and clear understanding of the role and impact of globalisation. On the role of and relationship between politicians and the bureaucracy, the EPRDF follows some of the propositions of new public management and assumes that the task of politicians is to develop policies and strategies, and of the bureaucracy to implement those policies and support policymaking processes.

Revolutionary Democracy also echoes the Leninist notion of self-determination that gives every nation, nationality and people the unconditional right to self-determination including secession. It also gives ethnic groups the power to establish institutions of self-government and equitable representation in the state and federal governments. In addition to the political justification for the ethnic-federal arrangement outlined in Chapter 1, a document entitled 'Issues of Building Democratic System in Ethiopia' (2002, in Amharic), produced by the Prime Minister, gives additional rationales for devolution to the lowest tiers of government (which was Ethiopia's second wave of decentralisation). The additional justifications include the enormous diversity among the various regions in terms of geography, settlement patterns, agro-ecology, economic activity, social and cultural values and way of life; big size of the country; inadequacy of the transport and communications infrastructure; and other historical factors. It emphasises the need for good governance, participation of the people (individually or through civic organisations) and linking of each region's socioeconomic development plans with its socioeconomic conditions.

The Prime Minister's document retrospectively (after 10 years) justifies the provisions in the 1995 regional constitutions for giving separate powers and responsibility to *woreda* levels of government. During the previous decade, the *woreda* levels of government had simply served as field agents of the regional governments. The Premier's document, however, provides guidelines on the devolution of administrative, financial and political powers to the lowest (*woreda* and *kebele*) tiers of government. These lowest tiers of government are expected to have elected councils with power to make political decisions, formulate and implement budgets, own an independent and sufficient revenue base, obtain block grants from regional governments (until they are self-sufficient), employ and manage a qualified and motivated work force, and develop appropriate operational procedures and local government structures.

Nonetheless, the document warns that devolution does not mean that lower levels of government are free to plan and implement their operations. It expresses the belief that such a level of autonomy could lead to anarchy and strongly emphasises that lower-level governments should strictly follow guidelines and directives developed by higher-level authorities, but implement them by taking into account their respective socioeconomic conditions[16]. From the document, it is possible to understand the principle of democratic centralism that guides Ethiopia's devolution. In short, devolution for the EPRDF is a process where lower levels of government have the right to plan and implement different socioeconomic activities; but they have to adhere to the higher political bodies' directives on all issues including administrative and financial procedures. This principle has characterised Ethiopian centre-region fiscal relations over the last decade. Lower-level governments are required to understand the full content of the documents and the directives from higher-level bodies. During the fieldwork for this study in 2003-04, all central and regional political officials and cadres, civil servants, students, teachers and the military were ordered to read the six documents of the Prime Minister (the five listed in endnote 18 of Chapter 3 and 'Revolutionary Democracy, Policy and Strategies') and attend workshops and seminars to gain an understanding of the issues in the documents. The documents were also distributed throughout the country.

'Revolutionary Democracy, Policies and Strategies', written by the Prime Minister on the eve of the fracture within the TPLF, details the ideological issues and EPRDF's strategies and directives on agriculture, industry, economic infrastructure, mining, education, health, roads, and so on. The regional parties strictly follow and implement the development strategies and directives in the document. Generally, the EPRDF regards Revolutionary Democracy as a mechanism to relate the party with the State and the central party with regional parties and maintains the ideology to be the one and only path for the country's socioeconomic and political development. The EPRDF considers ideas from other groups or regions that challenge and contradict those given in the Prime Minister's documents anti-democratic and anti-development. These one-size-fits-all ideology, programmes and directives contradict the basic idea of decentralisation, which gives political autonomy to subnational governments in order to address differences in taste, preferences and ideas.

To sum up, two inherently contradictory approaches – Marxist-Leninist and post-Washington Consensus – guide the EPRDF ideology. This is especially true of the roles of the State, private enterprises and decentralisation. Nonetheless, the EPRDF upholds Marxism-Leninism. The neo-liberal ideas are a façade mainly used to meet the requirements of the donor community. As pointed out by Abbink (2006: 177), 'the formal political reforms, the new federal system and its constitution and the two chambers of parliament, […] the reform in the legal system […] are precarious and embedded in other power contexts, dependent on forceful personal action and informal power networks behind the façade.' Like many aid-dependent and neo-patrimonial regimes in Africa, Ethiopia has kept up the rhetoric and policy commitment to democratisation and economic liberalisation of the post-Washington Consensus agenda. While donors, especially the World Bank and IMF, as well as the EPRDF, view economic liberalisation as having brought some changes in terms quantitative economic indicators, democratisation has remained a mirage.

Party evaluation system

The evaluation system is an important mechanism through which the EPRDF relates to the regional (member and affiliate) parties and sustains the party hierarchy and the intraparty patron-client relationship. Historically, evaluation was a common practice to assess failure and progress of military strategies during the TPLF's armed resistance (Young, 1998). Having assumed State power, the EPRDF has been using the system at all levels of government in both the political and bureaucratic organisations.

The internal rules and regulations of the central and three regional ruling parties describe types of evaluations, actors in the evaluation process, and disciplinary measures (EPRDF, 2001a; ANDM, 2001). The evaluation process follows the chain of the party structure: centre to region to zone to *woreda* to *kebele* to community-level party cell. Higher and lower levels of government, in both the political and administrative structures, conduct evaluations; lower-level organs submit reports to the higher party organ. In the bureaucratic structure, the process involves evaluation of an office-holder by subordinates, peers and superiors. Sometimes, especially at the lower level, members of the public are invited to participate in the evaluation sessions of politicians and officials. In some cases the evaluation sessions are conducted regularly, while others are at irregular intervals, arranged when reports from party intelligence sources disclose 'wrongdoing' by politicians and office-holders.

Under normal procedures, the system involves evaluating the status of implementation of the Revolutionary Democracy strategies and the EPRDF's five-year Peace, Development and Democracy programmes in the regions. The central political leadership follows two interrelated steps in evaluating the high-level regional political and bureaucratic officials:

(i) The extent to which regional governments are formulating their detailed plans of action according to the targets and implementation modalities given by the central party organ is assessed, especially those directives spelled out in Revolutionary Democracy and EPRDF five-year development plans.

(ii) Criticism and self-criticism sessions are conducted to evaluate the degree of regional governments' accomplishment of annual plans as well as political leaders' loyalty to the central political leadership and their commitment to Revolutionary Democracy ideology and programmes. In these sessions, the central political leaders appraise the regional political leaders on the basis of quarterly and annual regional reports and intelligence reports. Such forums deliberate on issues of personal behaviour or 'anti-democratic behaviour' – that is, contravening the rights of the people and party members, corruption, favouritism, association with non-party members, disclosing party secrets, infringing party discipline and other misconduct. Depending on the type and degree of transgression or misconduct, party members present in the session vote on commensurate disciplinary measures such as reprimand, demotion, dismissal or imprisonment.

There are two sides to the relevance and impact of the evaluation system. A closer look at the ruling party documents indicates that some of the principles governing the evaluation system are sound. They suggest evaluations should focus on factual evidence and on performance rather than personal traits; individuals should not be threatened to accept accusations; and individuals should be allowed self-criticism. One of the guidelines fits into a popular management concept – that is, no one shall set plans without reviewing past performance. Some of the author's informants, especially political cadres, value evaluation as helpful for instilling loyalty and commitment to party positions and for self-education.[17] A political officer in Amhara described evaluation as an effective mechanism for correcting and educating politicians and office-holders at all levels, making them accountable for their performance and preventing abuse of power and corruption (interview, Bahirdar, February 2004). An informant in Tigray also had a favourable opinion, describing evaluation as a good instrument for 'clearing out the deadwood', encouraging openness, reducing corruption and increasing motivation and improving performance (interview, Mekele, November 2003).

However, there is a negative side to EPRDF's evaluation system because of the severe punishment resulting from criticism. The party programme states that members who entertain different views from the party line cannot continue as party members and any opposition to EPRDF programmes and policies leads to expulsion from party membership. Some informants told the author that the system enhances central political domination over regional parties and the country's bureaucratic apparatus, encourages conformity, kills incentives to innovation and flexibility and discourages challenges to the status quo. The evaluation system is also used to penalise or remove potentially disloyal politicians and bureaucrats or those who challenge the EPRDF's party ideology and programmes.[18] However, in most cases regional politicians and officials who engage in 'anti-democratic acts' or whose performance is substandard, but who are loyal to the central political leadership, are tolerated.

Some informants, especially officers and experts in the civil service, severely criticised the use of the evaluation system not only to monitor adherence to central party objectives, but also to inculcate the EPRDF ideology by force.[19] One stated, 'In the evaluation sessions there is only one choice – swallow your pride and accept whatever is said by the political cadres in order to stay on in your job '. Another noted that the sessions are not open and transparent; they involve intimidation and their outcome largely depends on the whims of the high-level political cadres leading the sessions. Those who have a good rapport with political leaders survive the evaluation but those with poor social skills are victimised. Generally, the evaluation is a psychological weapon to keep lower-level politicians and office-holders insecure even if they are loyal to the system. Some informants described the process as immoral because it can be used to settle personal scores.[20] The common view of the insecurity caused by evaluations is that 'being an office-holder of the EPRDF is like sleeping on a tree branch'.

The evaluation process seriously compromises the amount of time office-bearers can put into their work. This problem is so serious at the regional level that bureaus fail to operate for weeks and months on end as their high-level decision-makers are being grilled in evaluation sessions. In Benshangul-Gumuz, the regional president spends one-third of his annual working time attending evaluation sessions at the centre.[21]

Evaluation is clearly a tool for the central party to keep firm control over regional politicians and bureaucrats. It ensures achievement of the political objectives of the central leadership of the EPRDF. In effect, it limits the effectiveness of intergovernmental fiscal relations reforms as it enslaves regional politicians and officials and destroys their autonomy, downward accountability, competence, creativity and initiative. Aalen (2002a: 87) also highlights the control aspect of evaluation:

> Transformed in the context of a peacetime administration, it is often regarded as open to the manipulation of senior cadres who decide when to hold a *gimgema* (evaluation) and which issues to raise. Though it is still used to expose corruption and remove administrators who use their power for unpopular and selfish ends, it has also been described as working as a 'tool of party control'.

Recently, however, the party has been reconsidering the effectiveness the evaluation system in controlling the bureaucratic apparatus. Vaughan and Tronvoll (2003: 135) observe that, 'since the renewal of the party, the practice of *gimgema* (evaluation) is under consideration by the EPRDF, and its use may from now on be restricted to internal party business; if it is indeed removed from civil service practice, this will mark a significant shift in thinking.'

Democratic centralism

The principles of democratic centralism govern the relationship between the EPRDF and the regional member and affiliate parties. These principles are incompatible with the common features of intergovernmental fiscal relations and devolution. The following are some of the guiding principles of democratic centralism in the EPRDF party programme and the regional parties' internal working documents (ANDM, 2001; EPRDF, 2001a).

- In the chain of party hierarchy (centre- region – zone – *woreda* – *kebele* – cell), the lower organs are obliged to implement decisions from higher bodies unquestioningly.
- In the decision-making structure, higher bodies have the right to cancel, amend and change decisions made by lower bodies.

- Party members have the right and obligation to discuss the agendas presented freely; or to oppose, support, and provide critical comments. However, they have no right to lobby or mobilise others against decisions passed by the majority. Members cannot discuss agenda issues with other members, or lobby on issues of interest, or attempt to gather support outside formal discussion forums. Any attempt to create factions or any other grouping in an open or hidden manner is a major disciplinary breach.
- All decisions at all party levels are approved by simple majority (51 per cent).
- Members have the right to appeal if their petition is supported by one-third of the central committee members. The decision on each appeal is made by simple majority (51 per cent) of the central committee. Until the appeal is decided, all party members are obliged to implement the decision being appealed.
- Leaders of regional parties have to submit detailed performance reports to higher bodies. Accordingly, members will be held responsible for poor performance or lack of performance.
- The EPRDF supports regions by sending temporary missions or individuals, who will work together with regional parties to resolve capacity problems.

The party programmes stipulate that a political party can be a member of the EPRDF only if it follows democratic centralism, conforms to principles of the evaluation system and accepts the supremacy of the central party's Revolutionary Democracy ideology, programmes, rules and regulations (EPRDF, 2001a). Given the above principles, it is difficult to imagine a viable regional government that could articulate, develop and implement regional policies on provision of public goods and services as well as mobilise and administer regional financial resources. The party also forbids its members in the legislative branches at both levels to lobby or create factions and different legislative groups that could articulate the aspirations of different interest groups. The principle of majority rule in the party central committee is also a façade. As discussed in Chapter 3, the initiation of and final decision on policies in the country rested with a few 'Big Men' before the TPLF crisis in 2001 and since then has been the preserve of one 'Big Man'.

The above discussion has provided additional features of the patron-client relationship that are lacking in the reviewed literature. In sum, patron-client relationships characterise intraparty relations, comprising the classic patron-client features as well as some that are peculiar to present-day Ethiopia – the party ideology, evaluation system and democratic centralism. The party ideology, Revolutionary Democracy, is not only the basic ideological and policy framework but also provides detailed directives to regional governments on expenditure prioritising. Democratic centralism enjoins both the party and the State apparatus to follow central directives strictly. The evaluation system ascertains the effectiveness of democratic centralism and Revolutionary Democracy. It is apparent that the party system has been instrumental in making regional governments responsive and loyal to the central party (upward accountability) rather than to their constituencies (downward accountability). The institutional arrangements in Ethiopia pre-empt the outcomes of decentralisation expected in the welfare economics model – efficiency, autonomy, downward accountability, participation and matching local preferences with local resources. They obstruct the effectiveness of expenditure and revenue assignments and sustain central control over regional governments. However, they are an effective instrument for sustaining neo-patrimonialism and maintaining the patron-client relationship.

6.3.3 Interparty relationships

Multiparty politics, as related to decentralisation, theoretically allows nurturing of innovative ideas on expenditure prioritising and revenue mobilisation, mechanisms to check and balance government actions, and the possibilities for competition and participation by different groups in the political process. Ethiopia's political landscape has various multiethnic and ethnic opposition political parties, which were formed before and after the EPRDF's ascent to power. This sub-section discusses the relationship between the opposition parties and the EPRDF and the extent to which it generates the expected outcomes for intergovernmental fiscal relations.

Short-lived harmonious interparty relationships

The first National Conference (1-5 July 1991) held after the fall of the Dergue and the subsequent formation of the Transitional Government Council (1991-95) were forums that provided opportunities for opposition parties to compete for power and participate in the EPRDF government's political and administrative structure. It was a smooth but short-lived interparty relationship. The following four cases provide details.

EPRDF and Oromo Liberation Front. Though ephemeral, the relationship between the EPRDF and Oromo Liberation Front (OLF) was a good gesture in the political process.[22] In the late 1970s and particularly in 1983, the OLF and the TPLF/EPRDF jointly fought the Dergue regime. However, the relationship deteriorated due to differences in political and military strategy and worsened when the TPLF/EPRDF formed its own Oromo wing, the Oromo Peoples' Democratic Organisation (OPDO) in 1989. In order to improve relations between the two groups, the United States of America invited the OLF to be a junior actor in the Transitional Government. The EPRDF and OLF were the main actors in ratifying the Transitional Charter. Pausewang *et al.* (2002: 29) observe that the process 'enshrined the hope of both reconciliation between the different groups in Ethiopia and peaceful and democratic cooperation in shaping a new federal State'. After a year, however, mutual distrust and disagreements led to a split and a violent conflict, which resulted in the OLF's withdrawal from the Transitional Council and the 1992 local elections. Some of the disagreements were over imbalance in the allocation of Transitional Council seats and ministerial and ambassadorial positions, the size of the army the two parties should maintain, and the EPRDF's domination of the political leadership of the Transitional Government.

EPRDF and SEPDC. The other important political group during the transition period was the Southern Ethiopia Peoples' Democratic Coalition (SEPDC). Formed in 1992, it was a coalition of 16 political parties and a member of the Transitional Council for less than two years. The TPLF/EPRDF formed many of the parties immediately after the fall of the Dergue. The SEPDC came into conflict with the EPRDF in 1993 when it participated in the Paris Conference for Peace and Reconciliation, which accused the EPRDF of having aborted the democratisation process and demanded a new broad-based transitional government.[23] The EPRDF gave an ultimatum to the 11 SEPDC member parties that had participated in the Paris Conference to condemn the declarations of the conference through self-criticism within seven days or resign from the Transitional Council. Six of the parties dissociated themselves from the conference declarations, but five did not do so ('Minutes of the 65th Regular meeting of the TC', April 1993). SEPDC split up in 1993, with some of the ethnic parties continuing to remain in the opposition and the EPRDF organising the rest as the Southern Ethiopian People's Democratic Movement (SEPDM).

EPRDF and multinational parties. The two multinational parties in the Transitional Government were the Ethiopian National Democratic Organisation and Ethiopian Democratic Coalition. Some Ethiopians living abroad formed these parties in the late 1980s. The relationship between the EPRDF and the two parties was smooth at the beginning as the parties participated in the forums organised to discuss the Transitional Charter and the draft Constitution. Once the transition period ended, the multinational parties joined with three ethnic parties in the Transitional Government to form the Ethiopian National Democratic Party.[24] They fielded candidates in the May 1995 election, but won no seats in the federal parliament. After 1995, the parties gradually declined in the political landscape.

EPRDF and Ethiopian Democratic Union. The Ethiopian Democratic Union (EDU) was formed by some members of the Tigrayan nobility to fight the Dergue. The party fought bloody battles with the TPLF in 1977 and 1978 over the control of Tigray. Finally, EDU was defeated and driven out of Tigray and went into exile. In 1991, the EPRDF invited it to the National Conference and gave it a seat in the Transitional Council. However, the EPRDF expelled the EDU in 1993 due to its participation in the Paris Conference. It has maintained its opposition since then and was the only opposition party that attempted to run for elections in Tigray in 1995 and 2000.

Some other opposition parties that were part of the Transitional Council have also left the Transitional Government after less than two years. These included Islamic Front for the Liberation of Oromo,[25] Western Somali Liberation Front, Sidama Liberation Movement, Somali Abo Liberation Front and United Oromo People Liberation Front.[26] At present, these parties are in exile and some claim to be engaged in armed struggle against the EPRDF.

Tenacious conflicts in interparty relationship

From the outset, the relationship between many opposition parties and the EPRDF was been full of confrontation and polarisation. The first was between the EPRDF and the Coalition of Ethiopian Democratic Forces (COEDF). Political parties in exile, especially the Ethiopian Peoples' Revolutionary Party (EPRP) and the All-Ethiopian Socialist Movement, organised the COEDF in 1990.[27] The EPRDF refused to participate in the 1991 National Conference and in the formation of the Transitional Council with the COEDF on the pretext that the COEDF should first renounce violence and publicly commit itself to peaceful political struggle. Actually, the main reason for the refusal was extension of the hostility caused by the armed conflict between the EPRP/COEDF and TPLF/EPRDF from 1978 to 1980, which the TPLF/EPRDF won.

The other confrontation has been between the EPRDF and All Amhara People's Organisation (AAPO). The party, established in 1992, has the main objective of protecting the rights of the Amhara in the various regions of the country. It has been one of the most vocal organisations in the country. The EPRDF accused AAPO of inciting ethnic conflict and jailed the party leader, who died in prison. The party has now renamed itself the All Ethiopian Unity Party (AEUP). From 2001 it was a part of the parliamentary opposition, with only one seat out of 547. In the May 2005 election, the party joined a newly created opposition coalition party, the Coalition for Unity and Democracy (CUD), which won many seats at the centre as well as in Amhara region. However, CUD declined to join the 2005 parliament after accusing the EPRDF of electoral fraud. In response, the ruling party imprisoned the AEUP leader (who also chairs CUD) and some of its members on charges of treason and genocide.

The relationship between the EPRDF and the opposition parties formed during and after the transition period – Council of Alternative Forces for Peace and Democracy, Ethiopian Democratic Party, Oromo National Congress and others – has also been bad. The May 2005 elections were marked by the killing of around 193 innocent civilians and six policemen; and injuries to 763 civilians (confirmed by an October 2006 inquiry commission report); and incarceration of 131 political leaders of the CUD, journalists, employees of NGOs (who are currently charged with treason and genocide) and a still undetermined number of opposition party members and sympathisers (independent reports claim more than 50,000 prisoners). The EPRDF government gives only the numbers of released political prisoners, which, according to IRINnews.org of 16 January 2006, has reached 11,200.

In sum, there were initial attempts by the EPRDF to include some political groupings in the political process. Within a year, however, cooperation across political parties practically ceased and the political party landscape in Ethiopia was polarised. Table 6.1 summarises the extreme power asymmetry between the EPRDF and the opposition during the past decade.

Table 6.1
Share of seats after various elections (%)

	EPRDF member parties	EPRDF affiliate and other parties	Independent candidates	Opposition parties
1992: regional elections	96.6	3.4	0	0
1994: Constitutional Assembly elections	89.3	10.7	0	0
1995: first federal parliament elections	90.1	7.3	2.6	0
2000: second federal parliament elections	87.9	7.3	2.4	2.4

Source: National Elections Board, Addis Ababa (various documents, 1992-2005).

Having been dominated by one party, Ethiopia's political process has never been inclusive. The frequent confrontations and polarisation in the interparty relationship have derailed the democratisation process and the effectiveness of intergovernmental fiscal relations reforms. EPRDF's strategy to resolve differences of opinion has dominantly been that of party cloning. For example, the EPRDF formed the Oromo People's Democratic Organisation when it could not get along with the Oromo Liberation Front; created the Southern Ethiopian Peoples' Democratic Movement after falling out with the Southern Ethiopian Peoples' Democratic Coalition; changed the name of the Ethiopian Peoples' Democratic Movement to Amhara National Democratic Movement to counteract the All Amhara People's Organisation; and created a loyal Oromo National Congress when the original one allied itself with other strong opposition groups. Currently in Ethiopia, there are two teachers' associations, two journalists' associations and two human rights groups because cloning is also used to undermine uncooperative civic organisations.

The EPRDF and opposition parties trade vehement accusations. The opposition parties contend that the EPRDF intimidates and harasses their leaders and members through the security forces; has never shown itself to be committed to pluralism; is unwilling to engage in dialogue over alternative political perspectives; and is obsessed with the simplistic assumption of 'if you are not with us, you are against us'. Some writers argue that the EPRDF's victory over the Dergue confirmed its superiority over other parties so that it feels no need to accommodate other opinions (Pausewang *et al.*, 2002; Young, 1998; Merera, 2002). The EPRDF accuses the opposition parties of not being credible because they comprise 'part-time politicians'. It characterises them as having weak capacity (in terms of organisation, membership, and material and human resources), lacking clear political programmes, and having limited support among the rural population. During the 15 May 2005 countrywide elections, the confrontation and recriminations reached a climax, endangering the existence of Ethiopia as a viable political state.

The above discussion demonstrates that the Ethiopian multiparty political system reflects the features of neo-patrimonialism. A single party has majority control over the central and regional legislature, fully controls the Executive, and harasses and incarcerates opposition party members. Member and affiliate parties at the regional level have been under the control of the central party organ. The centre has excluded opposition parties from the political process. The interparty and intraparty relationships demonstrate that political exclusion and one-party domination are prevalent features of Ethiopia's political landscape. Ethiopia has never had a political space of genuine multiparty politics where agreements and cooperation are cultivated and differences of opinion on expenditure assignment, revenue assignment and other issues of decentralisation are entertained.

Generally, the de facto political institutional arrangements, especially the interparty and intraparty relationships, are effective in maintaining the domination of the central government over the regional governments but ineffective in generating local accountability and responsiveness as well as in enhancing regional governments' competitiveness and innovativeness. The whole process compromised the success of decentralisation. The assumptions of the theories of decentralisation, especially the welfare economics model, have not recognised the potency of neo-patrimonialism, especially interparty and intraparty relationships, in shaping the design and implementation of intergovernmental fiscal relations reforms.

6.4 State-Party Relationship in Ethiopia

The above discussion has shown how intraparty and interparty relationships shape intergovernmental relations in Ethiopia. The following section illustrates the State-party relationship by demonstrating how the dominant party controls the State in Ethiopia. To explain the impact of this on intergovernmental fiscal relations, the following sub-sections examine the election process during the transitional government period, the constitutional assembly and the two terms of the government (1995-2000 and 2000-05). The analysis focuses on how actors in the legislative and executive branches get into power, how the EPRDF controls the State through elections, and the formulation and approval of the legal framework on intergovernmental fiscal relations. The discussion also shows the misfit between the Ethiopian political reality and the assumptions of the welfare economics model and other decentralisation theories, which assume that elections provide a means for expression of local preferences, participation and competition in designing national policies and that they generate accountable and responsive politicians and officials. While reflecting on the election process, the sub-sections will discuss the way in which Ethiopia's legal framework on intergovernmental fiscal relations is formulated and approved.

6.4.1 Governing body during Transitional Government period

The first governing body during the Transitional Government period was the Transitional Council (1991-95) which included members of liberation fronts and political groupings. As set out in Chapter 3, the number of seats in the council was set at a maximum of 87. The EPRDF proposed the allocation of seats and took the largest share – 32 seats; the OLF received 12 and the 29 other parties mostly one each, some receiving more than one. The EPRDF excluded some of the multinational political groupings from the Transitional Government. The rebellious OLF and some of the SEPDC parties left within a short time, and the EPRDF then fully controlled the Transitional Council.

The Transitional Charter guided the activities of the Transitional Council and laid down the structure, rules and policies of the government. The Charter, which was the basis for the 1995 Ethiopian Constitution, was actually a replicate of the TPLF/EPRDF's March 1990 'Proposal for a Smooth and Peaceful Transition in Ethiopia'.[28] The Proposal was accepted as the Transitional Charter with minimal or no resistance by members of the National Conference.[29] Guided by the Transitional charter and dominated by TPLF/EPRDF, the Transitional Council ratified many of the political, economic and social policies, whose ramifications still affect the lives of Ethiopians today. The Council decided the structure of government, devolution of power to regional governments, revenue and expenditure assignment, fiscal transfer and borrowing. During this period, the TPLF/EPRDF enacted major national policies on health, education, roads, agriculture and industry without waiting for the formation of a broad-based government to approve the policies and the formal establishment of the regional governments. The TPLF/EPRDF's precipitate actions reflected its lack of commitment to the participation of competing political groupings, which is a typical feature of neo-patrimonialism.

Two elections gave rise to the formation of the three regional councils during the transition period. The first was a snap election in mid-April 1992 in which *kebele* leaders who would serve on the *kebele* election commissions were chosen, not through formal campaigns and secret ballots, but through nomination at public meetings. EPRDF declared the elections a successful initial exercise within the democratic process. However, election observers reported the elections were rigged and resulted in nomination of EPRDF's supporters to continue exercising State power at local levels. The reports also indicated that EPRDF exploited the election process to eliminate its political opposition and threatened supporters of opposition parties with reprisals (NDI, 1992: 24-8).

The second round of elections, for regional council members, was held on 21 July 1992. The National Election Commission declared voter turnout to be 80 per cent, and balloting took place in 19,148 of the 22,605 *kebeles*. The EPRDF and affiliated parties claimed to have won an overwhelming majority – 1108 of the 1147 contested seats in the regions.

Election observers reported that there had been enormous administrative problems during the run-up and election period.[30] Many of the opposition parties boycotted the regional council elections because of intimidation and detention of opposition supporters and candidates.[31] In most of the regions EPRDF's member and affiliate parties were the only ones on the ballot (Pausewang *et al.*, 2002). NDI (1992: 6-7) vehemently criticises the election process:

> To the disappointment of many Ethiopians and their friends in the international community, the June 21 elections represented a sterile, surreal and wholly formalistic affair. […] Candidates were designated for specific offices, but no genuine competition among candidates or parties existed. Ballots were printed, but no meaningful control was exacted regarding their distribution. Voters went to the polls, some waiting in the inevitable long lines, but few understood the difference between these elections and those that occurred during the previous regimes. […] The June 21 elections did not contribute directly to Ethiopia's development as a democratic state. […] Less kindly judged, the elections were ill conceived, dubious and counterproductive in their contribution to the democratization of Ethiopia. The elections, moreover, exacerbated existing tensions, reinforced the hegemonic power of the EPRDF while marginalising other fledging parties.

A report by election observers from the Germany-based Heinrich Boll Delegation deplored that the election was not competitive, as opposition parties' officials and supporters had been imprisoned and harassed and their offices had been closed (cited in NDI 1992: 106). The EPRDF dominated the election committees at *kebele* level and the opposition parties were not represented in those committees. In response to the above reports about election irregularities, the EPRDF stated:

> While the election process was flawed in many ways and suffered from administrative and logistic difficulties, budgetary problems, and the withdrawal of some organizations from the process, the Transitional Government views the elections as an important first step towards establishing a democratic political process in Ethiopia (cited in NDI 1992: 109).

The above discussion shows that the EPRDF dominated the Transitional Government. The EPRDF enacted intergovernmental fiscal relations policies with little participation by regions and different groups in society. The initial members of the regional councils came to power through a flawed election process and all were members and sympathisers of the EPRDF. This indicates that the objective of the Transitional

Government as given in the preamble of the Transitional Charter – 'safeguarding the rights and interests of the deprived citizens by a democratic government elected by and accountable to the people'– was no longer considered important. Many of the EPRDF fighters and supporters elected in this manner are still functioning in central and regional government and party structures.

6.4.2 Constitutional Assembly and legal framework for intergovernmental fiscal relations

The previous sub-section briefly described the design of the policy on decentralisation (and hence intergovernmental fiscal relations) under the Transitional Government. This sub-section discusses the way in which the decentralisation policy was adopted in the 1995 Constitution. It reflects on the process of framing a federal Constitution that stipulates a federal pact or participation, negotiation and agreement among the levels of government. It also describes how the central ruling party controlled the framing of the legal framework that shaped intergovernmental fiscal relations and how the election of the Constitutional Assembly was a flawed process.

The Constitutional Assembly was created following articles 10 and 11 of the Transitional Charter (1991), which mandated the Assembly to give the final endorsement to the 1995 Ethiopian Constitution once the Constitutional Commission developed the draft and the Transitional Government Council gave initial approval. The Assembly approved the legal framework for expenditure and revenue assignment, fiscal transfer system and sub-national borrowing in Ethiopia along with the country's Constitution. There were three steps in the process:

(i) Initial draft

The Constitutional Commission developed the initial draft of the legal framework in 1993. The EPRDF declared that the Commission would have seven members from the Transitional Council, seven from political parties in the Council, and four from religious institutions. However, the Commission actually comprised members of the EPRDF, hand-picked members from other political parties, advocacy groups created by the EPRDF (like Forum-84 and Ethiopian Moslems Democratic Movement), and a few foreign experts. Some members of the Transitional Council accused the EPRDF of not extending official invitations to other political parties and civil society institutions. Members of prominent opposition parties and other popular institutions like Addis Ababa University were not involved as the EPRDF labelled them 'anti- democratic and anti-development institutions' ('Minutes of the 50th and 61st Regular Sessions of the Transitional Government Council', 1992).

The Commission claimed that it conducted public meetings covering more than 10 million people in 37,000 *kebeles* to discuss the concept paper on the Constitution, gathered opinions from different groups in society and studied the constitutional experience of different countries. Whilst no indication has been given of the voter turnout, it declared that 90 per cent of the population accepted the EPRDF's principles of right to self-determination up to secession and pubic ownership of land ('Minutes of the 94th Regular Session of the Transitional Government Council', 1994). However, a report by the Norwegian Human Rights Institution stated that 'most people had no better than a theoretical chance of participating in a fraction of the debate' (Pausewang *et al.*, 2002). Actually, the Commission had randomly gathered a section of the public to discuss and endorse the TPLF/EPRDF political programme and most of the issues in the Transitional Charter.

(ii) Approval by Transitional Government Council

The Transitional Government Council then approved the legal framework – with little modification – after debating it for 12 days during which the attendance was disappointing. Of the 87 members of the Council, 64 approved the draft.

Table 6.2
Attendance record at Transitional Government Council sessions during approval of legal framework (%)

	Day 1	Day 2	Day 3	Day 4	Day 5	Day 6	Day 7	Day 8	Day 9	Day 10	Day 11	Day 12	AV
Pr	78	75	73	78	73	70	58	66	70	70	66	66	70
Ab	22	25	27	22	27	30	42	34	30	30	34	34	30

Notes: Pr = Present in Chamber; Ab = Absent.
Source: 'Minutes of the 94th Regular Session of the Transitional Government Council', 1994.

As Table 6.2 shows, the absentee record of these 64 members over the 12 days averaged 30 per cent. The record shows that the Transitional Government Council members were not serious about discussing the Constitution and the policies of intergovernmental fiscal relations embedded in it. An informant who was a member of the Council told the author that 'members lacked interest as they were there to listen, not to change or modify the main contents of the draft.'[32]

(iii) Approval by Constitutional Assembly

The Constitutional Assembly gave the final approval to the Constitution. The members of the Assembly were elected through countrywide balloting on 5 July 1994. Of the 547 seats in the Assembly, the EPRDF controlled 89.3 per cent while the political parties created by the TPLF/EPRDF to represent minority nationalities won 10.7 per cent. The political context within which the elections were conducted was similar to that of the 1992 elections. First, the armed conflict between the EPRDF and Oromo Liberation Front as well as between the EPRDF and Islamic Front for the Liberation of Oromo was still in progress, though at a lower level of intensity. Second, most of the organised political opposition parties boycotted the elections as they were convinced that the conditions for meaningful participation did not exist. Based on reports from the Norwegian observer team, Pausewang *et al.* (2002: 37) remark:

> …many rural voters did not know what they had voted for. Nor did people have a chance to select candidates of their choice, as most opposition parties had once again withdrawn and boycotted the election in the protest against their systematic exclusion from the constitution drafting process and heavy discrimination during the preparation for the election.

Established in a context where there was no political inclusiveness, the Constitutional Assembly ratified the draft Constitution on 8 December 1994, and it came into force on 21 August 1995. The then President of the Constitutional Assembly and the country's ex-president stated in an interview with a local newspaper, *Hizbawe*, in 2004: 'The process of developing the Constitution was done by excluding prominent political parties and in the absence of dialogues and articulation of alternative ideas and thoughts.'

The above discussion reveals that the legal framework on intergovernmental fiscal relations in Ethiopia was approved without articulating the different interests in society. As discussed in Chapter 3, it was initially formulated by hand-picked experts at the centre and then passed through a new process of design and approval by the Constitutional Commission, Transitional Government Council and Constitutional Assembly. The process did not involve debate among regional and central representatives, politicians and bureaucrats; nor did the formulators of the legal framework seriously consider regional and nationwide socio-economic and political realities, the financial and administrative capacity of regional governments, and the relationships between expenditure assignment, revenue assignment, transfers and borrowing. The above discussion also revealed that the elections conducted to obtain people's preferences on policy issues and select representatives for the Constitutional Assembly were a farce and were used to reaffirm the agenda of the dominant party.

6.4.3 First governing body (1995/6-2000/1)

Following ratification of the Constitution, new governing bodies were elected both at the federal and regional levels and began sitting on 21 August 1995. The nationwide elections for regional councils and the federal House of Peoples' Representatives were conducted on 7 May 1995. According to National Election Board (1995), 19.98m people voted out of the registered 21.3m. Of the 547 seats at the federal level, EPRDF member parties took 493 (90.1 per cent), affiliate parties took 40 (7.3 per cent) and independent candidates won 14 (2.6 per cent). In the case study regions, the TPLF took all the 152 regional council seats in Tigray; in Amhara, of the 294 regional council seats, only one was won by a member of the opposition; in Benshangul-Gumuz, of the 54 seats, Benshangul and North-Western Ethiopian Peoples' Democratic Party took 41, Benshangul and Western Ethiopian Peoples' Democratic Party took seven, and independent candidates won six (*ibid.*).

According to a report by the Donors' Election Unit (1995), unlike during the June 1992 elections, political instability had not prevented most Ethiopians from casting their ballots. The Unit reported that an atmosphere of non-violence had characterised the elections and there had been fewer administrative problems. However, the report stated that the main opposition parties (Southern Ethiopia People's Democratic

Coalition, Oromo Liberation Front, All Amhara People's Organisation, and Ethiopian Democratic Union), which could have possibly offered significant alternatives to the ruling EPRDF, had boycotted the election; and a number of legally registered but non-participating parties had faced political intimidation and arrest and the EPRDF had closed their offices in the pre-election period. Thus, the political atmosphere did not suggest unconditional freedom for voters. Many voters anticipated negative consequences if they did not follow the instructions of kebele leaders to register and vote for the EPRDF. The report also said that local EPRDF cadres had forced the rural population to vote for EPRDF candidates. Those who had voted for the opposition were denied access to health services and seeds and fertilisers (*ibid.*).

On the whole, the EPRDF was the only major political organisation to participate in the May 1995 elections. As had happened before, major opposition parties boycotted the elections, claiming that the process would not be truly competitive. The government issued a different explanation for the boycott: 'the oppositions had stayed away for fear of devastating defeat due to having less mass supports' (Addis Alem, 2003: 186).

6.4.4 Second governing body (2000/1-2005/6)

Elections for the federal and regional governing bodies were held on 14 May 2000. National Election Commission (2001) records that in the House of Peoples' Representatives, the EPRDF and its affiliate parties won 521 seats (95.2 per cent), the opposition 13 seats (2.4 per cent) and independent candidates 13 seats (2.4 per cent). At the regional level, EPRDF member parties took all the regional council seats in Tigray and Amhara. In Benshangul-Gumuz, of the 80 regional council seats, the Benshangul-Gumuz Democratic Unity Front, an EPRDF affiliate, won 71 seats and independent candidates took nine seats. In the other regions, too, the EPRDF and its allies took an overwhelming majority of the seats (*ibid.*).

Unlike in earlier elections, the main opposition parties, including the All Amhara People's Organisation, Southern Ethiopian Peoples' Democratic Coalition and some other locally based parties, especially in the south, participated in the election. Local NGOs like the Inter-African Group organised election conferences where competing parties could discuss their programmes with voters in different parts of the country.

However, there were some deficiencies in the May 2000 election: increased political control over the election process by *kebele* and *woreda* officials; opposition party candidates being blocked from registration; weak human, financial and organisational capacity of opposition parties and their failure to articulate alternative policy agendas; and the EPRDF's intimidation of election observers who refused to approve election results (McCann, 2002; Aalan and Pausewang, 2002). Vaughan and Tronvoll (2003: 133) also refer to widespread voter intimidation by the government, harassment, ballot stuffing, vote count fraud, detentions, dismissals from work, withholding of salaries and even killing of opposition party members and sympathisers.[33]

The extent of harassment, intimidation and killing of candidates and voters was much less than in previous elections, but varied among regions. For instance, in the capital, where the process was most visible to the foreign community, there was a comparatively free election campaign. In areas such as Tigray and Amhara, the political leaders did not allow participation by opposition party candidates. Independent candidates were allowed, but many of them had a strong association with the EPRDF, which persuaded them to run in order to fill out the election slate. For instance, four private candidates ran in Tigray for the House of Peoples' Representatives and 54 independents ran in Amhara for the federal and regional councils, but none was elected. In the southern regions, where opposition party candidates were popular, harassment and intimidation by the ruling party became violent (McCann, 2002; Aalen, 2002b).

The election process at regional and lower levels of government is similar in all three regions. First, regional political party offices select competing candidates from each local constituency through the party structure. Second, the regional ruling party offices organise election meetings at the *kebele* level (one or two months prior to actual balloting) and present candidates to local constituencies for evaluation of their personal integrity and past performance. Finally, using the first-past-the-post system, candidates with a majority vote assume posts at local, regional and federal levels. In some cases, there are independent candidates who compete with party candidates to make the election 'democratic'; but often, the competition is only among EPRDF members.

Community evaluation is not always effective in identifying new candidates or rejecting unpopular ones, so the regional ruling parties decide who should win and who should fill the election slots. Aalen (2002b: 87) gives the following account of the process in Tigray:

> Although there was an almost total absence of visible campaigning in Wukro and Mekelle, the party has its own network of convincing people to participate in the elections and vote for their candidates. This network is based on the *kebele* meetings. A month before the elections, candidates for TPLF were presented in person or by representatives in the *kebele*. In the tradition of *gim gemma* the party presented this as an opportunity for the voters to evaluate the candidates on the basis of their past performances as members of society. Statements made by people who participated in these evaluations suggest that the meetings were not meant to give the voters a real opportunity to change the nomination of candidates, but were basically TPLF's way of making the nomination of the candidates look transparent. […] TPLF had no intention of following popular demands, even in a context where the *gim gemma* (evaluation) tradition had been invoked.

Aalen (*op. cit.*) also refers to cases of regional TPLF political leaders identifying candidates, some of whom were unaware of their candidacy when they arrived at the evaluation meeting. In one community, 'one of the candidates was surprised to see her name on the list of TPLF candidates when she arrived at an evaluation meeting in one of the kebele. She had not been asked or informed about her candidacy' (*ibid.*, 2002b: 88). There have also been cases where some voters had no knowledge about the candidates they were supposed to elect.

In some rural parts of the country, the EPRDF prohibited voters from electing opposition party candidates. In an election case study in the Amhara region, McCann (2002) observes that peasants who voted for or sympathised with opposition candidates were imprisoned for not paying their fertiliser debts, while EPRDF supporters were given favourable terms for repayment:

> EPRDF/ANDM officials at the Woreda level had repeatedly linked voting in the election to the provision of Fertilizer and Green Revolution inputs […] ANDM officials had threatened that any farmer who did not support their candidates would not receive inputs (*ibid.*: 71).

In Benshangul-Gumuz, informants told the author that regional political leaders often nominate candidates and send them for formal approval by the community. High-level regional political leaders make decisions in advance regarding who should assume power at the regional level. Given this situation, the question arises as to why rural residents vote when they are aware that the EPRDF does not take their preferences seriously. Surprisingly, voter turnout (people who actually vote as a percentage of those eligible to vote) is higher in rural than urban areas. In the May 2000 election in the three regions under study, which are predominantly rural, voter turnout was as follows: 77.8 per cent in Tigray, 67.9 per cent in Amhara, and 68.6 per cent in Benshangul-Gumuz. In comparison, the turnout in Addis Ababa and Dire Dawa, two major urban areas, was 48 per cent and 44 per cent respectively. The common viewpoint that urban areas have higher turnouts due to their exposure to the media and hence well-informed voters does not hold true in Ethiopia. Some writers argue that the reason for high turnout in Ethiopia's rural areas is the ruling party's strong pressure on voter to register. Aalen (2002b: 91) cites the case of a peasant in Tigray who told him:

> There are meetings all the time. I have to go – I have no excuse to stay at home. If I do not go I will be dismissed from the food-for-work programme arranged by the woreda administration […] I was instructed to come, register, and take the card. Everybody registers, even my old father…

Although the central political leaders are aware of the intimidation of opposition candidates and voters, pressure on rural people, and rejection of the will of voters, they regard such actions as excesses by overzealous or dictatorial local leaders (Addis Alem, 2003).

After the 2001 crisis in the TPLF and removal of his opponents from leadership, the TPLF/EPRDF leader – the 'Big Man' – had promised donors that he would conduct fair and free elections, and the May 2005 elections were different from previous ones. Strong opposition parties actively participated in them. In the run-up to the elections, discussion forums were organised for all the parties to inform the public about their respective programmes. The EPRDF allowed all the competing parties airtime on the government-owned TV and radio, and the independent print media actively participated in the campaign. Internal and external observers were allowed to monitor the elections, which were the most contested in the country's history. Donors' demands for democratic elections and the ruling party's assumption that it would win the elections were apparently the two important reasons for this relative freedom. Nonetheless, the May 2005 elections were flawed. They were marked by not only continued vote rigging, manipulation, harassment and intimidation of voters and candidates, but also blocking of elected opposition candidates from assuming power as well as incarceration of elected representatives on charges of genocide and attempts to overthrow the government.

The above discussion has demonstrated how governing bodies at the central and regional levels in Ethiopia have assumed power; and how a dominant party has appropriated the State through rigged elections. Markakis (2001), (cited in Vaughan and Tronvoll, 2003: 135) describes this merger between party and State in Ethiopia and its historical roots, or the path dependency, as follows:

> The model is, once more, the TPLF experience in Tigray during the armed struggle, where a parallel provincial State administration was founded and staffed by the movement's members. This model was replicated by the EPRDF affiliates in Amhara, Oromo, and Southern regions, and an effort is made to do the same in the other regions. Nearly all the officials in the State administration, from kebele to the federal government are EPRDF members, having joined the party before or soon after election to their post. Government business is discussed and decisions are made in party meetings that precede meetings of State bodies. In view of the party-State merger, it is understandable that Ethiopians have difficulty distinguishing between them.

The analysis also shows the State-party relationship in Ethiopia as being typically neo-patrimonial, where one dominant party controls the State through flawed elections. The EPRDF used elections to solidify its hold on the State and election rituals as a tool to enrich its establishment. Ethiopia's case demonstrates that the election process in neo-patrimonial regimes does not fit the assumption of decentralisation theories that voting is a mechanism by which regional and local representatives are elected, participation and representation of local people is maintained and expenditure prioritising and revenue mobilisation are effectively determined by the will and confidence of constituencies. Instead, the words of caution by the intergovernmental relations school, especially Prud'homme (1995), about the dangers of decentralisation and unrealistic and vague notions of elections in poor countries have to be borne in mind in the Ethiopian situation. In Ethiopia, the dominant party uses elections as an instrument to sustain central control by creating regional enclaves or positioning loyal local leaders in lower levels of the government apparatus and maintaining the patron-client relationship. In short, in a neo-patrimonial regime setting, where it is difficult to see differences between the State and the party, the dominant party controls the process of designing and approving the policy of intergovernmental fiscal relations.

6.5 Legislature-Executive Interaction

The 1995 Constitution and federal proclamations formally give the legislative body the power to initiate bills, review and approve draft bills submitted by the Executive, evaluate and approve Executive plans and budgets, and follow up and investigate the Executive's conduct and discharge of its responsibilities.[34] The Executive is also required to submit periodic reports on work accomplished, plans and proposals. Formally, the legislative has the power to declare confidence or no confidence in the Executive and the Prime Minister cannot dissolve it without its consent.[35] The formal institutional arrangements are in line with the parliamentary model of government. If applied properly, the model can ensure attainment of demands and aspirations of different groups in society, accountability of politicians and officials, representation and autonomy of regions, as well as cooperation and agreement between the centre and regional governments. In other words, it leads to success of intergovernmental fiscal relations reforms. The following sub-sections analyse the de facto legislature-Executive interactions at both central and regional levels in Ethiopia.

6.5.1 Legislature-Executive interaction during transitional period (1991-95)

The 1991 Transitional Charter recognised the Transition Government Council as the legislative body and the Council of Ministers as the executive branch. Formally, the former oversaw the latter. However, the transitional government President chaired both, the Transitional Council and the Council of Ministers, so legislative control over the Executive was a futile exercise. During the transitional period, top political leaders of the EPRDF decided the appointments of the prime minister and ministers, and the Transitional Council approved them.[36] Members of the EPRDF dominated the executive branch during the four-year Transitional Government.

During the transition period, the legislature was not effective in drafting bills and carrying out its oversight role. The Executive did not give periodic report to the legislature except the one time report in three years by the then Prime Minister who had reported on the implementation of the Transitional Government's economic policy to the 95th regular session in August 1994.

After three years, some members of the Council complained about the weak relationship between the legislative and executive branches. During the 91st regular session of the Council (February 1994), a member commented:

> The Council as a legislative body was only rubber stamping national policies and laws presented by the executive body, and had never initiated policies, analysed and understood successes and failures of their implementation or evaluated strength and weakness of the executive branch.[37]

Other members complained that ministers were not providing adequate information and were unwilling to respond to questions raised by the Council members.

At the regional level, EPRDF member and affiliate parties led the regional executive branches. In Amhara and Tigray, regional party members and political appointees controlled all the bureaucratic positions. In a few cases, technical appointees and individuals who supported or were loyal to the EPRDF's political agenda, were assigned as bureau heads. In Benshangul-Gumuz, regional offices were not properly established and the EPRDF assigned some members of the regional political parties and central political advisors to head regional bureaus. In all three regions, the councils elected in the 1992 regional election were not active in the regional decision-making process, but were summoned, twice a year on the average, to be briefed on the regional executive's performance.

Generally, during the transitional period the legislature-Executive relationships at the central and regional levels were simply pretentious exercises. The task of the legislative was to rubber stamp policies, strategies and programmes drafted by the dominant ruling party at the centre. It was in such a political landscape that many of the intergovernmental fiscal relations policies were centrally developed and approved and the regional governments accepted them as given.

6.5.2 Legislature-Executive interaction after formation of House of Peoples' Representatives

After the transitional government ended, the central and regional governments established their own legislative bodies. The following subsections discuss the interaction of the two bodies at the central level by analysing two important tasks: drafting and approval of bills and legislative oversight.

Drafting and approval of bills

Formally, Ethiopia's legal framework allows different office-holders and institutions to initiate different draft bills – the Speaker or the Deputy Speaker, members of parliament, legislative committees, executive bodies, the judiciary, and other government institutions accountable to the House of Peoples' Representatives.[38] An MP has to have his draft proposal endorsed by a minimum of 21 MPs. During the last decade, MPs have rarely initiated draft bills. There were only three bills initiated by the House of Federation. The Executive, especially the Office of the Prime Minister, initiated all the other draft bills. Table 6.3 gives the details.

Table 6.3
Number of bills ratified by Transitional Government Council and House of Peoples' Representatives, and sources of bills

Year	No. of bills	Sources of draft bills
1991/2 – 1993/4	123	Prime Minister's Office
1994/5 – 1995/6	45	Prime Minister's Office
1996/7	44	Prime Minister's Office
1997/8	38	Prime Minister's Office
1998/9	52	Prime Minister's Office
1999/00	36	Prime Minister's Office
2000/1	38	35 from Prime Minister's Office, 3 from House of Federation
2002/3	37	Prime Minister's Office
2003/4	85	Prime Minister's Office

Source: Minutes of the Transitional Government Council and the House of Peoples' Representatives, 1991-2004.

Whilst it is common in many countries to have many of the draft bills initiated by the executive branch of government, in Ethiopia there is complete domination of the process by the Office of the Prime Minister. There are too few members of opposition parties for them get the required 21 endorsements, so they have not presented any draft bills. The MPs have not been actively involved in discussing draft bills and the approval process. Of the 497 bills submitted by the Executive, the legislative body has not modified or rejected even one. As can be seen from Table 6.3, the Transitional Government Council, before the formation of the House of Peoples' Representatives, ratified 39 per cent of the country's laws, which include the basic laws of decentralisation of expenditure and revenue assignment, fiscal transfer and borrowing.

A recent law on parliamentary procedure has made it even more difficult for opposition MPs to propose items for the House agenda. The law, enacted after it became clear that the TPLF/EPRDF had lost its total control of the legislature during the May 2005 elections, states that an MP can table a motion only if he secures the backing of 51 per cent of the 547 MPs (thus 271 MPs, compared with 21 in the previous session) . MPs cannot initiate draft bills on financial matters. This new agenda-setting procedure was one of the reasons why the strong opposition party, Coalition for Unity and Democracy, boycotted the parliament after the May 2005 elections. The timing of the new law is significant. It was passed after the opposition parties, which had won only 12 seats during the 2000 elections, took 174 seats (32 per cent) in the May polls. This is the figure officially released by the ruling party; the opposition has claimed a landslide victory with more than 50 per cent of the seats.

Legislative oversight

Executive reporting and comment on Executive performance by the legislature are the main mechanism of legislative oversight. Until recently, the Prime Minister, ministers and senior government officials at the federal level presented reports on their respective areas to the full House of Peoples' Representatives. Now, however, only the Prime Minister presents reports to the House while the rest do so to House committees. A House assessment of legislative oversight between 1995 and 2000 says that Executive reports were incomplete, scanty and late. Reports lacked crucial details about plans and budgets (objectives, cost of programmes, resource base); periodic (quarterly, biannual and annual) performance and evaluation reports were not submitted; and reports on resource distribution among the regions were lacking (House of Peoples' Representatives, 2002). The study also says that reporting was not scheduled regularly and reports could be submitted at the beginning, middle or end of the year.

Table 6.4 shows the number of ministries, commissions and agencies out of the expected 51 institutions that have reported once annually during the first five-year mandate of the parliament, and the number of reports presented to the House of Peoples' Representatives by the Prime Minister.

Table 6.4
Number of reports received by House of Peoples' Representatives, 1995/6 – 1999/00

	1995/6	1996/7	1997/8	1998/9	1999/00
From ministries/agencies‡	18	35	27	15	14
Prime Minister's reports	1	2	2	0	1

Notes: ‡ One annual report per ministry, commission or agency.
Source: Minutes of the House of Peoples' Representatives, 1995-2000.

During the period under review, less than a third of federal Executive agencies reported once during the last two years and more than half reported once during the previous two years. The trend also shows a decreasing tendency. Moreover, the Prime Minister's reports, when given, were neither detailed nor comprehensive; they were presented only once or twice in a year and in 1998/9 there was no report. In some cases, the legislature accepted impromptu speeches by the Prime Minister as Executive reporting. In 2000/1, when presenting his first quarterly report, the Prime Minister confirmed that in previous years the reports had not been frequent:

> This report, which is general in nature, is being submitted in line with our plan to report to the House on a quarterly basis, and may therefore be considered as the *first exercise* of that practice' (emphasis added).

Since the middle of 2001, there has been a change in the system of reporting and the ministers report to various House committees. Whilst the Prime Minister's reports have improved in content and presentation since 2000/1, the ministers' reports to the legislative committees have been unimpressive. The House assessment report (*ibid.*) also observes that some of the House committees are new and have no clear idea about the duties and responsibilities of the Executive units over which they are supposed to keep watch.

The above discussion has shown the ineffectiveness of the federal legislative body in initiating and approving bills and in carrying out its 'check-and-balance' role. Three main factors explain the legislative ineffectiveness: the party's internal disciplinary mechanism, weak autonomy of the parliamentary standing committees, and low professional competence of MPs.

Party disciplinary mechanisms, especially democratic centralism and the party evaluation system, have sustained an unbalanced power relationship, or the patron-client relationship, between the Executive (top political leaders of the ruling party) and the legislature (regular members of the ruling party). It is common practice for members of parliament to accept policies that come from the top political leaders. Whilst MPs discuss and debate proposals from the Executive (the democratic part of democratic centralism), the system does not allow them to reject the proposals (the centralism part of democratic centralism). Rejecting or seriously questioning the Executive's proposals would mean being disloyal and lacking commitment to the party programme. For many of the MPs, being subjected to the party evaluation system and subsequent expulsion from the party would mean losing their means of survival.

The impact of democratic centralism is in the weak respect and recognition that Executive members accord to the legislative. The assessment by the House of Peoples' Representatives (2002) clearly states that the Executive has the impression that it is not accountable to the House. The report notes with regret that members of the Executive do not give adequate responses to some important questions/ideas raised during the parliamentary sessions. Moreover, the Office of the Prime Minister has not been providing adequate information and explanation on the objectives of draft bills, their possible socioeconomic impacts, the social groups that would be affected and other necessary details.[39] At times the central political leadership has announced policies to the public and passed them on to implementing agencies without MPs knowing anything about them. A typical example of this was the annual budget for 1999/2000.

The limited autonomy of parliamentary standing committees undermines the capability of the committees to influence government policies and provide effective oversight. The EPRDF does not allow its members to create factions or interest groups within the legislature or to lobby on issues of interest; they are only supposed to accept and implement the orders of the top political leaders. To make the situation worse, the members of standing committees are hand-picked by the EPRDF. As Lister (2004: 17) notes, 'the influence of the EPRDF in the appointment of members undermines the claims to autonomy of all parliamentary standing committees in Ethiopia, with most of the prominent positions reserved for those who have been most active in the EPRDF'. In general, the appointment of the permanent standing committee members is carefully managed to ensure sufficient EPRDF input and control (*ibid.*).

The MPs' weak educational attainments and the lack of clear and comprehensive parliamentary procedures also limit the overall ability of the legislature to carry out its responsibilities effectively. Table 6.5 summarises the educational attainments of members of the House of Peoples' Representatives during the second parliament (2000/1 – 2004/5).

Table 6.5
Education level of members of House of Peoples' Representatives, 2000/1 - 2004/5

	PhD	MA	BA	12+3	Dip.	Sec. ed.	R & W	Not ind.	Total
Total	5	52	90	6	99	193	94	8	547
Percentage	1	10	16	1	16	35	17		100

Notes: Dip. = Diploma; Sec. ed. = Secondary education; R & W = Reading and writing; Not ind. = Not indicated.
Source: Ethiopian Parliament, <http://www.ethiopar.net> (accessed January 2003).

The table shows that 73 per cent of the members have no first degree and 52 per cent have no college education at all. The House of Peoples' Representatives report (2002) iterates that most parliamentarians lack knowledge of agenda setting, policy processing, planning and budgeting, national and regional law, organisational structure of the parliament (different committees, decision-making processes, rules and regulations), standard operating procedures on legislative oversight (rules of investigation and corrective actions), and duties and responsibilities of the executive organs. Both the lower and upper houses of parliament have neither long-term strategies nor medium-term and annual plans to guide their day-to-day activities. The only document available is the 'Regulation of Working and Meeting Procedures of the House of Peoples' Representatives', which details the meeting procedures (submission of cases, voting order of speakers, seating arrangements, and disciplinary issues).

Furthermore, committee members who review the bills are not familiar with their contents and have little knowledge of how to review and analyse the bills. In some cases, two committees separately and simultaneously receive draft bills to review, which leads to uncoordinated legislative action. In other cases, committees that are not mandated or are the least relevant to the issues receive draft bills for review. Often, a committee has insufficient time to review all the bills properly and reviewing draft bills simply becomes editorial work. Occasionally members raise critical issues but fail to go beyond making cosmetic changes.[40]

The ruling party is aware of the capacity problem of MPs. The Prime Minister has indirectly remarked on it by saying that in future members of parliament will be professionals. Some members have had the chance to take distance-learning courses from the Open University in the United Kingdom; in addition, 40 parliamentarians at the federal level are currently enrolled in the Rural and Local Development Studies Masters programme at Addis Ababa University.

6.5.3 Legislature-Executive interaction at regional level

Enacted in 1995, the constitutions of the three regional governments formally spell out the roles of the three branches of government. Article 46 of all the three regional constitutions declares that the legislative organ of the state is the regional council, which is the supreme organ of State power and accountable to the people it represents; the executive organ of the state is the council of the regional government, which is accountable to the regional council; and the judicial power of the regional state is given exclusively to the regional judiciary.

Article 48 of all the three constitutions declares that the people shall elect members of the regional council for a five-year term in direct, free and fair elections held by secret ballot. The duties and responsibilities of the regional parliament as spelled out in article 49 of the three regional constitutions replicate many of the powers and functions of the federal parliament under article 55 of the 1995 federal Constitution. One major difference is the assignment of executive and legislative branch leadership. The federal Constitution differentiates between the heads of the executive and legislative branches. The members of the House of Peoples' Representatives elect both the Prime Minister to head the Executive branch and a Speaker of the House to preside over the legislative branch from among their members. In the three regions, the regional council elects a chief executive upon the recommendation of the party or parties holding the greatest number of seats in the council. That person then becomes chair of the executive council or executive branch of government as well as president of the state or head of the legislative body. This nullifies the accountability relationship between the Executive and the legislative body, which each regional constitution stipulates. The Executive thus controls the legislature.

The constitutions of the three regions require the regional councils to hold two ordinary sessions every year. According to informants, the sessions last two to three days on the average. There has been only one extraordinary session, to support the federal government's declaration of war on Eritrea. Regional MPs have neither initiated policies nor checked the executive. The meetings are formalities and members listen to the annual reports of the regional executive council. The only difference among the regional parliaments is the number of members in each region: 152 in Tigray, 294 in Amhara and 80 in Benshangul-Gumuz. As noted earlier, there are no opposition party members in the three regional parliaments.

During the last decade, there has never been a distinction between the legislature, executive and judiciary at the regional level even though the constitutions distinguish between the three branches of government. As a report by the Prime Minister to the fourth EPRDF Congress (August 2001) (cited in Polhamus: 2003) put it:

> …At the regional level, the legislature and the executive were exceedingly interlocked and indistinguishable in a manner unbecoming of any parliamentary system. Consequently, this structure impeded an autonomous legislature from overseeing the executive. Another shortcoming was that the legislature did not serve as a suitable forum for effective deliberation and resolution of popular issues. It was also rarely that legislatures provided forums where the executive presents regular reports for review and evaluation by lawmakers.

The Prime Minster, who is also leader of the TPLF and chair of the EPRDF, reported to the sixth TPLF congress (September 2001) that: 'there has been lack of clear distinction between the executive, the legislative and the judicial branches of government in Tigray Regional state.'

Since 2002, the three regional governments have revised their constitutions. The fourth congress of the EPRDF decided to amend the constitutions in order to ensure a constitutional provision for independence as well as to strengthen checks and balances between the executive, legislature and judiciary. The new constitutions of the three regions contain new provisions for separating the executive and legislature by designating a Speaker and Deputy Speaker of the regional council. During the fieldwork for this study in 2003-04, the three Deputy Speakers were women and a cynic commented, 'this is also an order from the central party leadership'.

In short, during the last 10 years, on no occasion has the legislature at both levels of government tried to challenge or censure acts of the executive body. There was no group in the parliament that articulated different interests of society. The Prime Minister confirmed this state of affairs at the fourth congress of EPRDF in 2001. He stated:

> At the state level, however, the executive and the legislative were not separated. This made it almost impossible for the legislative to supervise and control the executive. Even at Federal level, EPRDF members of parliament were not enabled to speak for their constituencies openly and critically given they broadly adhered to the fundamental tents of our programmes and strategies. In this sense, the Federal legislature didn't play the necessary role in the overall democratisation process […] There was a lack of transparency and accountability in the executive branch of government too (EPRDF 2001b: 20-1).

Moreover, the role of the upper house, or the House of Federation, has never been visible in the Ethiopian bicameral parliamentary system. This House has never played its role of maintaining horizontal accountability between the two Houses. This implies that the regions do not have any say about general policies at the federal level through the House of Federation and cannot propose laws through that channel.

The above discussion has revealed that the EPRDF has been controlling the executive and legislative branches of government to such an extent that the distinction between the party, the legislature and the Executive became blurred. More than 95 per cent of the MPs, almost all top-level executives (ministers, vice-ministers and heads of agencies and commissions) and the majority of middle-level executives (heads of divisions and department of government agencies) are members of the EPRDF. In 2001/2, after the fracture within the TPLF, the EPRDF realised that lack of a distinction between the party and the three branches of government was impeding implementation of the principles of separation of power as well as hampering checks and balances among the three branches of government. In an attempt to create a demarcation between party and State, the EPRDF passed new regulations on the appointment for ministers and employment of civil servants and technical advisors. All ministerial (at federal level) and bureau head (at regional levels) positions were in future to be filled by political appointees of the ruling party. The rest of the positions in the government structure were to be staffed by advisors and civil servants on the basis of professional considerations. Despite the declarations, no efforts were made to replace the existing political appointees of the ruling party in the middle-level government positions at both federal and regional levels and to empower the legislative to check and balance the Executive.

6.6 Conclusion and Reflections on Neo-patrimonialism

This chapter has argued that the conventional decentralisation theories cannot fully explain how political institutional arrangements in a neo-patrimonial regime have derailed intergovernmental fiscal relations reform in Ethiopia. It suggested an alternative conceptual framework that emphasises the neo-patrimonial nature of Ethiopia's political institutional arrangements (intraparty and interparty relations, State-party relations, and legislature-Executive interactions) and examines their impact on the design and implementation of Ethiopia's intergovernmental fiscal relations. This section begins by summarising how these elements in the political institutional arrangements shape Ethiopia's intergovernmental fiscal relations and then briefly reflects on the conventional decentralisation theories.

Interparty relationship

On the basis of the party typology in Doorenspleet (2003), the Ethiopian party system qualifies as a dominant one-party system. Whilst the EPRDF officially declared a multiparty political system, it has been in power since 1991 with a majority in all parliaments and dominating the executive branches of government at both federal and regional levels. Except for the initial short-lived harmonious interaction, the relationship between the dominant ruling party and some of the opposition parties (ethnic and non-ethnic) has not been smooth. The interparty relations under the present Ethiopian regime share elements from the three dimensions of a neo-patrimonial political system provided by Bratton and Van de Walle (1994): personal dictatorship, plebiscitary one-party system and competitive one-party system.

Conceptually, under a competitive one-party system there is a semblance of some degree of pluralism, but the single ruling party controls the press and electoral machinery and uses public funds to finance itself. Whilst the Ethiopian party system formally allows a multiparty political system, in reality the EPRDF controls the State TV and radio, the telecommunications industry, the election commission and the financial resources. Unlike the earlier elections, the May 2005 elections saw the emergence of a competitive one-party system because donors insisted on it as a precondition for aid and the EPRDF assumed it would win the elections. The EPRDF allowed opposition parties to compete and shared the electronic media (State-owned TV and radio) in the run-up to the elections. However, the pretension was aborted before the election counting was finalised. The EPRDF harassed and imprisoned members and candidates of opposition parties and killed innocent civilians because they demanded that their vote be respected. This was evidence of regression to the earlier form of elections that featured personal dictatorship.

The nature of the plebiscitary one-party system is also reflected in the way the opposition parties are organised. Under this system, the opposition typically comprises several dozen parties, few of which have national appeal or programmes. They are also poorly organised. This was evident before the 2005 elections, with more than 50 ethnic and national political parties that were fragmented and had weak financial and organisational capacity. Previous elections also demonstrated the typical features of the plebiscitary one-party system in Ethiopia in many parts of the country, as opposition political parties were proscribed and only candidates from the dominant party appeared on the ballot.

Whilst the competitive one-party system and plebiscitary one-party system are two aspects of the interparty relationship in the Ethiopian political system, the personal dictatorship dimension characterised by politics of exclusion best explains the relationship between the EPRDF and the opposition parties. The following four points clarify the issue.

First, except for the brief initial harmonious relationship between some opposition parties (especially the Oromo Liberation Front) and the ruling party, the interparty relationship throughout the past decade has been confrontational. As demonstrated in Table 6.1, the 1992 elections for regional governments, the 1994 elections for the Constitutional Assembly and the 1995 nationwide elections proved that the regime does not allow other political parties to compete. The 2001 national elections, in which the opposition won 2.4 per cent of the seats in the federal parliament and none in the regional parliaments, were marked by harassment, intimidation and imprisonment of opposition party candidates and members, making genuine political competition impossible. In the May 2005 elections, where some political competition was observed, the EPRDF recognised that it was about to lose in many parts of the country and reverted completely to the personal dictatorship dimension of neo-patrimonialism. Before the vote count was completed throughout the country, the 'Big Man' announced through the State media that his party had won the election, declared a state of emergency, banned demonstrations and placed the police force under his direct command. The regime then denied opposition parties access to TV and radio and shut down the mobile phone text-messaging system in the country, banned selected print media, rigged the vote in many parts of the country, intimidated and imprisoned opposition party members and candidates and charged them with genocide and treason.

Second, the Ethiopian case demonstrates another feature of the personal dictatorship dimension – one-man domination of the dominant party. The current Ethiopian Prime Minister has ruled the country since 1991 and leads the dominant party that controls the legislative and executive branches of both central and regional governments. He has chaired the TPLF since 1983 and the EPRDF since 1989. The recent central and regional party congresses (September 2006) 're-elected' him to both positions for two or more years. This confirms that both TPLF and EPRDF are feeble party institutions that are controlled by one individual. Moreover, the federal Constitution, which was formulated by the TPLF/EPRDF, does not limit the Prime Minister's tenure in office; he can remain in office for as long as the dominant party is in power. It appears that the personal fate of the 'Big Man' determines the fate of the

EPRDF regime. There is also a common understanding among many Ethiopians that the EPRDF's life expectancy is synonymous with the personal destiny of the Prime Minister.

Third, the 'Big Man' dictated his party ideology – 'Revolutionary Democracy' – and other social, political and economic policies and implementation directives to the entire country through his six documents. This is typical of personal dictatorship, where the 'Big Man' takes exclusive charge of policymaking rather than relying on technocratic planning or accepting alternative policy options from other sources.

Fourth, the regime's politics of exclusion, another typical feature of personal dictatorship, are demonstrated by the prevention of political parties from competing for power and constraining of fledging civil society institutions from being part of the political process. The regime also cloned more amenable political parties and civil society organisations whenever the original ones opposed the EPRDF ideas and programmes.

Thus, the party system in Ethiopia shares many features of personal dictatorship and some aspects of a competitive one-party system. This type of interparty relationship in a neo-patrimonial regime setting has enabled the dominant party to control the central and regional governments. It has in its practice ruled out political inclusiveness and has been an obstacle to the success of intergovernmental fiscal relations reform. The party has curtailed opportunities for members of society to articulate alternate ideas on expenditure prioritising and taxation and to voice their preferences and demands through alternative political groups. It has hampered realisation of the positive outcomes of decentralisation suggested by the theories, especially the welfare economics model, which include innovation, creativity, autonomy and competition to articulate alternate mechanisms for service delivery and revenue mobilisation. It has also undermined the value of elections as a mechanism to reveal constituencies' expenditure and taxation preferences, hold officials accountable and make them responsive, and restricted the power of opposition groups to make the parties in the ruling coalition accountable for their actions.

Intraparty relationship

On the basis of the classification of parties provided by Gunther and Diamond (2003), this chapter proved that the central and regional ruling parties in Ethiopia have features of both ethnic and Leninist parties. The regional ruling parties appear to represent their own ethnic groups and have one ethnic coalition party (EPRDF). Technically, the ruling party in Benshangul-Gumuz is an affiliate of the EPRDF, but it is one of the parties in the coalition where it holds an inferior position. The coalition parties display the features of Leninist parties. Members have to follow the principles of democratic centralism and are required to be loyal, disciplined and upholders of one party ideology. The chapter explained the relationship between the central ruling party and the regional (member and affiliate) parties by applying the concepts of the patron-client relationship. The following are the main features of the intraparty relationship.

As noted by Lemarchand (1972) and Smith (2003), ***strong inequality and power differences*** are essential aspects of the patron-client relationship. TPLF domination of the EPRDF party structure, the central State resources and power and the party-owned businesses illustrate the power differences among the regional ruling parties in Ethiopia. The TPLF/EPRDF controls the country's technical resources and expertise and defines the country's sociopolitical and economic policies. It also determines the organisation of the State structure and is coextensive with its field of operation. The TPLF central political leadership nominates the top regional political leaders on the basis of loyalty and obedience. In short, as Medhane and Young (2003: 391) note the regional ethnic parties are weak and subservient.

Lemarchand (1972) and Scott (1972) point out that the patron-client relationship is characterised by a ***patronage structure*** that stretches from the central political leadership to the village level. As Lemarchand found in other African countries, Ethiopia's annual intergovernmental fiscal transfers are patronage to maintain clientelism. The central government demonstrates its distributive capacity across the ethnic regions and makes them dependent on the centre. It has financed the recurrent expenditure of regions to keep the regional political and administrative machinery afloat. The vertical imbalance figures in Chapter 5 showed the unchanging trend in regional governments' dependency on the centre. As lopsided distribution of resources can potentially lead to ethnic tension and revolt, the TPLF/EPRDF central leadership also makes sure that ethno-regional leaders see the processes as mutually satisfying. This is evidenced by the lengthy, though ineffective, discussions in the House of Federation on the annual central government fiscal transfers that are designed to make regions feel that there is equal distribution of national resources.

The TPLF maintains its traditional clientelistic solidarity with its Tigray ethnic group through various patronage mechanisms. The primary patronage mechanisms are the large TPLF-owned manufacturing and service organisations operating in Tigray, which generate employment and improve the lives of some members of the ethnic group. Abbink (2006) observes that these businesses are new patronage networks that draw heavy criticism from the disadvantaged non-party-affiliated business people. As noted in Chapter 5, the other TPLF patronage mechanisms include different forms of off-budget funding, which have an undisclosed pattern of assigning donor-funded projects to the regions, and the non-transparent ways of distributing centrally funded transport, communications and energy infrastructure. Whilst it is difficult to document the extent of disparity among regions, such traditional clientelism creates horizontal imbalances among regional governments.

Exchange transactions in the patron-client relationship include not only material benefits but also ***protection***. The TPLF protects the power of the regional political leaders in return for personal loyalty and obedience. The relationships are in some cases dyadic. A case in point is the relationship that unfolded after the TPLF crisis of 2001. The leaders of the Amhara National Democratic Movement (ANDM) quickly allied themselves with the victorious Prime Minister's group. The Prime Minister appointed the top political leaders of the ANDM to important posts in the central government. For instance, he made the president of Amhara regional state the country's Deputy Prime Minister. Conversely, as indicated by Medhane and Young (2003), after the TPLF crisis there was a massive purge to root out allies and sympathisers of the TPLF dissidents in other regions. The president of the Southern Nation, Nationalities and People was purged and imprisoned for five years on corruption charges. The president of Oromo regional state, who was also chairman of the Oromo People's Democratic Organisation, was demoted. The prime minister ousted these two regional presidents because they had sympathised with the dissident groups.

The case of Benshangul-Gumuz provides additional evidence of such exchange transactions. The region has had the same president since 1995 and his loyalty and obedience to the central government's political leadership has been his biggest asset. The central political leadership does not trust the leaders of other ethnic parties in the region, suspecting them of alliances with opposition parties, especially the Oromo Liberation Front. To quote Lemarchand (1972), 'in all cases the ethno-regional political leaders cast their lot with the central political authorities because they expect certain rewards to accrue from this relationship'. Abbink (2006: 177) also notes that 'many people in positions of power, from the federal level in Addis Ababa to the *Kebele* (local community) level, are appointed because of loyalty to the party; they have income, privileges, and jobs to lose and will not voluntarily give them up, because unemployment, insecurity, or poverty is waiting.'

In addition to loyalty and obedience, as Clapham (1985) notes, ***ballot support*** is an important exchange transaction that the patron expects from the client. Regional governments are required to make sure that EPRDF members and its affiliate parties win local, regional and federal elections. In addition to proscribing opposition parties, the regional patrons use patronage to obtain the maximum number of votes. The clientelism pyramid extends patronage. Central political leaders channel funds for social services and agricultural extension programmes to regional governments and the regional political leaders use them to garner voter support. As noted earlier in this chapter, regional patrons have denied medical services, agricultural input credits and seeds to peasants who did not support or elect EPRDF candidates and have sometimes evicted them from their land. They have also dismissed civil servants in rural areas, including teachers, who sympathise with opposition parties.

Smith (2003) identifies the types of ***conflicts*** among patrons that are another dimension of the patron-client relationship. Under clientelism, there are conflicts among vying patrons. The conflicts are not usually ideological, but disagreements over control of State resources, authority to influence the decision-making process and domination of the party and government structures, as well as ability to gain enough followers to win office. Moreover, the main objective is to extend patronage and increase the size and power of the faction. For example, the crisis within the TPLF was mainly conflict over State power and resources. Medhane and Young (2003) describe the conflict as 'struggles over power between Meles and a dozen of his colleagues, between elements broadly associated with the State organs and those associated with the party apparatus, and between Tigray-based TPLF officials and those around the prime minister'. Among other things, it appears that the lust for power and distribution of patronage in the patrons' particular areas of influence within Tigray shaped the conflict among the TPLF members. The 15 years of conflict among different ethnic parties in Benshangul-Gumuz discussed in this chapter also reflects the regional ethnic elite disagreement over control of regional state resources.

To sum up, the relationship between the central and regional ruling political parties, conditioned by their nature and emergence, the unbalanced power relationship and the exchange transactions between them illustrated the intraparty patron-client relationship in Ethiopia. This chapter identified typical mechanisms that cement patron-client relations under the EPRDF: party ideology and discipline. Discipline comprises the party evaluation system and democratic centralism. These mechanisms have been instrumental in subjecting regional governments to 'one-size- fits- all' policies limiting their autonomy, creativity and competition and constraining their ability to respond to local problems and mobilise local resources. Such arrangements make the regional ethnic parties incapable of articulating the demands and aspirations of their constituencies; they simply implement central directives. This is an obstacle to successful intergovernmental fiscal relations reform because it limits the power of regional governments to set agendas and determine the allocation of resources. It reflects the sustained dominance of the central government over the regions.

State-party relationship

The discussion on the State-party relationship revealed that the central and regional governments have been under the control of one dominant party. The dominant party has strong economic power as it owns businesses producing private goods; and excessive political power as it controls both the executive and legislature in all parts of the country. Loyal party members fill positions in the executive branch at the top and, in most cases, middle and lower levels. More than 95 per cent of members of the legislature are from the dominant party. Whilst fused relationship between the State and the party exist in many parliamentary systems, in Ethiopia it is very difficult to differentiate between the party and the State. Moreover, the fact that the Prime Minister's Office controls the communication channels between the central bureaucracy and regional governments is a good indicator that programme implementation is weakly coordinated between the executive organs at both levels. This illustrates the nature of personal dictatorship, where personal emissaries who are loyal party members, rather than formal institutions, are active in implementing central policy instructions. The observation by Braton and Van de Walle (1994) that: 'African leaders have rarely used bureaucratic formulas to construct authoritarian States' applies to Ethiopia.

This highly fused relationship between the ruling party (through its dominant leader) and the regions at all levels of government undermines the assumption of many decentralisation theories that autonomous regional administrative institutions exist that have the capacity to serve their constituencies or voters. In Ethiopia, the institutions can only serve those who are at the centre of power in both the central and regional states. The relationship also contravenes the Ethiopian decentralisation policy that claims to develop regional governments through devolved political, administrative and fiscal powers to make them capable of transforming the destitution of the people in the regions.

Legislature-Executive interaction

The legislative body at both regional and central levels, which is formally given the power to draft and approve bills and to oversee the executive, has been an ineffective institution. It resembles the Haile Sellassie regime's parliament, which as Clapham (1988) points out, was derisively known as the 'Garage'. However, the legislative branch, as a façade, is politically useful to the regime as it can be used to appeal to the opposition, the members of the ruling party and donors. As outlined in Chapter 1, this was precisely how Haile Sellassie used an ineffective parliament to convey the impression to international observers and donors as well as the national educated elite that he was a modernising aristocrat.

During the past decade, the legislative body at both levels has not been capable of holding the executive accountable. The executive remains unwontedly powerful with no body to provide checks and balances. This incapability of the formal political structure to check the absolute powers of the chief executive is a feature of the personal dictatorship dimension of neo-patrimonial regimes. It conflicts with decentralisation, which requires a legislative body that ascertains that executive delivery is according the expressed demands and aspirations of constituencies.

In sum, Ethiopian political institutional arrangements are incompatible with the assumptions of the welfare economics model and new public management, which are based on the Dahl (1972) assumption of competition and participation. Under EPRDF rule, the interparty relationship is shaped by politics of exclusion; and the intraparty relationship is one of patron-client with a punitive party discipline mechanism to ensure control. Ethiopia's political system is shaped by the party ideology of Revolutionary Democracy, which creates a forced marriage between two opposing ideologies: liberalism and Marxism-Leninism. In other words, whilst the decentralisation reforms in Ethiopia are partly designed under decentralisation theories that anticipate liberalism, they are expected to be implemented by a confused political system that is neither proper Marxism-Leninism nor liberalism.

Decentralisation theories, especially the welfare economics model and new public management, have not considered the impact of political institutional arrangements on the design and implementation of intergovernmental fiscal relations reform. The welfare economics model suggests that 'voting with feet' or 'voting with the ballot box' are mechanisms through which different interests are articulated, allocation efficiency or economic utilisation of resources is attained, and local leaders that failed to deliver are penalised whilst successful political leaders are re-elected. In the Ethiopian context, 'voting with feet' has been impossible due to the policy of ethnic federalism, which contains ethnic groups within their limited domains, and the low level of economic development in the country. 'Voting with the ballot box' has been affected by rigging and used to maintain one party's central control of State power through the catapulting of powerful allies at local levels into official positions of power. This also results in an election system that is ineffective in holding politicians and officials accountable and responsible to their constituencies. The centre uses it to create regional enclaves and sustain the patron-client relationship.

As argued at the beginning of this chapter, the proposals of the intergovernmental relations school and the institutional approach for adequate institutional elements (elections, civil society, capacity, incentive structure, political and legal framework, and so on) and the contention of the theory of democratic decentralisation that effective local political processes are necessary for successful design and implementation of intergovernmental fiscal relations reform are relevant in another setting. However, the theories are contradicted by the neo-patrimonial model, where elections are not capable of creating autonomous, responsive and accountable sub-national governments, and civil society institutions are not active in the political process.

This chapter has demonstrated that there is a misfit between the assumptions of decentralisation theories and the political institutional arrangements of neo-patrimonial regimes. Using an alternative conceptual framework to explain the derailment of decentralisation in a neo-partimonial regime setting, this chapter has argued that in a one-party dominant State, which is characterised by exclusionary politics, ineffective legislative bodies, strong fusion between State and party and patron-client relations between central and regional parties, decentralisation has different features and functionalities. On the basis of the discussion in this chapter and Chapter 7, Chapter 8 will discuss the features of decentralisation under neo-patrimonial regimes.

Notes

1 The factors that influenced the emergence of African and Western political parties vary immensely due to differences in socio-economic and historical circumstances. Western party systems date back almost two centuries, whereas those in Africa date back only to the beginning of the twentieth century; both are informed by different historical experiences (Salih, 2003).

2 The five categories identified by Gunther and Diamond (2003) are: elite-based (traditional and clientelistic); ethnicity-based (ethnic and congress); mass-based (socialist class-based and Leninist); nationalist (pluralist nationalist and ultranationalist); religious (denominational and fundamentalist); electoralist (personalistic, catch-all, and programmatic); and movement parties (left-libertarian and post-industrialism extreme right).

3 Ethnic parties are different from parties with a separatist (favouring independence and irredentist) agenda. They also differ from regional parties without ethnic labels, which are formations representing sub-national (regional) interest communities exercising party functions in the regionally operating space.

4 Smith (2003: 153), citing Eisenstad and Rongier (1981), lists the core analytical characteristics of patron-client relationships as being: they are particularistic and diffuse; resources are exchanged, both economic and political (support, votes, protection and solidarity); resources are exchanged as a 'package', not separately; there are varying amounts of solidarity in the relationship; the vertical nature of patron-client relations undermines horizontal solidarity, es-

pecially of clients; and the relationship is based on strong inequality and power differences.

5 This discussion is based on the article 'Political Systems and Their Impact on Governing Relationship', which is available on <http://www.undp.org/governance/docs/Parl-Pub-govern.htm>; and <http://www.wikipedia.org/wiki> (both accessed May 2006).

6 The United States has a presidential system, as do countries it has influenced regionally, culturally or militarily, including Latin American countries and the Philippines. Countries that have adopted a form of the parliamentary system include the United Kingdom, much of continental Europe, Israel, Japan, many of the former British colonies in Africa and Asia, and most Caribbean countries. The French hybrid system has provided a model for a number of countries, including former French colonies in West Africa (Côte D'Ivoire, Gabon, Mali, and Senegal), Poland and Bulgaria. <http://www.undp. org/governance/ docs/parl-pub-govern.htm> (accessed May 2006). Westview.

7 The Transitional Government Charter (1991), Federal Proclamations 46/1993 and 64/1993 and the 1995 Ethiopian Constitution provide the regulations on formation and registration of parties and party finances.

8 As pointed out in Chapter 1, the TPLF had a 'narrow nationalist' agenda of creating an independent state of Tigray.

9 Many of the political parties were the outcome of the 1960s student movements, which were inspired by then popular Marxist ideology, the socialist revolutions in Russia and China and the nationalist movements in Africa.

10 The original name of the party was Southern Ethiopian Peoples' Democratic Front (SEPDF) but latter TPLF changed it in to Southern Ethiopian Peoples' Democratic Movement (SEPDM).

11 According to Addis Alem (2003), the military role of the groups in the downfall of the Dergue was insignificant, but they did provide visible proof that the resistance was not confined to a few regions.

12 The country's Deputy Prime Minster and Minister of Defence and one TPLF Central Committee member led the Benshangul-Gumuz conference. The Deputy Premier, in his speech, accused the regional parties of maladministration that had led to failure in organising and leading the different ethnic groups in the region. The parties, especially Berta People's Liberation Movement, were accused of, among other things, fomenting internal fracture and disillusion, lust for money and power, lack of a political programme, and divisive and selfish leadership ('Minutes of the 1996 Peace and Democracy Conference', Assosa, 1996).

[13] Informants in Benshangul-Gumuz told the author that after the formal establishment of the regional government, the first centrally appointed president of the region was Ato Mustefa of the Berta People's Liberation Movement. He practically led the regional state from Addis Ababa and the central government eventually declared him incompetent and corrupt and replaced him. His successor was a relatively capable administrator, Ateyib Ahmed, also from the Berta ethnic group. The supporters of the ousted president accused the new president of lacking respect for cultural values of the region and tried unsuccessfully to assassinate him. The president left for the centre and was replaced by Abdu Ahmed, from the Berta ethnic group, who was disposed immediately. Since 1995, however, the centre has appointed a new president from the member of the Gumuz ethnic groups (interviews, Assosa, August 2003).

[14] The discussion is based on the document 'Revolutionary Democracy, Policies and Strategies' (2000), written by the Prime Minister (in Amharic).

[15] Marxism-Leninism was the governing ideology of the TPLF from its inception; it was modified somewhat after the TPLF gained control of the Ethiopian state, mainly to gain the approval of major donors.

[16] See the details from pp. 134-48 on the Premier document 'Issues of Building Democratic system in Ethiopia' (2002) (in Amharic).

[17] Interviews with political officers in Amhara (Bahirdar, January 2004) and Tigray (Mekele, December 2003).

[18] Interviews with civil servants in Amhara (Bahirdar, February 2004); Tigray (Mekele, December 2003) and Benshangul (Assosa, August 2003)

[19] *Ibid.*

[20] It is normal to find someone threatening, 'We will meet in the evaluation session and I will crucify you.' There have been cases where an individual's past misconduct (even extending back 10 years or more) has been raised and the individual has been expected to atone for it. In some cases, the evaluations focus on personal issues such as the type of clothing and other possessions, and the people contacted or views and ideas exchanged in social gatherings.

[21] Interviews with officials at the Bureau of Finance and Economic Development and Bureau of Agriculture, Assosa, July 2003.

[22] As explained in Chapter 1, the OLF was formed in 1974, claiming to represent the Oromo, and engaged in armed struggle against the Dergue. It is now engaged in armed struggle against the EPRDF.

[23] The Paris Peace and Reconciliation Conference was held in March 1993 and attended by, among others, the Coalition of Ethiopian Democratic Forces,

some member parties of the SEPDC, OLF and All Amhara People's Organisations. The EPRDF refused to attend.

[24] The other members are the Gurage People's Democratic Front, Kembata People's Congress and Wolayta People's Democratic Front.

[25] The Islamic Front for the Liberation of Oromo has existed as an armed movement since 1978 and claims to represent the Oromo living in the eastern and south-eastern regions. It withdrew from the Transitional Council in 1993 after accusing the EPRDF of failing to honour the provisions of the National Charter.

[26] These rebel groups took up arms against the Dergue but were only active in Ethiopia before the Somali invasion in early 1978. Since then they have been in exile in Mogadisho.

[27] As explained in Chapter 1, the All-Ethiopian Socialist Movement and Ethiopian Peoples' Revolutionary Party were the two prominent class-based movements which emerged in the 1970s. The brutality during the struggle between the two parties and the Dergue was a stain in the country's political history. The merciless confrontation, labelled the 'red terror' and 'white terror', resulted in the death and exile of many Ethiopian professionals.

[28] Addis Alem (2003) points out that 'the draft charter […] was generally similar to the transitional program of the EPRDF in substance'. Merera (2002) also notes that the 'July conference of 1991 became the first major practical translation of the TPLF/EPRDF programmes into reality'.

[29] The National Conference was held in Addis Ababa between 1 and 5 July 1991 following the London Peace Conference mediated by the US on 27 May 1991, which was attended by the EPRDF, Eritrean People's Liberation Front and Oromo Liberation Front. The National Conference was attended by 24 national and multinational political organisations and 20 representatives of different countries and international organisations, but it was dominated by the EPRDF and the OLF. The Eritrean People's Liberation Front took its share – Eritrea – and was a passive observer of the process.

[30] The administrative problems included failure to deliver registration and voting materials on time, failure to constitute local and regional election committees, poor communication up and down the election committee hierarchy; and failure of the election officials to educate the population adequately about the purposes of the ballot and the procedure of casting their votes.

[31] These included the Oromo Liberation Front, All Amhara People's Organisation, Ethiopian Democratic Front, Islamic Front for the Liberation of Oromo, Gideo People's Democratic Organisation, and many political groups in the southern region.

[32] Interview with Member of Parliament (Addis Ababa, May 2004).

[33] Vaughan and Tronvoll (2003) cite US State Department reports, which were confirmed by the Ethiopian National Election Board.

[34] 1995 Ethiopian Constitution, articles 55/17 and 74/11.

[35] Article 60/1 of the 1995 Ethiopian Constitution states that 'with the consent of the House, the prime minister may cause the dissolution of the house before the expiry of its term in order to hold new election.'

[36] The President of the Transitional Government nominated the Prime Minister and the appointment was accepted by acclamation by members of the Transitional Government Council. Three criteria were used for the nomination – ethnic representation, commitment to the Charter and role in the struggle – and no other person competed for the post. Later, all ministers nominated by the Prime Minister were accepted as given. EPRDF member parties had control over the critical positions in the executive branch: President, Prime Minister, Foreign Affairs, Defence and 13 other ministerial positions. The Oromo Liberation Front had three ministerial positions (Agriculture, Education and Information) until it was expelled in 1992. The Southern Ethiopia Peoples' Democratic Coalition had only a deputy minister of Education until it was expelled in 1993. The Islamic Front for the Liberation of Oromo, Sidama Liberation Front and Western Somali Liberation Front complained about not being given any ministerial positions, but the President merely replied that 'it is the duty of the Prime Minister to evaluate the nominees and appoint them; the Council should only approve what it is given.' ('Minutes of the 8th Regular Meeting of the Transitional Government Council', Addis Ababa, August 1992).

[37] Complaints like this were raised by members of the Coalition of Alternative Forces for Peace and Democracy and Gurage People's Democratic Organisation.

[38] These are set out in Federal Proclamations 14/1995 and 27/2002.

[39] Parliamentary discussions on the revision of tax rates and introduction of new taxes are cases in point. Some members of the opposition and regional parties asked for detailed explanations but were not given adequate answers ('Minutes of the 15th Regular Session of the House of Representatives, 1998). The same thing happens during debates on the budget subsidy formula.

[40] *Ibid.*, and House of Peoples' Representatives (2002).

7 Administrative Institutional Arrangements: Impact on Fiscal Relations Reform

7.1 Introduction

This chapter investigates the extent to which administrative institutional arrangements – that is, public finance management, human resource management, and support and coordination systems – shape the design and implementation of Ethiopia's intergovernmental fiscal relations reform. It discusses one of the main propositions of the study, that Ethiopia's administrative institutional arrangements in a neo-patrimonial setting sustain central government dominance and lack of diversity among regional governments in expenditure assignment, revenue assignment and fiscal transfer system. It argues that administrative arrangements under neo-patrimonialism serve centralised control rather than lead to devolved or integrated administrative arrangements.

The chapter first discusses the concepts of expenditure planning and annual budgeting, human resource management, and the support and coordination system. It outlines the assumptions of decentralisation theories on these three administrative institutional arrangements. The chapter then analyses Ethiopia's experience over the past decade with the administrative institutional arrangements and their impact on implementation of intergovernmental fiscal relations reform. The last part reflects on the conceptual discussion and summarises the findings.

7.2 Conceptual Discussion

This section introduces the concepts of expenditure planning and annual budgeting, human resource management, and the support and coordination systems. It discusses the assumptions of decentralisation theories regarding the three administrative institutional arrangements, which will provide a basis for reflecting on how Ethiopia's administrative institutional arrangements shape its intergovernmental fiscal relations reform.

7.2.1 Expenditure planning and annual budgeting

Expenditure planning and annual budgeting are integral parts of the public finance management system, serving as instruments to allocate scarce resources efficiently and equitably in society. Expenditure planning can be done in the form of five-year national development plans that set out the government's long-term economic goals and priorities, and medium-term (three-year) public expenditure frameworks. The literature defines the medium-term plan as a modern tool to provide a three-year projection of a country's global and macroeconomic (fiscal, monetary, and structural adjustment) objectives and targets, revenue collection, expenditure priorities between sectors and programmes as well as budget ceilings for central spending public bodies and sub-national governments (Kigaru, 1999: 73). Schick (1998: 11) identifies three interrelated objectives of public expenditure planning: to strengthen aggregate fiscal discipline, allocate public resources in accord with strategic priorities and promote efficient provision of services. Bird (2000) views the aims of medium-term expenditure frameworks as being adequate control of total level of revenue and expenditure, appropriate allocation of public resources among sectors and programmes, and efficient operation of government institutions.

Budgeting is an important political and administrative tool for planning and controlling effective utilisation and equitable allocation of available resources, and managing allocation of resources (inputs) vis-à-vis delivery of services (outputs/outcomes). As Wildavisky (1964) notes, budgeting is 'concerned with the translation of financial resources into human purposes'. An effective budget system leads to allocative efficiency because it apportions financial resources on the basis of government priorities and effectiveness of public programmes; it reallocates resources from lesser to higher priorities and from less effective to more effective programmes (Schick, 1998). It leads to production efficiency as it forces public agencies to produce goods and services at a minimum cost competitive with market prices (*ibid.*). Budgeting enables sub-national governments to exercise autonomy in expenditure decisions when it provides discretion in deployment of resources. It helps attain transparency and accountability as annual budget reports provide information on the financial performance of public organisations.

Budgeting is different from national planning and cabinet policy decisions because it involves a set of procedures that recur year after year by means of which governments ration resources among their agencies or choices are made with respect to public finance (Schick, 1998: 4). It starts with identification of objectives that the government seeks to attain and passes through an iterative process: formulation, authorisation, execution and control. Kiragu (1999) observes that there are three types of budgeting: incremental budgeting, which is characterised by a predictable budgetary context, incremental change, traditional analysis of changes, organisational balance and a largely bottom-up approach; crisis budgeting, which severely strains financial mangers and is marked by frequent adjustment of ceilings and resource allocations, an uncertain budget process, budget cuts imposed on an ad hoc basis and across-the-board, centralised payments and restrictions on payments by spending agencies, accumulation of arrears, and a mix of top-down and bottom-up approaches; and efficiency budgeting, which involves promotion of cost consciousness, cost measurement and containment, improvement of productivity and improved financial management in spending agencies.

The conventional qualities of budgeting include comprehensiveness (the budget should include all revenue and expenditure); accuracy (the budget should record actual transactions and flows); annuality (the budget should cover a fixed period of time, typically one year); authoritativeness (public funds should be spent as authorised by law); and transparency (the government should publish timely information on estimated and actual expenditure) (Bird 2000: 4; Schick, 1998: 4).

In short, both expenditure planning and annual budgeting systematically prioritise preferences, project available financial resources and create an adequate link between diverse preferences and allocation of resources (Allan, 1996; Caiden, 1996). In a decentralisation setting they are used as tools to operationalise expenditure assignment. The assumptions of the different decentralisation theories about the division of responsibilities as well as the administration of expenditure planning and budgeting are similar to their proposals on expenditure assignment, which were reviewed in Chapter 3. The welfare economics model proposes that, among other things, local governments should be given full power and autonomy to control their own budgets in order to enable them respond to local needs and conditions as well as operate efficiently. In other words, it does not propose joint or multilevel budgeting and planning.

The intergovernmental relations school proposal agrees with the welfare economics model in this. It assumes that if local governments have no control over the administration and implementation of their budgets, accountability of local officials and their potential to provide services efficiently on the basis of local conditions will diminish. Winkler (1994: 9) points out that 'if local officials are to be held accountable for the efficiency and effectiveness with which government services are delivered, they must have budgetary discretion, including the recruitment and payment of personnel, the contracting of goods and services, and the composition of local expenditures'. This school also emphasises the importance of the central government's secondary role of providing overall legislation on budget formulation, administration and execution, and intergovernmental coordination in planning and budgeting (*ibid.*).

According to the intergovernmental relations school, central intervention does not imply uniformity of the budgeting procedures throughout local jurisdictions. Agranoff and Lindsay (1983: 230) point out that in the USA, 'Important operations such as budget cycles, application formats and reporting and monitoring procedures are different by jurisdictions. […] Local governments have budget cycles that often differ from each other as well as from the state and federal governments.' In the context of developing countries, Smoke (1994) also stresses out the need for developing internal structures and operating procedures that are appropriate for local needs and capacity. The budget administration and operating systems and procedures used by local authorities should be appropriately simple, requiring basic levels of skill and effort to use. Both Smoke (1994) and Winkler (1994) suggest that it is appropriate for the central government to intervene through sound financial control mechanisms. Such intervention prevents damage to the financial position and operating effectiveness of local authorities and limits the opportunities for rent-seeking behaviour.

The institutional approach has a similar viewpoint. It proposes that sub-national governments should have sufficient authority to manage both the expenditure and revenue sides of the budget and ensure efficient allocation of budget resources to achieve the desired public outcome. It emphasises that institutional structures are crucial for effective planning and budgeting. Local governments have to be given considerable certainty of transfers from the centre and central governments should avoid earmarking substantial parts of grants to centrally favoured expenditures (infrastructure investments). The central government should establish a framework of budget laws and perform adequate external audits but should not require sub-national budgets to be subject to prior approval. Thus, there should be uniformity in financial reporting and the budgeting system, but with different degrees of complexity for different categories of local government.

The democratic decentralisation theory does not discuss the centre-region budgeting relationship much. However, it is possible to infer from the theory's proposals on expenditure assignment that it would prefer considerable budget autonomy for lower levels of government. The new public management model, advocates a devolved system of budgeting, not only to sub-national governments but also to executive units at all levels of government. It suggests devolving budgets and financial control to decentralised units by creating separate budget centres or spending units in order to give managers greater control over resources. Alternatively, it argues for a complete shift from a restrictive and control-oriented budget process geared towards measuring inputs, to a system that considers results, efficiency and effectiveness of government programmes (Kelly and Wanna, 2000). The preferred form of budgeting is efficiency budgeting with competitive tendering.

7.2.2 Human resource management system

A good human resource management system includes sets of rules and procedures guiding recruitment, selection, placement, performance appraisal, training, promotion, separation, reward system, job design and change management (Keuleers, 2004; Olowu and Adamolekun, 1999). It requires enhancing the organisational capacities of different institutions and agencies in charge of human resource management. The literature on public administration places the most value on an effective civil service for successful implementation of governance reforms including decentralisation. Keuleers (2004) points out that the success of the reforms depends on the quality of the civil service. It needs to be able to deliver services efficiently and effectively; have a high level of professionalism and capability to offering the best technical advice to elected politicians; be transparent and accountable to citizens; have a fair and transparent recruitment process operating under merit-based principles to hire the best people available at each level; offer competitive salary schemes that will foster a motivational climate for employees; and have the competence and willingness to develop partnerships with various groups and organisations in civil society. In addition, Azfar *et al.* (1999) suggest that under a decentralised form of administration, the human resource management system has to ensure recruitment and retention of competent and motivated employees who are capable of identifying and analysing local problems, planning and implementing appropriate responses as well as mobilising and managing resources. Smoke (1994) argues that clearly defined job descriptions and career paths and the use of performance incentives (bonuses, pay raises and promotions) would help to enhance interaction between central and local institutions as well as improve overall revenue collection and service provision of local authorities.

There are three basic approaches in structuring the human resource management system in a decentralised setting: centralised (unified), decentralised (separate), and hybrid (integrated) systems (Keuleers, 2004; Mawhood, 1983). It is difficult to make a clear demarcation among these three approaches because experiences vary. However, the following major features can be identified in each category.

- A centralised or unified system displays a high degree of control and standardisation over most personnel functions. Local government civil service staffs are employed locally, but are organised nationwide in a single civil service. The central body has overriding power to hire, fire, transfer, and discipline senior grades of local authority. Nonetheless, certain personnel management functions are delegated to the lower level (such as, records management, recruitment of lower-level staff, daily management of employees, and so on.). Such delegation, however, is subject to central policy guidelines and control. This system involves tight control over civil service numbers in sub-national governments within financially approved limits.
- In a decentralised system, the majority of personnel management functions are handled by sub-national governments. The central government sets policy guidelines and issues regulations and advice on their implementation. The objective is to produce an acceptable grading system and terms of service that operate throughout the system in accordance with national laws and regulations. The employees' have a single loyalty to the immediate authority that employees him/her, but employees have the choice of whether to stay in one

place or move elsewhere on transfer. The system reduces central control and allows public body managers to take rapid personnel management decisions in response to perceived needs. Under this system problems arise if local authorities have financial constraints, are too small to recruit employees with the required skill and experience, or if nepotism prevails in making appointments and promotions. The system demands considerable maturity in the local units or sufficient technical and management capacity at sub-national level to cultivate a well-functioning and accountable personnel management system.

- The hybrid or integrated system combines elements of both the centralised and decentralised systems. The central government selectively delegates part of the human resource management functions by assessing human and infrastructure requirements and existing capacity throughout the system. In some cases, it resembles a centralised system, as there could be arrangements where there is a centralised system for higher rank civil service employees and a more decentralised system for lower ranks. An integrated system has the advantage of economies of scale in wage administration and training. It helps remote sub-national governments to attract the right quality of civil servants without offering high incentives. It allows the central government to control the national budget by controlling the size of the civil service or high costs associated with a bloated sub-national civil service. The system is recommended for countries that have no strong tradition of decentralised government.

The welfare economics model advocates the decentralised system of human resource management. The intergovernmental school prefers the hybrid approach. Its proponents, especially Winkler (1994), point out that sub-national governments have to be given power to recruit personnel and determine their pay scales, while the central government has to provide legislation governing local public administration and protecting the civil service. Exponents of the theory of democratic decentralisation, especially Olowu and Wunsch (2004: 261), identify the problem of human resource management in Africa as a complex challenge that defies a uniform solution. They suggest the need for central government involvement to protect personnel rights, professional standards and effective administration practices. However, they reject tight control by the central government and forcing of all sub-national governments to adopt a uniform personnel and wage structure (that is, hiring of the same type, number and quality of staff at similar wages in all local authorities). The institutional approach suggests that the key to successful decentralisation in any area is to provide the right incentives and institutional structures to induce and permit the right people to be in the right place Though the approach does not provide detailed recommendations on the division of responsibility, it accepts the need for central government monitoring and support (reassigning of central government workers to local governments). Thus, the intergovernmental relations approach, institutional approach and theory of democratic decentralisation all support a hybrid human resource management system, which enables the sharing of human resource management functions between different levels of government.

New public management theory proposes a highly devolved form of human resource management system. All agency managers at all levels of government are given increased responsibility for human resource planning (including workforce adjustment), recruitment and performance management. Managers have the power to choose their own staff composition and other resources to deliver programmes efficiently and effectively within hard budget constraints. Keuleers (2004) observes that the system allows managers to employ the skills they deem necessary to carry out the job and avoids the rigidities created by a central agency determining who and how many should be employed. However, he points out that the application of the proposal requires, among other things, a system of government with an effective fund control framework, or an adequate financial management system; a regular performance monitoring system; a strong performance culture; and commitment to achieving organisational missions efficiently and effectively.

7.2.3 Support and coordination system

A good support and coordination system enhances the capacity of lower-level governments to plan and budget effectively, minimise wastage of resources, and cement cooperation and agreement among levels of government. Most of the decentralisation theories uphold the support and coordination system as a valuable instrument for enhancing the effectiveness of expenditure and revenue assignment. The welfare economics model, though, does not provide more insight on the support and coordination system because its emphasis is more on the economic aspects of decentralisation. It also assumes the existence of independent levels of government with separate allocation functions. New public management theory does not emphasise the issue, as it stresses a performance management system in which local governments are judged independently by their outputs and outcomes. Neither the institutional approach nor the democratic decentralisation theory makes specific recommendations on support and coordination. As discussed in Chapter 2, however, both theories favour support to lower levels of governments by the central government.

A more in-depth discussion on support and coordination is provided by the intergovernmental relations school. As indicated earlier, this school's perspective is of multiple levels and units of government that share performance of expanded functions. For instance, Smoke (1994: 58) underlines the need for mechanisms to coordinate activities of institutions involved in local development, including local authorities and central government ministries as well as provincial, regional and local administrations, parastatals, non-government organisations, and private firms. On the basis of the experience of the USA, Agranoff and Lindsay (1983) outline salient support and coordination features under the label of 'intergovernmental management', some of which are:

- Structures and processes have to be developed to deal with key problems that require joint action by federal, state and local governments as well as the private sector. The structures can be formal joint task forces, mutual forums, voluntary associations of governments, or a form of ad hoc cooperation. These institutions should have legal status, autonomy, resources, planning and oversight authority and incentives to coordinate the activities of levels of government. The process of maintaining the cooperation involves recognising and respecting differences between jurisdictions and seeking adjustments between them. This does not mean integrating the various modes of operation into a single framework, but, rather, reaching solutions by working within differences, by being ready to search for alternative modes of operation and by finding common ground on which problems can be resolved.
- The autonomy of the various parties has to be respected and care should be taken to ensure the core legal, political and administrative boundaries of a given jurisdiction are not seriously threatened.

- Members need to have ownership of the decisions by setting agreed upon agenda issues, establishing and maintaining the interests of the various parties, ensuring their active involvement and sharing the products. The priority is to reach consensus or negotiated agreement among different actors during problem identification and verification stages. Solution frameworks also need to be flexible enough to allow changes that accommodate jurisdiction problem-solving capabilities.
- Specialists, politicians and executives have to be brought together to design courses of action for many of the problems. The technical issues include, among other things, extensive staff-level expertise to dig deep into the problems, months of looking at the current state of the art, talking to consultants and examining the experiences of other countries or institutions.

Different administrative mechanisms are devised to manage intergovernmental relations. Adamolekun (1999) identifies two prominent approaches that have been employed in the developed countries. The first is coordination through periodic conferences of political leaders and appointed officials to discuss financial and economic policy issues. Conferences are also held annually at the level of both political leaders and administrators to deal with central-provincial, inter-provincial, and provincial-local relations. The second approach is coordination through a permanent body of the parliament that deals with intergovernmental problems. The body conducts extensive studies on intergovernmental relations and promotes information sharing and consultation among the different levels of government that are represented in its board. The first approach has been practised in Canada, while the second is common in the USA and Australia. Many developing countries also use one of the above mechanisms. For example, South Africa subscribes to the Canadian approach (*ibid.*)

In the context of developing countries, support and coordinating mechanisms are necessary for effective decentralisation. They clarify expenditure responsibilities, avoid unnecessary complication in revenue administration, facilitate exchange of experience, reduce costly duplication of effort, link the activities of various agencies, and ease generation and transmission of information. Some authors claim that coordination can be achieved by establishing central autonomous agencies or think-tanks; delegating tasks to central sectoral ministries; developing standardised guideline and procedures for information and reporting systems;

and arranging different forums to build consensus among key institutional actors (Smoke, 2000).

Central government support also develops capacity. Capacity is defined by UNDP (1997) as 'the ability of individuals, institutions and societies to perform functions, solve problems, and set and achieve objectives in a sustainable manner'. Capacity development is the process through which this ability is developed, strengthened and adopted over time. The capacity to formulate, implement and review policies and programmes is also critical for long-term economic and social development (*ibid.*). The decentralisation literature in developing countries emphasises the importance of assessing and developing the capacity of lower-level governments for successful intergovernmental fiscal relations reform (Bird, 2000; Smoke, 2000). It identifies the capacity problem of lower-level governments as weakness to anticipate and influence change; make informed and intelligent policy decisions; develop programmes and implement policy, attract, absorb and mange resources; and evaluate current activities to guide future actions. Different support mechanisms are employed by the central government to strengthen the capacity of lower-level governments, such as providing various forms of training programmes, introducing new management techniques and deploying permanent or temporary technical staff and so on. Such capacity-building efforts, among other things, help enhance the skills of sub-national governments to analyse a situation and create a vision; formulate policy and strategy; budget, manage and implement; and monitor and evaluate different policies and programmes (*ibid.*).

7.3 Overview of Administrative Organisation at Central and Regional Levels

The administrative organisation of the central and regional governments comprises the ministries or bureaus, departments, divisions, agencies and commissions. Both levels of government have their teams of executives that lead the ministries or bureaus and are referred to as the Council of Ministers and the Council of the Regional Government. At both levels of government distribution of duties among the different ministries/bureaus follows the functional principle, where activities like health, education, agriculture, and so on, are assigned to different ministries or bureaus.

After coming to power in 1991, the EPRDF restructured the administrative apparatus through Proclamation no. 41/1993, which defined the power and duties of the central and regional executive organs under the Transitional Government. The proclamation also stipulated the formation of 20 ministries and four commissions at the central level and required regional governments to establish some or all of 21 listed bureaus. It also allowed regions to merge several of the bureaus into one, depending on the type and scope of regional activities and the region's capacity in terms of financial and human resources.

Article 4d of Proclamation no. 41/93, mandated the central ministries to 'give assistance and advice to regional governments and follow up the proper implementation of laws, regulations and directives by their executive organs'. It required all regional governments to submit periodic activity reports. Proclamation no. 4/1995 ended the follow-up mandate of central ministries and the reporting task of regional bureaus. It was issued after the enactment of the 1995 Ethiopian Constitution, which gave regional states the right to formulate and execute economic, social and development policies independently. Accordingly, article 10-1d of Proclamation no. 4/1995 identified 15 ministries and outlined a common duty of all central ministries to 'give assistance and advice, as necessary, to regional executive organs'. Since then, there has been no further explanation or detailed specification of the type of assistance or relationship between the federal and regional executive organs. It is apparent that the Ethiopian model is based on the layer-cake model of independent tiers of government with no need for reporting and follow-up interactions between them.

After their formal establishment in 1995, the regional governments issued proclamations to organise their respective regional administrations. The proclamations of the three regional governments under study established bureaus emulating the central government executive organs. Following Federal Proclamation no. 41/1993, Benshangul-Gumuz and Tigray established 13 bureaus and Amhara established 12.[1] No significant variations in nomenclature were observed among the three regions, except for the difference in merging some of the bureaus. For instance, Amhara and Benshangul-Gumuz use the label 'Bureau of Agriculture' while Tigray refers to the bureau having more or less similar duties and responsibilities as the 'Bureau of Agriculture and Natural Resources'. There are also some minor differences in terms of organising the bureaus of 'works and urban development'; 'water resources' and 'mining and energy'. Benshangul-Gumuz established a bureau of 'Work and Urban Development and Mining and Energy' and another of 'Water Works'; however, Tigray and Amhara have a bureau of 'Water Resources, Mining and Energy' and another of 'Works and Urban Development'. Excepting such minor differences, all the regions established all the bureaus along with the duties and responsibilities given by Federal Proclamation no. 41/1993 of the central government. The internal structure of the bureaus in the three regions is also somewhat similar because it was provided by the central government. The author observed during the fieldwork (2003-4) that the Bureau of Education in all the three regions has four service units (Audit, Plan and Programme, Inspection, Administrative and Finance), and three line departments (Education Programmes and Supervision, Curriculum, Educational Facilities).

A major restructuring of the administrative structure of the central and regional governments was carried out in 2001. Federal Proclamation no. 256/2001 provides the formula for the restructuring of the federal ministries. The major change at the federal level was reorganisation of about 70 agencies, authorities, commissions, ministries and public corporations under six super-ministries and 12 ministries. The duties of many of the ministries were similar to those specified in the 1995 Proclamation. The exceptions were for the two newly created super-ministries: Capacity Building and Rural Development. In 2001, the three regional governments also issued similar proclamations of their own to reorganise their respective executive branches. Each of the regional governments established 14 bureaus, and five super-bureaus, namely the Bureau of Capacity Building, the Bureau of Rural Development, the Bureau of Trade, Industry and Urban development, the Bureau of Mass Participation and Organisational Affairs, and the Bureau of Administrative and Security Affairs. These five super-bureaus coordinate and control different bureaus under their respective jurisdictions.

Except for some minor differences, the structures of the central and regional executives are similar. For instance, at the federal level the Ministry of Capacity Building controls and coordinates the Ministry of Education, Federal Civil Service Commission, Ethiopian Management Institution, and Ethiopian Civil Service College. Similarly, the regional Bureau of Capacity Building in the three regions also supervises the Education Bureau, Civil Service Commission and Management Training Institution.

The new structures at both levels of government are based on the directives provided in two White Papers or documents prepared by the Prime Minister. As indicated in earlier chapters, the two documents by the Prime Minister on capacity building and rural development guide the operation of the Ministry/Bureau of Capacity Building and Ministry/Bureau of Rural Development at the two levels of government.

7.4 Public Finance System

7.4.1 Multi-year expenditure and revenue planning

Systematic and prudent allocation of resources requires, among other things, short-term and medium-term expenditure and revenue planning. As the main goal of intergovernmental fiscal relations is allocation of resources among diverse demands and preferences, multi-year fiscal planning is an important tool for its success.

During the past decade, federal and regional medium-term expenditure and revenue planning in Ethiopia involved the development of three EPRDF Development, Peace and Democracy programmes (1995/6 to 1999/2000; 2000/1 to 2004/5; 2002/3 to 2004/5) and two consecutive education and health sector development programmes (1997-2005). The plans/programmes contain policies and detailed directives and activities to be carried out in the different sectors of the economy at both levels of government. However, these plans do not provide reliable financial information such as forecasts of total financial resources available, costs of achieving objectives, intersectoral priorities, and details on resource allocation. Whilst the sector development programmes (SDPs) incorporate medium-term financial projections (anticipated external and domestic resources) for recurrent and capital expenditure at regional and federal levels, albeit with no linkage between the education and health SDPs as well as between the two SDPs and those of other sectors. World Bank (1999) indicates that SDPs' financial projections were messy as there was a large discrepancy between the government's projections of external resource flows and donors' estimation of aid disbursements. Moreover, informants in the three regions told the author that the regional Planning and Economic Development Bureaus, which are expected to lead the planning and coordination of regional plans/programmes and financial resources, were not directly involved in formulating the first Education and Health SDPs (1997/8 – 2001/2).[2]

Following the modalities on three-year medium-term expenditure planning, the central and regional governments issued their respective proclamations introducing the following interrelated approaches to link expenditure priorities and financial resources, or mechanisms to integrate expenditure policy, planning and budgeting.

- The Macroeconomic and Fiscal Framework (MEFF) and Public Investment Programme (PIP) are two interrelated approaches employed for medium-term expenditure planning. The MEFF, which started in 1993, determines the resource envelope (domestic and external) and project allocation for federal recurrent and capital expenditure as well as the regional subsidy.[3] Part 3.7 of Council of Ministers Financial Regulation no. 17/1997 defines PIP as a three-year rolling capital expenditure financial plan prepared by public bodies under the guidance and coordination of the Ministry of Economic Development and Cooperation. PIP is expected to reflect government policies and priorities and stimulate dialogue between those responsible for approval (Council of Ministers and House of Peoples' Representatives) and public bodies responsible for implementation. The MEFF, approved by the Council of Ministers, technically sets ceilings or indicative planning figures for capital expenditures of federal public bodies to be consolidated into PIP. The proclamation states that capital projects prioritised under PIP are only eligible for inclusion in annual capital budgets.
- The Medium-Term Expenditure Framework (MTEF) and Public Expenditure Programme (PEP) are the second set of approaches introduced in 1999 upon the recommendation of the World Bank.[4]. The aim of both approaches is to ensure implementation of a strategic approach to public expenditure that considers intertemporal and intersectoral tradeoffs, as well as warrants consistency between recurrent and capital budgets. The MTEF is expected to help ensure consistency and coordination between SDPs and the overall macroeconomic framework. PEP follows theoretically accepted features of public expenditure programmes. After determining resource levels available for capital and recurrent public expenditures, it allocates the resources (both regional and sectorally) according to the government's policies and priorities, uses cost of policies and programmes as inputs in allocation decisions, makes public bodies develop medium-term expenditure plans within a resource ceiling, and monitors

and evaluates performance relative to expected outputs and outcomes (MEDaC, 2000b).

Like the federal government, the three regional governments of Amhara, Tigray and Benshangul-Gumuz enacted financial legislations in 1997 that mandated their respective Bureaus of Planning and Economic Development to lead and coordinate the multi-year Public Investment Programme (PIP). In 1999, the central government instructed the three regions to shift from PIP to PEP.

The above approaches are interrelated as they are based on the Macroeconomic and Fiscal Framework, which accounts for the total resource envelope and expenditure commitments. PIP and PEP are interrelated as the former covers the capital investment projects and the latter deals with both recurrent and capital expenditure. The approaches are also part of the Comprehensive Civil Service Reform Programmes, especially the Expenditure Management and Control System Overhaul, which aims at strengthening Ethiopia's public financial management system.

The implementation of the above approaches has been deficient. The World Bank annual Public Expenditure Review reports (1999, 2000b, and 2001) and MEDaC (2000b) express the following misgivings about it:

- Whilst there was significant progress in developing the technical basis for the Macroeconomic and Fiscal Framework (MEFF) at the federal level, there were delays in completing the document by the Ministry of Economic Development and Cooperation and the practice of developing MEFF and PIP remained a shadow exercise.
- At the federal level, PIP documents that are expected to provide Indicative Planning Figures for public bodies were not available. The public bodies were preparing uninformed three-year investment forecasts or wish lists of capital projects that were based neither on resources available nor on government policy and priority areas.
- The MEFFs and PIPs were never submitted to the Council of Ministers and the House of Peoples' Representatives for approval, nor was there any adherence to the procedures outlined or to the timing mandated in the financial calendar.
- PEPs were not effective because the Ministry Economic Development and Cooperation (responsible for multi-year planning and programming/capital expenditure) and Ministry of Finance (responsible for preparing annual fiscal plans/recurrent expenditure) were not

collaborating and coordinating their activities (except after the recent merger of the two agencies).

- MEFF, PIP and PEP at the regional levels had not started by 2001/02. During the author's fieldwork in 2003 and 2004, the three regional governments had still not introduced either of the approaches.

The above public expenditure management tools were not successfully applied to prioritise public demand and allocate available resources at both levels of government. The central government gives two reasons for the failure: uncertainties about the Ethiopia-Eritrea war (1998-2000) and complexity of forecasting external loans and assistance (World Bank, 2000b). However, it appears that the measures were included in the proclamation to impress donors, without real commitment to implementing them.

The weakness of medium-term expenditure planning has not only constrained matching of expenditure priorities and revenue sources, it has also resulted in a poor intergovernmental fiscal transfer system. As discussed in Chapter 5, decisions on the transfer pool and subsidies to regional governments, along with the annual budget decisions, are made on an ad hoc basis and there has never been a multi-year projection of subsidies to regions (save the ineffective pilot initiative in September 2001). This has resulted in poor expenditure prioritising or matching of constituencies' demands with available resources in the three regions.

Medium-term projections of domestic revenue resources have not been given due attention in the three regions as well as at the federal level. Chapter 4 showed that the central and regional EPRDF five-year medium-term plans have not dealt with revenue generation. The revenue projections for central and regional governments in the MEFF documents have not employed systematic mechanisms; they have merely added a certain percentage on revenues collected during previous periods. The critical problem is absence of studies on federal and regional revenue potential.

Since 2003, the government has been undertaking a new approach for projecting financial resources under the Poverty Reduction Strategy Programme and Sustainable Development and Poverty Reduction Programme. Five poverty-oriented sectors (agriculture, water, roads, education and health) were identified and resources allocated. Government documents claim that this was done through assessment of available resources from both domestic and external sources (MEFF) and allocation to sectors with resource constraints (MOFED, 2002). It is too early to judge the effectiveness of this renewed approach. However, with major donors like the European Union and World Bank contemplating withholding direct government budget support due to the country's political instability after the May 2005 elections, the effectiveness of the approach is doubtful.

Clearly, medium-term expenditure and revenue planning in Ethiopia has not been effective. Decisions on expenditure needs of different constituencies lack timeliness and objectivity and resource availability is not estimated in advance.

According to the literature, a medium-term expenditure framework provides a baseline for formulating budgets and monitoring their implementation (Schick, 1998). In Ethiopia, there is weak linkage between planning and budgeting. Resource allocation is dominated by the task of fitting expenditure to available resources within a strictly annual horizon on a line-item basis. The next sub-section focuses on budgeting.

7.4.2 Federal and regional governments' budgeting systems

The conceptual discussion at the beginning of this chapter indicated that budgeting is an important political and administrative tool to plan and control effective utilisation and equitable allocation of available resources. Budgeting leads to allocative efficiency because it apportions financial resources on the basis of government priorities and effectiveness of public programmes; it reallocates resources from lesser to higher priorities and from less effective to more effective programmes. Production efficiency can be attained through budgeting because it forces spending public agencies to produce goods and services at a minimum cost competitive with market prices. Budgeting gives sub-national governments autonomy on expenditure decision when it allows discretion in resource deployment. Transparency and accountability are attained as annual budget reports provide information on the financial performance of public organisations.

This sub-section analyses Ethiopia's budgeting system at the federal and regional levels over the past decade. Article 51(10) of the 1995 Ethiopian Constitution gives the central government power 'to draw up, approve and administer the federal government budget'. Article 52(e) also bestows power on the regional governments 'to draw up and administer the state budget'. Similarly article 49 (3:11) of the three regional state constitutions authorises the Regional Council 'to examine and approve its own budgets'. Part 4 of Federal Proclamation no. 57/1996 gives detailed directives on aspects of budgeting, which include: format and procedures of budget call, budget approval and notification, budget transfer within and between public bodies, emergency expenditures, and supplementary budgets. Council of Ministers Regulation no. 17/1997 also spells out the responsibilities of the Ministry of Finance, Ministry of Economic Development and Cooperation and spending public bodies in the budgeting process. The financial proclamations and financial regulations of the regional executives echo the articles (including the tags of the articles) of the federal financial proclamations and regulations. The regulations of both levels of government spell out the rules concerning budget preparation, submission, approval and execution.

Thus, both levels of government have parallel powers to formulate and implement annual budgets. Technically, Ethiopia follows a decentralised system of budgeting because both levels have the right to develop their annual budgets and have issued their own financial proclamations although they have similar budgeting rules and procedures. At both levels of government, the first step in the budgeting process is to develop separate recurrent and capital expenditure budgets by spending agencies based on annual budget call letters from planning and finance bodies.[5] Recurrent expenditure and revenue budgets are submitted to the finance body and capital budgets to the planning body. The two bodies conduct separate budget hearings with spending bodies, and evaluate and revise budget submissions. The finance body consolidates budget submissions, the top executive body reviews them and makes recommendations, and the parliament approves them. Finally, the approved annual budgets are published in the *Negarit Gazetta* and spending bodies know their budget allocations. This formal budgeting process follows the traditional approach of public finance management to some extent. The actual budgeting process and procedures at federal and regional levels are analysed below.

Cyclical budget formulation

The first step at federal level involves developing proposals on allocation between central expenditure and the regional transfer pool as well as between the federal recurrent and capital budgets. The federal planning body develops allocation proposals in consultation with the finance body. The Prime Minister's Office (PMO) reviews and approves allocation proposals. Subsequently, the finance and planning bodies develop and issue budget call and ceiling notifications for capital and recurrent budgets respectively. The calls include mainly ceilings, budget priorities and preparation guidelines. The second step is budget submissions by spending agencies. Pre-ceiling and post-ceiling budgets are formulated for both recurrent and capital budgets.[6] The third step is budget hearings, review and recommendation. The finance body reviews post-ceiling recurrent budget submissions and conducts formal hearings with spending agencies. The hearing for the recurrent budget is less rigorous and focuses on details of expenditure. The hearings for the capital budget are intensive and comprise two stages – first, review and recommendation by the planning body and then review by the PMO. In the latter stage, the hearing reviews the status of existing capital projects, and the content and strategic importance of new projects. Decisions are made as to whether to accept or reject new projects and to continue or discontinue ongoing capital projects during the upcoming fiscal year.

The fourth step in budget formulation involves the Council of Ministers, which discusses and approves the recommended recurrent and capital budgets. The Prime Minster then presents both budgets to House of Peoples' Representatives for authorisation. Examination of the parliamentary minutes between 1995 and 2004 shows that the House has never changed budget proposals submitted by the PMO. In most cases, since Members of Parliament receive budget documents two or three days before the parliamentary session, debates on annual budgets take only a few hours. Finally, the budget formulation cycle is concluded by notifying the spending agencies of their recurrent and capital budgets by items of expenditure.

Budget preparation in the three regional governments under study follows a similar pattern but has some unique characteristics as it involves budgeting at lower levels of government.

First, the *woreda* sector offices prepare pre-ceiling budgets for recurrent and capital expenditure. The *woreda* executive committee approves and sends the budgets to the zone executive committee for compilation and sector offices for input regarding sectoral aspects of the budget. The zones approve and submit the pre-ceiling budgets to the regional president's office and regional sector offices. The regional sector bureaus compile and approve the sectoral recurrent and capital budgets and submit them to regional finance and planning bureaus respectively. The bureaus approve and produce regional pre-ceiling capital and recurrent budgets. The 2002 *woreda* decentralisation programme discontinued the pre-ceiling budget. During the author's fieldwork in 2004, the pre-ceiling budget process was still followed in Benshangul-Gumuz, but there were moves to discontinue the pre-it in Tigray and Amhara.

In the second step of budget preparation, following notification of the central subsidy, regional plan and finance bureaus allocate available regional resources (own revenue and federal transfer) between regional recurrent and capital expenditure and formulate details of allocation by objects of expenditure to all regional sector bureaus, zones and *woredas*.[7] In the process, the bureaus consult regional sector offices, zonal finance bureaus and top regional political leaders. The regional executive body reviews and approves the allocations. Finally, the regional parliament authorises them and the regional planning office notifies spending bodies of their allocations. However, as regional parliaments sit only twice a year, they might give authorisation in the middle of the fiscal year; in some years, they hardly discuss and approve the annual budget.

Repetitive budgeting without linkage between analysis (pre-ceiling) and fitting (post-ceiling) stages

The spending agencies at both federal and regional levels prepare the pre-ceiling budget, which is the analysis phase, and post-ceiling budget, which is the fitting phase. At both federal and regional levels, the relationship between the pre and post-ceiling budget is not firmly grounded and has led to repetitive budgeting. This was borne out by observations in the field.

At the regional level, pre-ceiling budgets have not been effective in linking expenditure priorities and actual allocations. Until 2003, regional pre-ceiling budgets, especially in Tigray and Amhara, were prepared on the basis of bottom-up inputs indicating local priorities. However, pre-ceiling budgets at lower levels were wish lists; they were not based on realistic resource constraints and were given little consideration when actual or post-ceiling budgets were prepared. In Benshangul-Gumuz, sector offices are responsible for developing budgets and there is little participation by the *woredas*. Irrespective of the pre-ceiling budgets, lower-level governments and spending agencies in the case study regions are given specified allocations decided by the regional top executives on the basis of the recommendations of the finance and planning bureaus. World Bank (2001) corroborates this, observing that in Tigray, 'although the commitment to bottom-up planning is genuine, there is no delegation of budget formulation to the zonal level or below '.

In all cases, spending units have no latitude in allocating from a ceiling or adjusting their budget allocation proposals. At federal level, the recurrent expenditure pre-ceiling budget is fitted to actual ceilings incrementally by the Administrative and Finance Department, and the capital expenditure pre-ceiling budget is fitted to the actual ceiling by the Planning and Project Department and high-level agency officials. At the regional level, planning and finance bodies fit pre-ceiling recurrent and capital expenditure budgets to the post-ceiling.

Fitting of the capital budget is geared to implementation of capital projects within a single fiscal year; and medium-term strategic issues are not rigorously addressed. Allocations for new capital projects in the agricultural and road sectors are expected from the central government and capital projects in the health and education sectors follow the Sector Development Programmes. Nearly two-thirds of the federal and the regional capital budgets is financed by earmarked external loans and assistance (World Bank, 2000b). As discussed in Chapters 3 and 5, regional governments have no latitude decisions regarding Sector Development Programmes and capital projects financed through donor loans and assistance.

There are three reasons for the absence of a link between analysis and fitting phase. First, the delay in budget subsidy notification does not give enough time for federal spending and regional finance and planning bodies to conduct a proper iterative process. Second, the budget process makes the linking process or budget iteration futile exercise. Recurrent expenditure on salaries and operating and maintenance costs is decided incrementally with marginal changes from year to year, and most decisions on capital expenditures are not within the ambit of spending agencies. This limits the discretion of spending units or regional governments and reduces the effectiveness of the bottom-up priority setting process. Third, the dominant role of the high-level political leaders at the regional and central government level in determining detailed allocation of resources leaves little latitude to spending agencies and lowest tiers of government.

Budget spending according to stringent order of priority

The federal and the three regional governments follow a strict spending hierarchy. First priority goes to non-discretionary recurrent costs (salaries, pensions and legal obligations); second comes financing of discretionary recurrent expenditure commitments (non-wage operating and maintenance costs); third in the hierarchy is completion of ongoing capital projects; and last comes assignment of a surplus budget to new investment projects. Given the limited financial resources and earmarked capital projects, this hierarchy ensures payment to civil servants and avoids stretching investment programmes too thin. However, the system tightly constrains spending agencies and lower tiers of government from allocating resources to new expenditure priorities. It is also impossible to reallocate resources from high-priority areas to low-priority areas.

Fragmentation of budgeting

The fragmentation of budgeting at federal and regional levels is mainly reflected in the separate treatment of capital and recurrent budgets. The preparation, review and approval processes of the capital and recurrent budgets are done by separate organs and sometimes at separate times. The definition of the capital budget in laws and regulations is ambiguous, leaving budget staff unsure of allocation of expenditure between capital and recurrent budgets. (For example, salary, operation and maintenance, and training and consultancy costs of capital projects are treated as recurrent expenditure in some cases and capital expenditure in others.) Capital expenditure is considered to be development expenditure while recurrent expenditure is viewed as consumption. Operation and maintenance costs are cut during budget reviews without analysing the impact on capital investment. Finally, there is no systematic method of dividing the resource envelope between capital and recurrent budgets, and budgets for capital investments are formulated and approved without considering long-run recurrent costs.

The existence of autonomous funds, apart from regional treasury accounts, also results in budget fragmentation. Examples of such funds are off-budget allocations from donors and the central government, which include the road fund, food security, different health sector projects (like HIV/AIDS and polio eradication) and agricultural sector funds (like forestry development and locust control). World Bank (2000b, 2001) indicates that a significant portion, often more that half of total external aid, fails to be captured by the budget. The off-budget disbursements fragment the budget and weaken the annual budgeting system's effectiveness as a tool for managing public expenditure in a coordinated and consolidated manner. The situation also negates federal and regional financial regulations that require all external aid to be accounted for in the consolidated budget.

In 2002, a new government structure was introduced at the centre and in the regions, which was expected to create linkage between finance and planning bodies and to resolve fragmentation of capital and recurrent expenditure budgets. Beginning from fiscal year 2004, line-item budgeting was replaced by activity-based budgeting, or performance budgeting, to allow a budget crosswork between capital and recurrent budgeting. However, the author's fieldwork observation in 2003-4 confirmed that although the planning and finance bodies had been merged, recurrent and capital planning and budgeting at the regional level had not been genuinely integrated.

Similar budget execution at federal and regional levels

The process of releasing funds from the central Treasury to the central spending agencies, and from the regional Treasury to regional spending agencies and lowest tiers of government, is uniform and cash based. Finance bodies require spending agencies to submit action plans and cash flow statements based on disbursement notifications given to them. The Treasury releases approved capital allocations upon the request of spending agencies and recurrent allocations on a monthly basis. Any amount remaining in spending agency accounts at the end of the year is transferred back to the Treasury.

The central Treasury releases funds after the regional governments submit approved post-ceiling capital and recurrent budgets to the central finance body, which then authorises the National Bank/Commercial Bank of Ethiopia to release funds for recurrent expenditure to the regional governments in monthly instalments. For the capital budget, sector bureaus send requests to the regional Finance Bureau, which then authorises the National Bank to release funds into the sector bureau's account and debit the regional Treasury account. Until recently, unspent recurrent funds were carried over to the next fiscal year. However, capital expenditure surpluses at the end of the year in the central Treasury are subtracted from the federal transfer the following year. This has been a point of grievance for some regional governments, especially Benshangul-Gumuz.

Spending agencies' discretion in expenditure allocation during implementation

The budgeting system in Ethiopia is by line item and there are strict rules regarding reappropriation or virement. Separate lists of objects of expenditure are prepared for the recurrent budget (salaries, office supplies, and so on) and the capital budget (survey and design, equipment and machinery, operating costs, and so on). Once approved, only the central/regional executive bodies have the power to transfer allocations from recurrent to capital budgets, but they cannot make transfers from capital to recurrent budgets. Finance bodies at both levels have the power to transfer from salaries and allowances to other recurrent expenditure, but not the other way round. Spending agencies only have the right to transfer a few items within the non-salary component. This makes spending agencies respect approved budget ceilings but limits their discretion in budget implementation.

As noted earlier, the ongoing budget reform has introduced a change from the existing input-based (line item) budgeting to cost centre and performance budgeting. Measures are being taken to consolidate recurrent and capital budgets; use similar codes and classification for objects of expenditure for both budgets; and map budget into organisational structures of implementing bodies. Since 2004, spending agencies have been technically given formula-driven block grants and allowed to allocate funds across their priorities.

Weakness in internal and external auditing at regional and central levels

The line-item budgeting system tracks the expenditure of each spending unit and controls spending agencies' use of funds. Monthly disbursements and transfer requests by spending agencies are based on documents retracing the initial budget appropriation, any modification to the budget already claimed, balance available and new claims. Spending units are required to submit monthly statements of revenue and expenditure along with their disbursement requests.

However, monthly statements are not audited adequately and in time, externally and internally. The external audits (by federal and regional audit bureaus) are expected to audit accounts of spending bodies every year. As discussed in Chapter 5, the federal auditors have not been effective. The regional audit offices are poorly staffed, with insufficient accountants and auditors. Internal audits within each spending units, are expected to check whether expenditure authorisations are in line with the approved budget. However, internal audits are not effective because there is a shortage of inspectors and auditors as well as qualified accountants. Of the three regions, Benshangul-Gumuz is worst off. Generally, in all the three regions, however, auditing neither controls use of funds by spending units nor informs decision-makers about the outputs/outcomes of resource allocations.

Weakness in expenditure reporting systems

Ethiopia's legal framework requires all spending agencies (federal, regional, zonal and *woreda*) to report on their financial and physical performance to finance and planning bodies on monthly, quarterly, semi-annual and annual basis. Except for the monthly reports for requesting disbursements, there is a delay in collating financial data at all levels and reports on financial information are inconsistent. There is also a misunderstanding in defining what the reports should disclose. Some spending bodies show disbursement while others show actual expenditures. Similarly, reports on retained revenue are complicated, as some report on actual revenue and others on planned revenue. In the latter case, World Bank (2001: 4) observes that '…accountability for and transparency in the area of retained revenue is weak. There is a standing finance instruction that enjoins all public bodies to submit to the MOFED (Ministry of Finance and Economic Development) the amount they have collected and details of its utilisation. Even so, the quantum of retained revenue is not regularly and accurately reported on, and this erodes efficiency of expenditure allocation and accountability.'

As discussed in Chapter 5, the problems of reporting have been a serious concern to the central planning and finance bodies and have been mentioned in almost all meetings of the centre-region financial forums, the House of Peoples' Representatives and House of Federation. Informants told the author that the reasons for poor information exchange between the centre and regions are weakness in the system of budget classification, limited capacity of human resources to compile and collate the necessary reports, and poor information technology systems.[8] World Bank (2000b: iv) gives a general picture of the country's practical problems with regard to information management. These include delays in receiving information needed for budget preparation; delays and inaccuracies in reporting expenditures; limited capacity to satisfy competing and overlapping demands for information; and weakness in horizontal and vertical communications between government agencies, and between government and aid agencies.

The information exchange system is of little use in analysing expenditure and revenue policy decisions, as it cannot provide consistent and timely management information. The dearth of information results in poor fiscal transfer systems as transfers are made without understanding the fiscal performance of regional governments. Improvements in information management systems are being introduced through the countrywide budget reform programme, but are still in the process of being rolled out from the federal to regional governments.

Lack of authoritative budget calendar to guide budget cycle

Annual budgeting requires time schedules and budget deadlines for every step. Ethiopia lacks an authoritative budget calendar to direct annual budgeting activities of the federal and regional governments. The only dates proclaimed by the federal and regional financial laws are the final approval and notification dates of the budget – that is, approval of budget appropriation by the House of Peoples' Representatives on 6 July of every year and notification to public bodies by 13 July. As indicated in Chapter 5, these deadlines have never been respected. According to informants, detailed budget calendars proposed by the budget reform programme have not been effective.[9]

Regions' room to determine costs of budget items

The essence of budgeting is converting planned activities in to financial outlays. This enables spending agencies to articulate alternative costs of inputs and leads to efficient utilisation of resources. The case study regional governments are not given such leeway. Two examples of this are: the major share of regional recurrent expenditure, that is, cost of salaries, is determined by the centre since regional governments follow the national salary scale; and construction costs in the health and education sectors are also determined at the centre in the Sector Development Programme implementation manuals. Generally, budget allocation faces two main constraints: in fixing costs and in laws and regulations. The discussion in Chapter 3 demonstrated that regional strategies are in practice quite tightly specified by federal policies and standards, leaving no latitude for adapting policies and expenditure patterns to local circumstances.

Ethiopia's budgeting system displays some characteristics of the traditional budgeting system. The literature indicates that traditional budgeting is cyclical, incremental and based on objects of expenditure (Caiden, 1996; Premchand, 1999). The above analysis, however, indicates failure in application of the traditional system of budgeting by both federal and regional governments. There is no linkage between the analysis and fitting phases of budgeting. Regions have no latitude to determine costs of inputs and priorities. Moreover, whilst Ethiopia's budgeting system follows the traditional budgeting system, the capital budgeting techniques employed under the system are not effective. Informants in the Ministry of Finance and Economic Development told the author that, except in some capital projects, detailed analysis using quantitative techniques such as economic or social cost-benefit analysis and cost-effectiveness analysis are not adequately performed to determine resource allocation. They stressed that one of the arguments for direct budget support programmes is to tackle the problem of earmarked projects, which restrict the central government from allocating earmarked funds to different priority areas. Regional governments hardly apply capital budgeting techniques in their budget formulation process or allocation of resources (interviews, Addis Ababa, April 2004).

The audit system at both levels is neither effectively used to control spending on line-item expenditures nor adequately used to manage expenditure, revenue and fiscal transfers. There is lack of coordination between domestic and external resources as well as capital and recurrent expenditure. Off-budget financing seriously undermines the integrity of the annual budget. There is a dearth of reliable and comprehensive information and the reporting system is poor. Generally, the budgeting rules and processes are not used by the three regional governments in managing public expenditure and revenue. According to World Bank (2000b: 34):

> The decentralized system is dominated by the annual budgeting cycle and […] links between recurrent and capital budgets are unsatisfactory. Regions have come to expect that notification of the federal subsidy will be delayed and have various strategies for coping (by making conservative assumptions about the funds that will be available and by last-minute pruning of projects

according to priority ranking). In effect, regional planning and budgeting is concerned with fitting a pre-existing shopping list into an annually revealed expenditure envelope, but this does not amount to strategic planning of expenditure.

The Ethiopian government analysis of the civil service reform programme identifies the problems as, among others, incapacity of the system to evaluate efficiency and effectiveness of budget allocations, lack of medium-term financial plans and an authoritative budget calendar, lack of autonomy by spending agencies to make allocation decisions and transfer funds within the recurrent budget and/or the capital budget, cash-based budget execution, single-entry accounting systems, poor information and reporting systems, lack of budget consolidation, a highly centralised recording system, and weak internal and external auditing systems (Ministry of Capacity Building, 2002b).

Ethiopia's budgeting system has some positive characteristics, as it provides hard budget constraints and it is possible to track expenditures of spending agencies. However, as explained above, budgeting has not been an effective tool for expenditure prioritising and resource projection. The budgeting and intergovernmental fiscal transfer systems are not sufficiently linked to yield adequate information for effective allocation of resources by regional governments. Matching of the financial envelope with requirements of budgetary institutions is weak. Transparency and accountability are also compromised because of weak reporting systems and failure of the budget system to consolidate extra-budgetary funds. Generally, Ethiopia's budgeting system suffers from the problems in poor countries identified by Caiden and Wildavsky (1980), which include, among others, repetitive budgeting, budgetary fragmentation, heavy reliance on line item budgeting, weak legislative approval, poor revenue administration, uncoordinated donor funding, and pervasive lack of information. In short, budgeting serves neither expenditure planning nor articulation of regional demands and available resources in a coordinated manner. Whilst regional governments formally have the power to administer their budgets in a way that fits their particular situations, the regions uniformly put themselves in a straightjacket system of budgeting rules and procedures dictated by the centre.

7.4.3 Revenue administration and intergovernmental fiscal transfer administration

In addition to medium-term planning and budgeting, the two important elements in the public finance management system are revenue and intergovernmental fiscal transfer administration. These two components were discussed in detail in Chapters 4 and 5 respectively. Chapter 4 analysed the revenue administration system at the federal and regional levels and concluded that the arrangements do not result in effective revenue assignment. This is because the system is centrally dominated and follows archaic procedures for taxpayer' record-keeping, and tax assessment, collection, accounting, and enforcement. Chapter 5 examined the fiscal transfer administration. It elaborated on weaknesses of the institutional arrangements for notification, disbursement and central government auditing. Several generalisations can be drawn from the findings: there is delay in notification of subsidies, which creates uncertainty among regional governments; the disbursement process has made regional government lose interest in mobilising foreign loans and assistance; and the audit system has never been used to determine the effectiveness of the central subsidy to the regional governments.

7.5 Human Resource Management System

As stated earlier, the human resource management system includes rules and procedures guiding recruitment, selection, placement, performance appraisal, training, promotion, reward system, job design and change management. In principle, these arrangements ensure recruitment and retention of competent and motivated employees, who are capable of identifying and analysing local problems, planning and implementing appropriate responses, and mobilising and managing resources. In other words, they contribute to success in expenditure and revenue assignment. This section analyses Ethiopia's human resource management system at federal and regional levels.

Ethiopia's legal framework gives the federal and regional governments parallel power to enact laws concerning administration of civil employees and their conditions of service. However, article 52.2 of the 1995 Ethiopian Constitution requires the regional governments 'to ensure that educational, training and experience requirement of any job, title or position approximate national standards'. Both levels of government have civil service commissions of their own, which are independently mandated to implement civil service laws, policies, regulations, and directives; supervise and control hiring (recruitment, selection and placement), transfer (lateral and vertical), salary administration, performance appraisal, training, discipline and separation of civil servants; and keep personnel records, decide on appeals by civil servants, and evaluate organograms and staffing of regional government offices. Regions are required to provide information on regional personnel to the centre, and the centre is required to provide support to regions. Using the conceptual discussion at the beginning of this chapter, Ethiopia has a decentralised human resource management system rather than an integrated (hybrid) one. The institutional arrangements for human resource management of the federal and three regional governments are analysed in this context.

Application of rules and procedures

Until 2002, Ethiopia's civil service was governed by Public Service Regulation no. 1, 1962. The key rules in this included open competitive examinations for employee selection; a position classification system with job grading and salary structure; merit as a criterion for appointment; and a pension scheme for public servants. The Regulation established a central personnel agency, which had formal authority to maintain an efficient, effective and permanent civil service in the country based on a merit system. The agency was entrusted with establishing a homogeneous public service governed by uniform rules and principles, and recruiting and appointing all employees of civil service institutions except ministers. The power of the agency was, however, diminished after the EPRDF took power and enacted the 1995 Ethiopian Constitution, which allows decentralised human resource management, permitting regional governments to have their own civil service commissions and independent powers for human resource management.

Application of the civil service rules and procedures was deficient in the previous two regimes. During the Haile Sellassie regime (1917-74), civil service rules and regulations were ignored and political interference in administrative affairs was seen as a chronic problem. The Dergue (1974-91) introduced a few reforms, but otherwise simply followed the management system of the previous regime.[10] The problems that crippled the civil service under the Dergue were lack of trust, respect and confidence by politicians in career civil servants; lack of competitive merit-based recruitment and promotion practices; excessive confidence in party-appointed higher-, middle- and even lower-level personnel in ministries and agencies; and existence of two structures in civil service organisations, that is, the political and the functional. These problems resulted in a civil service where all the decisions were made through the political structures by political cadres, leaving no room for the involvement of apolitical professionals. The de facto human resource administrative institutional arrangements demoralised and demotivated many professional civil servants and led to serious operational and administrative problems (Asmelash, 1998; Atkilt, 1998; Paulos, 1997, 2001).

Since coming to power in May 1991, the EPRDF has taken various measures to reform the human resource management system. The first measures, immediately after assuming power, included terminating automatic assignment of fresh graduates of tertiary institutions to public organisations; lifting an order denying periodic salary increments to those earning a monthly salary of Birr 636 and above; revising the per diem rate; revoking a policy that denied the right to resign, especially for semi-professional and professional employees in the civil service; raising the minimum civil service wage from Birr 50 to Birr 105; approving salary increments for teachers, doctors and university professors; and freezing recruitment by the civil service except for some crucial positions (Paulos, 2001).

The EPRDF's second measure was implementing two phases of civil service reform programmes. The justifications for the reform measures include outmoded and outdated rules and regulations; employees' lack of experience in planning; absence of a structure amenable to planning, execution and effective monitoring and control of the civil service; lack of clearly defined personnel, finance and property management systems and procedures; inadequate managerial know-how; lack of standard job classification, and weaknesses in manpower planning and utilisation (Office of the Prime Minister, 1994).

The first phase of the reform programme (1991-96) was managed by an interministerial committee mandated by the central political leadership to review and recommend ways and means of reforming the country's civil service administrative system. The committee in turn created six subcommittees to study and make recommendations on the structure of government offices; civil service pay and benefits; position classification;

personnel directives and manuals; efficiency, effectiveness and accountability; and training. The committee submitted draft proposals on some of the issues, especially on civil service pay and benefits (salary scales, allowances and benefits, working conditions and occupational safety) but none of the proposals was implemented by the government (Paulos, 2001). During this first phase of the reform, the central government started implementing a retrenchment policy in November 1993, which resulted in the transfer of 553 employees to regions, redeployment of 453 employees in federal bureaus, early retirement of 3961 employees, and removal of 10,511 of civil servants and employees of public enterprises (Atkilt, 1997). The policy measure did not reduce the number of civil servants; that has increased steeply from year to year. In the permanent civil service alone, the numbers rose from 223,733 in 1992/3 to 293,452 in 1995/6, 316,889 in 1998/9 and 349,658, in 2000/1 (Federal Civil Service Commission, Personnel Statistics, various Years).

The second phase of the civil service reform (1996 to 2003) was a comprehensive programme and comprised five major subprogrammes.[11] One of these was the Human Resource Management Subprogramme which was planned to yield the following outcomes by 2001: an administrative system that would treat civil service employees in a just and equitable manner; a pay and promotion system directly related to merit/performance; a human resources plan that would attract employees capable of implementing government policies and priorities; comprehensive and uniform rules and regulations to manage the human resources of the civil service; and an adequate number of knowledgeable and capable employees in the civil service (Office of the Prime Minister, 1998). However, the only outcome until 2002 was the new civil service proclamation issued at the federal level. The three regional governments also issued similar civil service proclamations in 2003/4 based on the templates provided from the centre. The major change introduced through these proclamations was shifting the power of hiring, firing and promotion from the civil service commissions to line agencies. The commissions' responsibilities were also reduced only to auditing and inspecting the human resource management system as well as analysing and approving organograms, staffing plans, the grading structure, salary scales and benefit schemes of the line agencies.

The above reform measures have high-level central political support. Nevertheless, they were developed without adequate study of the problems of the Ethiopian civil service and without the participation of top and middle-level bureaucratic officials, rank and file civil servants and other stakeholders in the regions (except for the attempts to involve the regional top political leaders in awareness creation sessions). As Asmelash (1998: 34) notes on the initial reform measure:

> …the civil service reform recommendations have not been presented for discussion and review by the council of Ministers. The areas identified in the second phase reform apparently reflected the concerns of the ex-Deputy Prime Minister (derived from his observation as Prime Minister of the Transitional Government) of the civil service and the expatriate coordinator's observation of what constituted bottlenecks in the management of the civil service.

The whole programme design and implementation was also managed by a core coordinating unit in the office of the Prime Minister. Asmelash (*ibid.*) wonders 'if a small unit within the PMO would have a sufficient visibility, prestige and authority to make it credible in the eyes of its clientele group'. He also cautions that 'failure to mobilise the regions behind the civil service reform, however, could seriously hamper the effectiveness of the operation of the federal civil service itself.'

The situation resembles the process of decision-making discussed in the earlier chapters. It also reflects the neo-patrimonial nature of the regime, where decisions are made in a closed circle or by a strongman and implemented through informal channels. The retrenchment policy outlined above also resulted in the removal of capable individuals who were apparently associated with the former regime and was used to settle political scores; it further eroded the limited administrative capacity of the public sector and created a climate of uncertainty in the civil service (Paulos, 2001).

In short, for the last four decades, Ethiopia has had formal rules and procedures in accordance with the principle of developing a meritocratic/professional civil service. However, serious failures in implementation marked the two previous regimes. Similarly, under the rule of the EPRDF, despite the rhetoric for reform, there is still no guarantee that the best candidates are recruited into the civil service and that those most capable of managing will be allowed to do so. As in the Dergue period, the de facto human resource administration neglects merit and professionalism, and political considerations increasingly impede the application of formal rules and regulations. As discussed in Chapter 5, poor performance by senior public service administrators is tolerated because of their political loyalty to the central political leadership. The federal Civil Service Commission has identified the weakness in human resource institutional arrangements: rigidity in rules and procedures for recruitment, selection, and transfer, which are not based on a manpower plan, job descriptions, job specifications and demands of employing organisations; lack of capacity among decision-makers or members of selection committees, who require training and sufficient information; lack of mechanisms to hold decision-makers accountable; inadequate screening mechanisms (examinations and interviews) are not; inter-organisational transfer of employees being based on personal connections; promotions not being based on performance; and absence of follow-up procedures to determine the impact of the recruitment, selection and promotion (Federal Civil Service Commission, 2003).

Informants told the author that politicisation of the bureaucracy is limiting the capacity of civil servants in the three regional governments to enhance expenditure and revenue assignment.[12] One manifestation of this politicisation has been the excessive use of political and/or ethnic criteria for recruitment, appointment and promotion of civil servants, which has generated mediocrity among civil servants and lack of accountability and responsiveness to the needs and concerns of constituents. This politicisation of the bureaucracy has also been confirmed by the Prime Minister. In his speech on the 4th EPRDF congress (September 2001) he notes: 'Deployment of human resources was based on networking. People were demoted or promoted depending on the wishes of the power that be' (EPRDF, 2001b: 15). He also pointes out that 'Our political leaders were involved in areas of management that clearly demanded professional know how. By doing so we failed to recognize the necessary professions and at the same time prevented the professional from discharging their responsibilities' (*ibid*: 21).

In 2001, after the fracture within the TPLF, the EPRDF realised the disadvantages of lack of distinction between the party and the State as many party members occupied positions at all layers of the bureaucratic structure in all levels of government. Therefore, the government has formally enacted a law requiring ministerial (at federal level) and bureau head (at regional levels) positions to be occupied by political appointees, and the rest of the positions in government by apolitical professionals. As indicated in the previous chapter, Abbink (2006) observes that many people in high-level positions at the federal, regional and community level are assigned because of loyalty to the party. Markakis (in Aalen 2002) also notes that nearly all the officials in the State administration, from *kebele* to the federal government, are EPRDF members, having joined the party before or soon after election in their posts. Thus, the administrative environment, which is plagued by political and ethnic patronage, is unlikely to maintain a qualified and motivated workforce in the regions.

The problem is made more complex by ethnicity-based decentralisation, which inhibits the movement of employees from one region to another because of their ethnic labels. The author observed in 2003, during fieldwork in Benshangul-Gumuz, that regional political leaders have a tendency to employ less-skilled professionals from members of their own ethnic groups rather than better-qualified ones from other ethnic groups. The existing professionals from other ethnic groups working in the region have little feeling of belonging and are prepared to leave their positions if they get the opportunity to do so. Shimeles (2005: 238) describes the country's human resource system and the ethnicity-based decentralisation well:

> …the Ethiopian scheme of decentralisation that took the form of ethnic federalism, which fully allows regions/local authorities to work in their own respective languages resulted in a political economy regime that is in most instances governed by ethno-linguistic considerations instead of by economic logic. The fact that a person's ethnic group instead of his/her competence governs his/her competence governs his/her employment created tremendous obstacles to the free mobility of factors of production such as labour. There were reports of qualified professionals who were expelled form some federal regions on account of their ethnic group even when they have proved to have a proficiency in the working language of these regions resulting in under-utilisation of talent.

Whilst it is difficult to generalise, the weak human resource management system is one of the factors that brought about the situation where regions have a deficiency of professional workers and graduates with at least a first degree in the civil service. Table 7.1 summarises the educational qualification of civil servants working in the three regions from 1995/6 to 2000/1.

The table shows encouraging signs of reduction in employees without formal education. However, the percentage of semi-professional and professional workers or employees with at least a first degree is only

Table 7.1
Education level of civil servants in Tigray, Amhara, Benshangul-Gumuz and federal government, 1995/6 – 2000/01 (percentage of total)

	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1
Tigray						
Read/write only	6.56	6.17	5.59	4.5	4.26	3.16
Formal education (12th grade and below)	23.35	35.21	30.98	38.11	39.34	39.17
Diploma (12 +1 or 12+2)	65.76	54.25	59.47	53.62	52.94	53.80
1st degree (BA or BSc)	3.85	3.80	3.33	3.19	3.06	3.34
2nd degree (MA or MSc)	0.47	0.55	0.62	0.54	0.39	0.51
PhD	0	0.02	0.01	0.02	0.01	0.01
Not stated	0	0	0	0	0.01	0
Amhara						
Read/write only	6.12	5.02	4.15	3.50	3.00	3.50
Formal education (12th grade and below)	27.67	28.38	29.90	32.31	33.82	25.89
Diploma (12 +1 or 12+2)	60.82	61.43	60.67	59.71	58.19	53.28
1st degree (BA or BSc)	4.80	4.53	4.59	4.02	4.55	4.07
2nd degree (MA or MSc)	0.59	0.62	0.58	0.45	0.44	0.47
PhD	0.01	0.01	0.01	0.01	0.01	0.01
Not stated	0	0	0.000979	0	0	0.127884
Benshangul-Gumuz						
Read/write only	4.85	4.68	2.82	3.08	2.88	2.91
Formal education (12th grade and below)	37.98	34.03	42.76	44.81	45.57	44.69
Diploma (12 +1 or 12+2)	53.01	56.95	49.06	46.50	45.94	47.02
1st degree (BA or BSc)	4.13	4.15	4.84	5.00	4.92	4.81
2nd degree (MA or MSc)	0	0.17	0.51	0.51	0.60	0.52
PhD	0.03	0.03	0	0.03	0.03	0
Not stated	0	0	0	0.06	0.06	0.05
Federal government						
Read/write only	18.22	16.13	16.30	15.08	13.58	13.93
Formal education (12th grade and below)	42.86	41.42	45.86	46.83	47.96	45.96
Diploma (12 +1 or 12+2)	23.39	22.11	23.53	23.14	22.97	23.48
1st degree (BA or BSc)	8.30	7.94	8.79	9.09	9.57	9.53
2nd degree (MA or MSc)	3.69	3.43	3.71	3.79	3.73	4.93
PhD	0.44	0.41	0.36	0.37	0.38	0.99
Not stated	3.10	8.55	1.44	1.70	1.81	1.18

Source: Federal Civil Service Commission. Absolute figures given in Appendix L.

around 5 per cent of the total number of civil servants in the three regions. At the federal level, however, more that 15 per cent of the employees have at least a first degree, indicating the concentration of relatively skilled human resources at the centre. No international or national standards are used to judge civil servant performance in Ethiopia, but the figures do indicate a dearth of qualified civil servants who can analyse regional problems, conduct studies, develop innovative approaches to address community demands and mobilise resources, perform analytical work in planning and budgeting, and so on. The table also shows that Amhara and Tigray are not capable of attracting new professionals with at least a first degree. This situation makes it difficult for regional governments to free themselves from central government tutelage.

Relationship between top bureaucratic officials and middle-level and rank-and-file employees

The effectiveness of the civil service depends on, among other things, mutual trust and confidence between top bureaucratic officials and the rest of civil servants. In Ethiopia, however, the level of trust and confidence between the two groups is not impressive. Although it is difficult to generalise, the author's interviews in 2003/4 with selected senior and lower-level civil servants in the three regions show limited trust and confidence between the two groups. Some informants believe that there is a smooth and productive relationship between the two groups, while others lament the lack of a cordial relationship. This was manifested in the allegations and counter-allegation by both groups.

Informants who are part of the senior bureaucratic elite, especially in Amhara, accuse lower-level employees of being 'ineffective, lacking capacity, distrusted by the public and demotivated'. Whilst there is a lesser degree of division between the top and lower ranks of employees in Tigray, some political leaders, especially since the TPLF crisis, hold a grudge towards the middle-level and lower-level employees. In Benshangul-Gumuz, senior political leaders consider middle-level civil servants, especially those considered 'outsiders', to be untrustworthy and lacking in commitment to the development of the region.

Informants who are middle-level and lower-level civil service employees in the three regions accuse higher officials of concentration and monopolisation of power, political patronage and interference in matters of routine administration. In Benshangul-Gumuz they accuse high-level political leaders of ethnic patronage in appointments and promotions. In

Amhara and Tigray, they also accuse their superiors of favouritism, based not on ethnicity but on particularistic territorial divisions within the region. In all the case study regions, lower-level employees complained of not having discretionary power to initiate innovative approaches instead of just following directives and guidelines given by high-level political leaders; poor pay and compensation; substandard training; lack of the most rudimentary office requirements (papers, pens, and so on) and facilities in organisations; absence of guiding missions and objectives; job insecurity due to arbitrary dismissal; and short tenure of bureau heads and senior experts.[13]

Moreover, a government report on the Ethiopian civil service reform programme (Office of the Prime Minster 1998) confirms the above situation. It outlines how the top political leaders view middle- and lower-level civil service; it is perceived as, among other things, being resistant to new policies, procedures and standard operating procedures, as it clings to the manuals and procedures of previous regimes; being disinterested in initiating new work methods, as it emphasises day-to-day routine operations; unable to earn public confidence and trust, as it is incapable of facilitating and supporting socioeconomic development; lacking financial and material resources; and having a weak incentive system that has resulted in low morale and motivation. Another government report also drew attention to the poor incentive system in the civil service, pointing out that, among other things, private sector pay exceeds civil service pay by 120 per cent, the pay scale is not linked to changes in the cost of living, there is no training policy and training budget, the performance evaluation system is poor, and there is no career structure (Federal Civil Service Commission, 2003).

Determination of key human resource functions by central government

The shift of responsibilities to lower tiers of government is expected, among other things, to introduce some changes in the personnel management system that address specific demands of levels of government. Whilst regional governments in Ethiopia have been formally given separate power to manage their civil servants, during the past decade they have hardly initiated specific operating procedures that take their unique situations into account. As indicated earlier, the assignment of human resource management responsibilities follows a decentralisation approach. However, until 2003, the three regional governments were using specific rules and procedures for human resource management developed under the previous regime's centralised political administration systems. The following discussion demonstrates how the current central government controls key human resource management elements for all categories of employees (higher, middle and lower levels) and constrains the regional governments' power to attract and retain qualified employees. The discussion is based on two interrelated aspects of human resource management: job structure and salary administration.

Job structure. In principle, job structure specifies various positions/jobs, job classes or grades, job specifications and job descriptions. The literature considers an adequate job structure to be an important element in human resource administration as it directly influences decisions on hiring, pay scales, lateral transfer, promotion, and performance evaluation. Different job evaluation systems are employed in the determination of job structure, three of which are the ranking method, paired comparison method and position classification method (Ivancevich and Glueck, 1989; Thrope and Homan, 2000). Since 1962, Ethiopia has been using the position classification system, which is commonly applied in the civil service of many countries and is easy to implement. The method involves establishing and defining job grades or classes on the basis of job characteristics and levels of job complexity and difficulty.

For the last four decades, the job structure of the civil service has comprised six classes of service divided into different grades. It includes Security and Manual (five grades), Technical (10 grades), Clerical and Accounting (12 grades), Semi-professional (12 grades), Administrative (nine grades) and Professional (nine grades). The grades overlap and total 18 grade levels. The grade levels are the basis for grouping positions according to similarities in duties, responsibilities and qualification requirements. The job specification of each grade defines the requirements in terms of educational attainment and experience for each position and class of positions under the six classes of service. The job descriptions for each job in the grades also define the duties and responsibilities of each position.

The central and the three regional governments strictly follow the standard job structure as well as job specifications and job descriptions developed at the centre in the 1960s, which have been maintained until the present time with some minor changes. In 2002, the central government made a few revisions to the job specifications in order to accommodate changes in the profile of graduate students.[14] The revision of the job structure, however, did not involve regional governments.

While uniform application has the benefit of maintaining standard civil service administration in the country, it hinders regions from recruiting qualified employees that satisfy the centrally set requirements. The three regional governments' new civil service proclamations, issued in 2003/4, have only introduced some minor adjustments to the job specification, especially in level of experience required for some professional positions. This also followed a directive from the central government.

Salary administration. This involves developing and implementing a salary-scale policy and structure, and provision for allowances and other work-related benefits. Its objective is to reward employees according to job complexity and job performance; to treat them equitably; to facilitate decisions on recruitment, transfer and promotion of employees; and to control the overall organisational budget. Salary-scale structures can be designed using three different approaches: a scale with only base salaries; a scale with base and ceiling salaries; and a systematic salary scale that includes the base, incremental steps and ceiling salaries (Thrope and Homan, 2000). Ethiopia uses a systematic salary scale developed at the central level and applied uniformly in regional governments for all levels of employees. Vertically, the scale indicates the ranges of salaries payable to different job grades. Horizontally, it shows pay steps or step increments starting from the base pay up to the maximum pay for each job grade.

Despite the declaration of a decentralised human resource management system, the three regional governments have not developed their own salary scale structure during the past decade for even lower-level employees; they just use the centrally designed structure. The central government argues that a standard salary scale: restricts the interregional brain drain, or movement of government employees from one region to another in search of a better salary; and controls the regional governments' salary budget allocation, which is on the average 70 per cent of the recurrent budget. As regional governments are heavily dependent on central subsidies, the budget justification amounts to protecting the central government from having to bail out regional governments that might incur excess salary expenditure.

The centralised salary scale violates the decentralisation policy of the country and limits the power of regional governments to attract and retain qualified employees. It is impossible for the regions to determine a salary structure for any of the employee levels by surveying the market value of similar jobs, considering the cost of living in the region, the region's ability to pay, and conditions in the labour market, especially the scarcity of qualified manpower. The central salary scale structure, which defines the base, step increment and ceiling, is rigid and limits the regional governments' discretion to hire qualified employees. As the salaries of government employees are meagre in comparison with the salaries and benefits in the private sector, especially NGOs, regions have problems maintaining an adequate and skilled civil service.

The lack of attractive salaries in the regions has an impact on manpower turnover. Although it is difficult to substantiate this with quantitative data due to lack adequate information on entry and exit of employees in the civil service, regional governments are not capable of retaining qualified employees, especially those with a BA. Generally, World Bank (2000b: 40) gives the following description of the human resource problems in the civil service:

> There are numerous vacancies, both of key personnel at federal and regional levels and of supporting staff at Zonal and Woreda levels. Salary levels are not high enough to attract staff with the required qualifications in key positions. The high turnover of staff further contributes to the loss of skills and institutional memory in the system and has made past efforts of capacity building through training less effective than anticipated.

Moreover, for most positions in the civil service, employees are promoted when vacancies occur. The regions have full power to promote, demote and transfer employees within their respective jurisdictions. However, there are few opportunities for promotion in the civil service. One reason for this is that the civil service job structure does not have a career ladder for almost all positions/jobs. As the central government develops the job structure, which cannot be altered by regions, the power of regional governments to promote employees is limited.

The forgoing discussion showed that during the past decade the system of human resource management in Ethiopia has been centralised. Until 2003, no major steps were taken to readjust the system to the decentralisation administration, except for the formal constitutional stipulation about regional governments' powers. Whilst the regional governments have been given the right to hire and fire, transfer and promote, train and develop their human resources, they lack the effective power to perform those tasks. The central government has overall power to determine the two critical elements of human resource management system that are the basis for carrying out recruitment, selection and promotion activities. Olowu and Wunsch (2004: 262) corroborate this finding by observing that, as in many African countries (for example Ghana, Nigeria and Uganda), the Ethiopian system of human resource management forces sub-national governments to adopt a uniform personnel structure, hire the same type, number, and quality of staff, and pay the same wages irrespective of regional differences. 'The result is that local governments are not in a position to make decisions concerning which staff they should hire and which they do not need'(*ibid.*).

The argument of the central government, that a standardised system is necessary to control the interregional brain drain and possible excessive regional salary expenditure is not convincing. Restricting the brain drain limits the freedom of movement of individuals within the country, while setting regional salaries to prevent possible steep rises in expenditure contravenes the constitutional right and autonomy of regional governments. Besides, other mechanisms can be used to prevent expenditure excesses.

To sum up, in practical terms, regional governments do not have the required degree of autonomy to determine feasible and desirable human resource management strategies and have not been encouraged to define and plan the skills and competencies of workers to carry out new responsibilities. In other words, the Ethiopian decentralisation system lacks the human dimension of decentralisation. Regional governments have a human resource management system that is highly controlled by central rules and regulations. Given the highly politicised nature of recruitment and promotion, instability of tenure of employees, poor pay system, lack of respect between the senior politicians/bureaucrats and lower-level and middle-level employees, it is unlikely that regions will attract and retain qualified and motivated workforce and be capable of shouldering their expenditure and revenue assignments. Lack of adequate and capable employees sustains the dependency of regional governments on central government directives. In other words, as demonstrated in the case of Benshangul-Gumuz, the central government uses the shortage of qualified manpower at the regional level as a pretext to interfere directly or control the revenue and expenditure assignments of the regional governments. At present, the third phase of civil service reform, which includes a wide-ranging performance management system and service delivery, is being introduced at the central and regional levels. Time will tell if the new arrangement can to create a committed and effective civil service.

7.6 Support and Coordination

An effective support and coordination system helps sub-national governments to implement expenditure and revenue assignments. Support by the central government is expected to enhance administrative and technical capacity and help to develop an adequate information system. The literature on decentralisation, especially the intergovernmental fiscal relations school, emphasises that support mechanisms employed by the centre include various forms of capacity-enhancing training programmes, introduction of new management techniques and deployment of permanent or temporary technical staff. The coordinating mechanisms are also important for clarifying expenditure responsibilities, avoiding unnecessary complications in revenue administration, exchanging experiences, reducing costly duplication of efforts, linking the activities of various agencies, and generating and transmitting information. As indicated in the conceptual discussion, coordination can be achieved by establishing central autonomous agencies or think-tanks, delegating tasks to central sectoral ministries, developing guideline and procedural standardisation for information and reporting systems, and arranging forums to build consensus with key institutional actors.

Ethiopia's decentralisation system has several institutional arrangements for support and coordination, which have different impacts on intergovernmental fiscal relations.

Support and coordination by central line ministries and agencies

Ethiopia's legal framework mandates central ministries to give assistance and advice, as necessary, to regional executive organs. Some central line ministries provide different forms of support to regional governments through workshops and conferences as well as by sending models of standard operating procedures and operational guidelines. Some examples of this are: workshops organised by the Ministry of Agriculture to acquaint regional governments with nationwide donor-supported projects (for example, forestry, animal husbandry, locust control, and so on) and to discuss the implementation status of agricultural extension programmes; guidelines and formats provided by the ministries involved in economic development and planning, finance and revenue to standardise financial accounting and reporting systems; joint financial sector forums organised annually since 2001 by the same ministries to improve the financial management system of federal and regional bodies, exchange experience, and clarify issues on expenditure and revenue assignment; and conferences for high-level central and regional officials and bureaucrats, organised by the Ministries of Education and Health to discuss the implementation status of sector policies and Sector Development Programmes.

The support and coordination system is not robust. As discussed in Chapter 3, one of the main reasons for this is the lack of clarity in the relationship between central and regional governments. On the one hand, the Constitution assumes a 'layer-cake' model and empowers the federal Executive to implement and enforce federal policies, and gives the regional executive parallel power to develop and implement regional policies.[15] However, on the other hand, the central and regional executive bodies are expected to implement centrally developed nationwide policies, but without formally prescribed coordinating mechanisms to streamline their activities and to resolve policy and implementation differences between the two tiers.

Coordinating mechanisms between the two levels of governments are not well established and there are no specific policies on the types and processes of interaction between regional planning and economic development bureaus and the federal ministries responsible for national policy and planning. For instance, the relationship between the central and regional agricultural sector units was disappointing, except for consultations on donor-funded national projects and conveying of guidelines on implementation of the agricultural extension programme. Ministry of Agriculture (2003) reports that during the past decade the Ministry has failed to coordinate its activities with the agricultural research agencies, higher education institutions, regional governments and federal agencies. Neither has it been providing adequate and specific demand-driven agricultural technologies to various farming communities. Similarly, until 2001, the relationship between the federal and regional finance, planning and revenue offices was not adequate, although the federal offices sent guidelines and standard operating procedures to the regions.

The Ethiopian Constitution, which assumes separate layers of government, does not give the central executive agencies with adequate power to intervene in the affairs of regional governments. The central bureaucracies have neither the incentive nor the capacity to provide support to regions and to coordinate centre-region relationships. Informants in the Ministry of Agriculture told the author that regions are not willing to provide data to develop nationwide projects and cooperate with the central bureaucracy (interview, Addis Ababa, May 2004). In many cases, central line offices have to go through the Office of the Prime Minster to get clearance and letters of cooperation before going out to regions. In some cases, central agencies get regional cooperation when there are donor-funded projects that benefit the regions in terms of training, workshops in other countries or acquisition of facilities. Informants in the Tigray Bureau of Education and Amhara Bureau of Agriculture also have doubts about the capacity of central agencies to provide appropriate technical support (interviews, Mekele, November 2003 and Bahirdar, February 2004).

Support and coordination through Ministry of Federal Affairs

The Ministry of Federal Affairs is one of the institutions responsible for coordination and facilitation of support from the central government to all regions. The task used to be performed by the Regional Affairs Department in the Office of the Prime Minister, which was mandated to conduct overall coordination of the federal government's relations with regional governments in all political and administrative matters. For the past decade, the Regional Affairs Department (1992 -2001) and the Ministry (since 2001) have been involved in supporting the emerging regions on expenditure prioritising, designing and implementing capital projects, following up use of loan and assistance funds, providing training and supervising other political-cum-administrative affairs.

As discussed in Chapters 3 and 6, the Regional Affairs Department used to send political and economic advisors to control virtually all political and administrative activities of the Benshangul-Gumuz regional government. The advisors were not only assistants, but also superiors to whom regional governments were accountable. They participated in Regional Council meetings to decide expenditure priorities, reconcile differences between regional ethnic parties, conduct evaluation, and review appointments and dismissals of officials. The Regional Affairs Department was an instrument to further the dependence of Benshangul-Gumuz and a key agency of central control. Mehret (2002: 139) observes:

> The key unit that plays the role of a clearing house for regional matters is the Regional Affairs Bureau within the Office of the Prime Minister. Apart from political control, the bureau provides administrative and technical support to the emerging regions, and undertakes the implementation of socio-economic projects on their behalf. As an executive arm of the central government, it also bears much of the responsibilities of regional government and spearheads important policy decisions affecting the regionalisation process in the country.

The recently established Ministry of Federal Affairs, which is mandated to give assistance to regions with particular emphasis on the less-developed ones, is also acting as an instrument of control.[16] A Ministry assessment of its performance over two years (2001-03) summed up its mode of operation:

> The ministry has been simply developing detailed plan of actions to be implemented by the emerging regions based on the ruling party program and information from central line agencies. In the process the regions expenditure priorities were not considered and the regional experts were not adequately consulted (Ministry of Federal Affairs, 2003b).

Direct intervention of the federal agencies has been less in Amhara and Tigray, which are relatively developed regions. This is because the two regional ruling parties are strong wings of the central ruling party, albeit inferior to it.

Coordination framework for sector development programmes

The coordination framework for education and health sector development programmes comprises three major bodies at the two levels: the Central Joint Steering Committee, whose members are drawn from donors and federal ministries, to coordinate technical and financial assistance, harmonise donor procedures and oversee implementation processes; Regional Joint Steering Committee, whose members are drawn from the region, to monitor implementation at the same level; and Annual Review Meeting, which is a forum for representatives from federal ministries/agencies, regions, bilateral and multilateral donors and others, to discuss Sector Development Programmes (SDP) performance, identify problems and recommend solutions. Technically, the framework coordinates SDP implementation in the country and provides opportunities for regional representatives to voice their concerns.

Over the past decade, the SDP coordinating mechanisms have been used not only to provide policy guidelines but also to convey specific operational instructions to the regional governments. The regional joint steering committees and implementing organs did not initiate region-specific actions, they only implemented directives from the centre. SDP policy, implementation and reporting are also harmonised and standardised leaving little discretion to regional governments. This has created tension between the decentralisation process and the centralising tendencies of SDP organisational arrangements. As discussed in Chapter 3, regional governments have no autonomy to determine allocation of resources to the different elements of the sector programmes; their autonomy is restricted in practice to selecting construction sites for schools or health posts on the basis of standardised distance specifications. The regions have no latitude because the SDP funds are earmarked or are channelled through the centralised programming of donor funds. The central government, through officials of the Prime Minister's Office and Ministries of Health and Education, have complete power, not only in the area of sector policies, standards and directives but also in liaison with donors on programming of donor funds.

Coordination through House of Federation

The upper house of the parliament is formally empowered to participate in vertical and horizontal coordination and support to regional governments. The House is mandated to resolve interregional and federal-regional government disputes and misunderstandings as well as devise reliable formulas for division of subsidies and revenue collected from joint sources; engage in capacity building; create conditions to enable regional states to cooperate and work for the common benefits; and ensure fair distribution of federal investment in the regions. Nonetheless, as discussed in detail in Chapters 5 and 6, the House of Federation has not had the capacity to provide support to regional governments and represent the interests of regions at the central level.

Support through training

The centre organises and offers various short-term and long-term training programmes. The three regions have management training institutions that operate according to the directives and under the guidance of the central political leadership. Priorities for donor-funded foreign scholarships are also given to regional governments. The central line ministries organise workshops and give trainings to officials and experts of regions whenever there is donor funding. There are many training programmes, little information is available on the type and amount of training given and there are no studies on the impacts of the programmes.

The Ethiopian Civil Service College offers long-term training to members of regional governments. Located at the centre, the College was established in 1995 as a public higher education institution. The central political leadership gives it more financial and other resources than other tertiary level institutions receive.[17] It produces skilled professionals in the areas of law, economics, public administration, business management, accounting and municipal administration. Its objective is also to support emerging regions by providing in-service training, consultancy, research, distance learning, and other assistance. There are also other tertiary training institutions and programmes that were established jointly by donors and the Ethiopian government to support regional governments. A case in point is the Masters Programme on Regional and Local Development Studies at Addis Ababa University, which was established by the Institute of Social Studies, The Hague, Netherlands.

Although the type, frequency and impacts of support provided are difficult to document, long-term training has increased the number of professionals working in emerging regions. An informant in Benshangul-Gumuz told the author that the number of middle-level professionals holding first degrees and who are graduates of the Ethiopian Civil Service College has increased (interview with an expert, Assosa, July 2003). This can be seen in Appendix L, which shows that in Benshangul-Gumuz, the number of BA holders from various local academic institutions rose from 127 in 1995/6 to 361 in 2000/1. However, the increment has not been impressive in Amhara and Tigray, indicating that much still needs to be done in terms of training middle-level professionals in the three regions. Short-term training opportunities are scanty and unplanned in Ethiopia, as they are only available when donors provide funding for them. According to informants, the short-term training opportunities are often unfairly offered to regional bureaus heads, who in most cases hardly use the knowledge gained to improve their day-to-day work.[18] Moreover, as most of the training is given in Addis Ababa and its environs, the programmes in such cases amount to paid vacations for regional bureau heads.

Coordination through information collection and dissemination

Reliable information on which to base the coordination and support activities is still wanting. There are no well-organised statistical systems or networked database systems for storage, use and dissemination of information. Regional financial data, which are important inputs for determining regional subsidies and disbursement of donor-funded projects, are not adequately available. As discussed in the analytical chapters, especially in Chapter 5, inconsistency, incompleteness and inaccuracy of information and delay in reporting are major concerns. These problems have been mentioned in the House of Federation sessions and meetings of joint financial forums as well as annual SDP review meetings.

Donors and the central government have made attempts to improve the information management system in the country. For example, the Prime Minister's Office has been introducing the Geographical Information System (GIS) in the regions since 1996. The three regions under study have received equipment and basic trainings from the centre, but the system is still unable to generate adequate information. With the help of the centre, there have been other attempts, especially in Tigray and Amhara, to develop a database on Gross Regional Product and other socioeconomic indicators. However, the indicators are constructed using a weak information base, so their usefulness is limited. Moreover, the use of computer technology at regional levels is mainly restricted to routine office activities such as word processing. Since 2004, the Ministry of Finance has introduced different computer packages, which are now used to organise regional financial information and transmit it to the centre.

According to documents and informants, the weak information system at the federal and three regional governments can be partially explained by shortage of professionals, especially in areas of statistical computing and computer-based systems development and management or in regular standardisation, collection and dissemination of statistics; lack of understanding of the value of exchanging information among government agencies, which resulted in making them reluctant to send compiled information to other agencies; desire to conceal information due to misconceptions on statistics – that they would be damaging if they fell into the wrong hands and might be used against the provider; absence of regulations requiring government agencies to publish statistical series despite any particular interests involved; and the nature of the regime, which is secretive and non-transparent. Moreover, the legislation on statistics (Statistics Act of 1971) does not give official collectors of statistics enough authority to extract required information and to establish the channels and schedules for provision of statistical information.[19]

Political channels as tool for coordination

As discussed in Chapter 6, the party system, especially the two disciplinary mechanisms (democratic centralism and the evaluation system) control the activities of regional governments. They are also used as channels to convey central directives to regions, and to coordinate implementation of national policies. According to informants at the centre, political channels are the effective mechanism linking the two layers of government.[20] As there are no clearly specified communication channels between the centre and regional executive offices, in most cases the federal line agencies send all correspondences to regions through the Prime Minister's Office, which transmits all guidelines and instructions to the executive office of the regions. As indicated above, the communication channel between the ministries and regional bureaus is not effective and is used sparingly for routine guidelines that may or may not be followed by regions.

To sum up, the training given by the centre has enabled the regions, especially Benshangul-Gumuz, to increase the number of college graduates in the civil service. The other mechanisms of support and coordination, however, have been inadequate in enhancing regions' capability to shoulder expenditure and revenue assignments. The system of coordination does not resolve the weakness and inadequacy of information generation, use and dissemination. It also fails to enhance cooperation and agreement between the two levels of governments but it is effective in sustaining central control over regions. The de facto institutional arrangement for coordination, the party system, is not effective in instituting intergovernmental cooperation, installing a culture of negotiation between the centre and regions, analysing decentralisation trends in, and enhancing the bargaining power of the regions.

7.7 Conclusion and Reflections

This chapter analysed Ethiopia's administrative institutional arrangements – that is, the system of expenditure planning and budgeting, human resource management and support and coordination – at both levels of government. It also examined how these arrangements shape the three regional governments' expenditure prioritising, revenue mobilisation and central fiscal transfer projections. This section summarises the findings by reflecting on the proposals of the decentralisation theories.

The formal arrangement in the public finance system in Ethiopia, especially the expenditure planning and budgeting system, adopts the perspective of the welfare economic model, which recommends a considerable level of autonomy for sub-national governments. Some of the features of the welfare economics model are also shared by the other decentralisation theories. The analysis in this chapter indicated that Ethiopia's public finance management suffers from three basic problems.

First, there is deficiency in the overall system at both levels of government, in medium-term as well as long-term public expenditure planning and annual budgeting. The former has been ineffective in matching expenditure priorities with revenue sources. Whilst there have been attempts at the federal level to introduce different techniques of fiscal planning, these have never been effective in guiding the allocation of resources. Projecting medium-term fiscal resources reliably is difficult because of the heavy dependence of the government, especially for capital expenditure, on rather unpredictable foreign loans and assistance; vulnerability of the economy to man-made and natural disasters as well as external economic shocks; and failure to conduct studies of regional and national revenue potential, which weakens the central government's projection of available financial resources. Regional governments hardly attempt to project financial expenditures and revenues and have little advance knowledge of the amount of the central subsidy. The lack of sufficient reports on medium-term financial plans and achievements, at both levels of government, limits accountability and transparency. The annual budget has also been used simply as a format to request funds from the Treasury rather than as an effective tool for allocating resources to meet the diverse demands and needs of society.

The budgeting system at both federal and regional levels is traditional (incremental and line-item). In principle, the traditional budgeting system analyses allocation of funds and is supposed to lead to efficient and equitable allocation of resources. In Ethiopia, however, the traditional system of budgeting has not been utilised to adequately analyse and evaluate alternative systems of allocation of resources among expenditure priority areas and to link capital and recurrent budgets. Spending agencies in the three regions and at the central level concentrate on the fitting stage of budgeting by applying incremental and subjective approaches. Moreover, at both levels, budgets are repetitive and fragmented. Budget consolidation, which is required by the Constitution, has never been effective. At present, Ethiopia has formally introduced efficiency budgeting and decentralised budgeting at the regional, local and agency levels. Time will tell how this new system will resolve the problems of the country's public finance management system.

The second problem in the public finance management system is the strict application of similar budgeting rules and procedures at both levels of government. There are also minor differences in this regard between the regional governments' treatment of the lowest tiers of administration, and then only for the recurrent budget. For example, whilst Amhara and Tigray region have allowed the lowest tiers to allocate and spend their recurrent budgets, Benshangul-Gumuz did not allow *woredas* to do so until 2004. Since 2004, all three regions have been providing the *woredas* with 'block grants' to plan and implement their expenditure assignments independently. The strict application of central government directives on budget administration contravenes the constitutional mandate of both levels of government. The three regional governments' financial proclamations are almost carbon copies of the central government proclamations. This is inconsistent with the welfare economics model. As discussed in Chapters 3 and 4, it resembles a situation where 'the centre gives with one hand and takes with the other'.

The third problem is the weak monitoring of regional governments' fiscal accomplishments. The central government has never been in a position to follow up the three regional governments' utilisation of grants. This is due to difficulties in segregating regional budgets from own funds and central transfers, unwillingness of regional governments, and weak capacity of the federal auditing and inspection agencies, especially when faced with differences in working language among regions. This is not line with decentralisation theories, which require central oversight over sub-national governments' spending of subsidies to ensure effective and efficient allocation of resources. Failure of central monitoring can be explained, as indicated in Chapter 6, by the central government's primary concern for regional leaders' political loyalty and obedience to central political leadership. Under normal circumstances, the ruling party's stringent evaluation system does not control misappropriation of financial resources; it only does so when a political official shows signs of disloyalty. A case in point is the imprisonment of the president of the SNNPRS for misuse of regional government funds after being implicated as an ally of the dissident group during the TPLF crisis. An informant in Benshangul-Gumuz told the author, 'inappropriate utilisation of regional funds by spending agencies is only a focus of attention if the position holder questions the central government directives'.

The other major issue in administrative institutional arrangements is the human resource management system. Formally, this system is decentralised and allows the central government to set standards only on education, training and skill requirements for various civil service positions. However, the system has some limitations when it comes to implementing intergovernmental fiscal relations reform, as we shall see below.

The system of ***human resource management*** is deficient at both levels of government. It is incompatible with the recommendations on the qualities of an efficient and effective civil service system – it should be professional, merit based, transparent and accountable, and have competitive pay practices and a motivational climate (trust and confidence, performance incentives, career paths) – given by Afar *et al.* (1999), Kneelers (2004) and Smoke (1994). The Ethiopian civil service lacks such qualities. In many cases, recruitment is not based on merit, performance is not appropriately measured, career paths are not defined and the motivational quality of the environment is weak as there is apparently lack of mutual trust and confidence between political appointees and middle-level (non-party) civil servants. There are also problems such as widespread politicisation of the bureaucracy; ethnic federalism, which limits the movement of manpower; and rigid rules and procedures for recruitment, selection, and transfer. These problems limit the success of intergovernmental fiscal relations reform, especially in implementing expenditure and revenue assignment.

The application of the ***constitutional provisions*** for decentralised human resource management is deficient. Central directives constrain regional governments' capacity to recruit and retain qualified and experienced employees. Their formal powers of firing and hiring of employees of regional governments are restricted by central government's control of major decisions on job structure and the salary administration system. Uniform job descriptions and specification are used throughout the three regional states. As indicated above, central directives determine the structures of the regional administrative apparatus, from which various activities of the bureaus are derived and which are used as the basis for determining the number of employees, job descriptions, career paths, and so on. Olowu and Wunsch (2004) also point out that the Ethiopian system of human resource management forces sub-national governments to adopt a uniform personnel structure, hire the same type, number, and quality of staff, and pay the same wages irrespective of regional differences. This has resulted in over-centralisation of the human resource management system and limiting of sub-national governments' formal power of hiring and firing.

The last issue is the support and coordination mechanism. Whilst the theory of democratic decentralisation and institutional approach place appropriate emphasis on the support and coordination system, the intergovernmental relations school provides a deeper analysis. The welfare economics model and new public management provide little insight into the support and coordination system. This could be due to the models' focus on economic aspects of decentralisation and the assumption that lower levels of governments are independent, have separate functions and few capacity problems in their administrative apparatus.

In Ethiopia, the process of coordination does not recognise and respect the autonomy of and differences among levels of government, does not involve setting agreed-upon agenda issues, and does not provide solution frameworks that are flexible enough to allow changes by sub-national governments. The discussion in this chapter, which highlighted the coordinating mechanisms in the education and health sector development programmes and the financial sector, showed that the forums are used to convey directives from the centre to the regional governments or discuss agendas set by the central political leadership. The coordination activity of the Ministry of Federal Affairs is misleading. Whilst the Ministry has the responsibility to support and coordinate the activities of the emerging regions like Benshangul-Gumuz, it simply conveys central directives to regional governments and controls their adherences to the directives.

Ethiopia formally follows a system of intergovernmental cooperation that involves calling together high-level political leaders and officials to discuss various issues. This somewhat resembles the Canadian approach mentioned earlier. As discussed in chapter 6, however, the party discipline mechanisms, the patron-client relationship between the central and regional parties, and the nature of the regime (neo-patrimonial, characterised by personal dictatorship) limit the effectiveness of coordination. This is a relationship among unequals and it relegates regional political leaders (clients) to accepting and implementing directives from the central political leader (the patron). Such a relationship between the central and regional governments also results in lack of ownership of the civil service reforms, a point that is frequently made by the State-owned TV.

The support and coordination system does not make regional governments capable of undertaking their expenditure and revenue assignments, although there are encouraging moves to provide training for regional government employees. The support and coordination mechanisms are not used effectively to maintain cooperation and agreement between the two levels of government and to avoid unnecessary duplication of effort. The only tool that is used as a coordination mechanism is the political channel, which is more effective for domination than for coordination. It frustrates the regions' autonomy and leads only to upward accountability.

To sum up, the formal intentions of the administrative institutional arrangement, especially the human resource and public finance management systems, are shaped according to the assumptions of the welfare economics model, which emphasises autonomy of sub-national governments and implicitly assumes the existence of a capable administrative machinery at lower levels of government. The Ethiopian legal framework formally provides parallel power to the central and regional governments on both issues. However, as with revenue and expenditure assignment, the formally given powers are taken back through another mechanism that obliges regional governments to follow the same procedures as the central government. The proposals of the intergovernmental relations school, institutional approach and democratic decentralisation theory for a hybrid system of human resource and public finance management, and a support and coordination system between the levels of government, are important because they provide alternatives for achieving coordinated and integrated performance between the levels of government.

However, Ethiopia's highly centralised administrative institutional arrangement, shaped by the neo-patrimonial nature of the regime, poses challenges to the application of these proposals. The conceptual framework of this study, which suggests that in a neo-patrimonial regime setting the administrative institutional arrangements sustain central control over regional governments, provides a better explanation for the derailment of Ethiopia's intergovernmental relations reform than the decentralisation theories. On the basis of the discussions in this and the earlier chapters, Chapter 8 will discuss why neo-patrimonial regimes initiate decentralisation reforms and what role decentralisation plays in neo-patrimonial regimes.

Notes

[1] Part 1, article 3 of Proclamation no. 3, 1996, of Benshangul-Gumuz regional government; part 1, article 3 of Proclamation no. 9, 1995 of Tigray regional government; and part 1, article 3 of Proclamation no. 4, 1995 of Amhara regional government .

[2] Interviews with officials and experts of the Bureaus of Finance and Economic Development in Amhara (Bahirdar, February 2004), Tigray (Mekele, October 2003), and Benshangul-Gumuz (Assosa, July 2003).

[3] Federal Proclamation no. 41/1993 gives the Ministry of Planning and Economic Development the power to 'undertake economic studies and research and prepare plan methodology and general macro-economic and social parameters and guidelines that enable the preparation of the country's long, medium and short-term development plans'.

[4] This is among the recommendations in 'Guidance of Public Finance Management', agreed by the special programme of World Bank assistance for Africa (World Bank, 1999).

[5] At the federal level, the Ministry of Finance acts as the finance body and the Ministry of Economic Development and Cooperation as the planning body. The regions also follow the same structure and have the Bureau of Finance and Bureau of Planning and Economic Development. In 2002, the two ministries/bureaus were merged and labelled Ministry of Finance and Economic Development and Bureau of Finance and Economic Development.

[6] The implementing units within spending public agencies (departments /divisions/ sections of the ministry) prepare pre-ceiling budgets. After the ceiling is communicated, the coordinating units within spending agencies,

that is, the Administrative and Finance Departments and Planning and Project Departments of the ministry, develop post-ceiling recurrent and capital budgets respectively. The spending units within the ministries have no power to develop the actual post-ceiling budgets.

7 In Amhara regional state allocation of salary and operation and maintenance costs from the region to the zones is slightly different than in the other two regions. The allocation is done using a formula (Van der Loop, 2002: 45). Nevertheless, the exercise is a pretence, as the amount of money released to the zones is determined so as to cover the main non-discretionary expenditure, that is, salaries (interview with an official in the Amhara Bureau of Finance and Economic Development (Bahirdar, February 2004).

8 Interviews with officials and experts in the Bureaus of Finance and Economic Development in Tigray (Mekele, November-December 2003), Amhara (Bahirdar, February 2004) and Benshangul-Gumuz (Assosa, August 2003).

9 Interviews with officials in the Ministry of Finance and Economic Development (Addis Ababa, March 2004).

10 The 1975 reform included restructuring the Cabinet and expanding the State apparatus; the 1982 reforms were increasing the starting salary of the civil service employees from Birr 25 to Birr 50, and increasing the ceiling for eligibility to periodic salary increments from Birr 285 to Birr 636 in 1982.

11 The sub-programmes are Expenditure Management and Control, Human Resource Management, Top-Management System, Service-Delivery and Quality of Service, and Ethics and Judicial Reform.

12 Interviews with middle-level civil servants in various regional bureaus in Tigray (Mekele, December 2003), Amhara (Bahirdar, February 2004) and Benshangul-Gumuz (Assosa, August 2003).

13 Discussions with civil servants in Assosa, Bahirdar, Mekele and Addis Ababa (2003 and 2004)

14 As discussed in Chapter 3, the EPRDF has introduced a new education policy in 1994 that made changes in the structure of the secondary and higher education system. For instance, the earlier 12-year education is now equivalent to 10-year education, the old 12+2 is now equivalent to the new 10+2; the old 4-year university education is equivalent to the new 3-year university education.

15 Some of the federal agencies that have a deconcentrated structure are Customs, Telecommunications, Postal Services, Bank and Insurance, and Federal Public Prosecution Service.

[16] The Ministry is also responsible for supervision and coordination of the following executive organs: Federal Police Commission, Federal Prison Administration, National Urban Planning Institution, Addis Ababa City Administration, and Dire Dawa City Administration.

[17] This college gets the major share of World Bank funding for higher education institutions and the academic staff receive higher salaries than staff in other government-run higher education institutions.

[18] Interviews with regional civil service officials and experts in Benshangul-Gumuz (Assosa, July 2003) and Amhara (Bahirdar, 2003/4).

[19] Ministry of Economic Development and Cooperation (1999). Interviews with officials in Ministry of Finance and Economic Development and regional Bureaus of Finance and Economic Development, Addis Ababa (May 2004), Bahirdar (February 2004), Mekele (November 2003)and Assosa (July 2003).

[20] Interviews with experts in Ministry of Agriculture and Ministry of Education, Addis Ababa, April 2004.

8 Towards an Alternative, Neo-patrimonial, Theory of Decentralisation

8.1 Introduction

The previous empirical chapters analysed the design and implementation of Ethiopian intergovernmental fiscal relations reform. On the basis of the conventional decentralisation theories discussed in Chapter 2, Chapters 3, 4, and 5 analysed how the reform is being implemented in expenditure assignment, revenue assignment, intergovernmental fiscal transfers and sub-national borrowing. The analysis revealed that during the past decade the expenditure and revenue assignment of the three regions under study was guided by detailed policy directives and specific implementation instructions from the central political leadership. The regions have little autonomy in deciding their sectoral expenditure plans, determining tax base and rates, managing their revenue administration system, setting policies that differ from those of the central government, and attending to their constituencies' needs and aspirations. The centre consistently controls the major revenue sources in the country and collects on the average 87 per cent of the annual national revenue.

The case study regions also display a high degree of similarity in the patterns of intersectoral expenditure allocation and revenue collection. The intergovernmental fiscal transfer system is mainly used to keep regional governments' administrative machinery afloat and it is based on a complex and inconsistent formula of indicators and weights. The central political leadership has dominated decision-making on the distribution pool and transfer formula and the regions have little involvement in the process. During the past decade, regions' dependency on annual central government subsidies has continued, their capacity to finance their expenditure from their own sources shows few changes and their pattern of inter-sectoral expenditure allocation remains unchanged. Regional governments rarely borrow from the internal capital market to finance regional development projects. In short, the analysis revealed that the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) regime has derailed the intergovernmental fiscal relations reform, which originally aimed at creating regional governments with devolved administrative, political and fiscal powers.

As stated in Chapter 1, the study's conceptual framework emphasises the administrative and political institutional arrangements in a neo-patrimonial setting that shape the design and implementation of intergovernmental fiscal relations reform in Ethiopia. The discussion in Chapter 6 revealed the extent to which the central political leadership has derailed the decentralisation reform in Ethiopia through the political institutional arrangements in a patrimonial regime setting – that is, the inter-party and intra-party relationship, the State-party relationship and the legislature-executive interaction at both federal and regional levels.

Chapter 6 discussed the assumption by some decentralisation theories that the functioning of adequate political institutional arrangements – elections (regularity and sufficient voter turnout), a multiparty political system, involvement of civil society, political autonomy, political officials' will and capacity – are necessary for successful decentralisation reform. This study argued that the theoretical assumptions are not strong enough to explain the success or failure of decentralisation reforms in neo-patrimonial regimes like the one in Ethiopia. The case analysis showed that since 1991 Ethiopia has had regular elections with high voter turnout (total votes as a percentage of registered voters): 94.1 per cent in 1995; 89.9 per cent in 2000 and 88.1 per cent in 2005. The number of registered voters has been increasing, from 21,333, 379 in 1995 to 21, 834, 806 in 2000 and 25, 605, 851 in 2005. The central political leadership also claims that the political leaders at both levels of government are assuming power through elections. However, elections in Ethiopia have not been free and fair (Abbink, 2006; Pauswang *et al.*, 2002; Vaughan and Tronvoll, 2003). They have been a facades to ensure the pre-eminence of one dominant party and its leaders instead of serving as mechanisms to reveal voters' preferences and hold public officials accountable. Multiparty politics and popular participation in themselves do not create accountable and responsive regional governments.

Chapter 7 examined the administrative institutional arrangements – public finance management, human resource management, and the support and coordination system. In this regard, the decentralisation theories propose a decentralised or integrated administrative arrangement for effective intergovernmental fiscal relations reform. Analysing the Ethiopian case, however, this study contended that the theories do not provide an adequate explanations for how and why the administrative institutional arrangements under neo-patrimonial regimes serve centralised control instead of leading to devolved or integrated administrative arrangements. In short, Chapters 6 and 7 showed the manner and the extent to which the EPRDF regime acquired neo-patrimonial characteristics and derailed the decentralisation reform from its original objectives through specific political and administrative institutional elements.

This chapter synthesises the findings from the earlier empirical chapters and provides an alternative neo-patrimonial theory of decentralisation derived from the Ethiopian experience. It will discuss three important questions:

(i) Why did the EPRDF initiate the decentralisation process, particularly during the transitional period?
(ii) Why has the EPRDF derailed the reform?
(iii) What are the functionalities of decentralisation for neo-patrimonial regimes like Ethiopia?

8.2 Impetus for Ethiopia's post-1991 Decentralisation Reform

The reasons for initiating decentralisation reform in many parts of the world could be a combination of economic, political and administrative factors. According to the literature, the important factors that led to decentralisation in many parts of sub-Saharan Africa in the 1990s were, among others, failure of centralised public sector management; decline in State resources; increased pressure for economic, public sector and political reforms; pressure from external donors; growing urbanisation, and conflicts between the central and regional or local elites (Olowu, 2001: 10-11). However, these factors condition the introduction of decentralisation reforms differently in each country. The way in which some of these and other factors led to the post-1991 decentralisation in Ethiopia is detailed below.

Ending legacy of highly centralised State structure

The initial impetus for Ethiopia's post-1991 decentralisation reform is rooted in the country's history and politics. Chapter 1 pointed out that Emperor Haile Sellassie and the Dergue, which ruled the country before 1991, had heavily centralised State administrations. On the basis of the conceptual dimension of neo-patrimonialism in Bratton and Van de Walle (1994), the chapter showed that Haile Sellassie established a neo-patrimonial regime that adopted modern bureaucracy but operated under the personal dictatorship of the Emperor, while the Dergue constructed a neo-patrimonial regime characterised by military oligarchy. In both cases, the regional and ethnic elites were demanding regional autonomy and political inclusiveness at the centre. In response to such demands and other related factors, Haile Sellassie introduced decentralisation through Local Self-administration Order no. 43 of 1966, but the reform did not go beyond an unsuccessful attempt to implement a pilot scheme in 17 sub-provinces. In 1987, the Dergue, too, declared a decentralisation reform to counter an ethnic insurgency; however, it failed to resolve the ethnic tension or create viable decentralised units. After overthrowing the Dergue in May 1991, the EPRDF leadership declared a reform comprising, among other things, multiparty politics, a market economy, a free press, three branches of government, and protection of human rights. It also introduced a decentralised ethnic-federal system and declared policy reforms on elements of intergovernmental fiscal relations – expenditure and revenue assignment, intergovernmental fiscal transfers and sub-national borrowing.

The EPRDF's initial justification for the ethnicity-based decentralisation was mainly political. It claimed that since the creation of the centralised and modern Ethiopian state in the second-half of the nineteenth century, the Amhara ethnic group political system, culture and language had dominated the other ethnic groups in the country (Aalen, 2006; Merera, 2002; Young, 1997). It contended that the three successive regimes of King Menelik, Emperor Haile Sellassie, and the Dergue had been dominated by members of the Amhara ethnic group, had established highly centralised administrations that denied regional autonomy and had marginalised the other ethnic groups in the country (*ibid.*). This national oppression thesis was presented as the main explanation for the perennial struggle for State power and resources between the ethnic political elites and became the foundation for the Transitional Charter, which introduced decentralisation reform in the country. The Transitional Charter, which came into force on 22 July 1991, states in its preamble:

> Whereas the military dictatorship was, in essence, a continuation of the previous regimes and its demise marks the end of an era of subjugation and oppression thus starting a new chapter in Ethiopian history in which freedom, equal rights and self-determination of all peoples shall be the governing principles of political, economic and social life and thereby contributing to the welfare of the Ethiopian Peoples and rescuing them from centuries of subjugation and backwardness.

The EPRDF's additional justification for introducing the decentralisation reform was the need to restructure the Ethiopian state so that it could accommodate the political demands of the various ethnic groups in the country, which are distinct in terms of geography, economic activity, social and cultural values, and political history. This explanation was based on the EPRDF's conception of the ethnic groups in Ethiopia as separate entities that could be identified through objective ethnic markers (culture, language, religion, common territory, common history and other factors) and deserved the right to self-determination. As Clapham (2002: 27-8) explains:

> The EPRDF regime's image of Ethiopia as an assemblage of distinct ethnicities draws in part on the specific experience of Tigray, which occupies an anomalous position among the larger Ethiopian nationalities in being socially far more homogeneous than most areas of the country, despite a longstanding history of factionalism within the internal politics, and with by far the greater number of its people sharing a single language and religion.

EPRDF's thinking on the distinctive nature of Ethiopian ethnic groups is akin to the primordial theory of ethnicity, where ethnic groups are considered to be culturally distinctive entities with little interaction between them and ethnicity is viewed as something naturally inborn, fixed and stable. This theory is contrary to the constructivist perspective, which assumes that ethnicity is a constructed phenomenon, based on the selection of ethnic markers and mobilised as a political force in the struggle for political power and resources (Aalen, 2006; Vaughan, 2006). Prime Minster Meles Zenawi confirmed the EPRDF's thinking in 1994, when he described the civil war all over the country as a struggle by nationalities for the right to use their language and culture and to administer their own affairs (Aalen, 2002). In 1992, he justified viewing each ethnic group as distinctive by referring to their historical heritages (for example, Axum for Tigrayans, Lalibela for Agew, and Fasil's Castle for Gonderians) and stating that the heritage of one ethnic group had no meaning for other ethnic groups. Article 39 of the 1995 Ethiopian Constitution also defines a nationality as a 'group of people who have or share a large measure of a common culture or similar customs, mutual intelligibility of language, belief in a common or related identity, a common psychological make-up, and who inhabit an identifiable, predominantly contiguous territory'.

Thus, EPRDF's two justifications for introducing the decentralisation reform are ending the Amhara dominated centralised administration and accommodating ethnic diversity. Its perspective on decentralisation was conditioned by the Leninist approach to the question of nationalities. As outlined in Chapter 1, a part of the radical Ethiopian student movement, especially those in the Tigray People's Liberation Front (TPLF), were inspired by this approach in the mid-1970s. Clapham (2002) notes that the approach allows self-government for nationalities to enjoy cultural rights and administrative autonomy within their own home areas, including the right to separate independence, subject to the overarching control of the communist party. After taking power, the EPRDF declared its intention to move towards a multiparty democratic system and pretended to drop the Leninist centralised one-party rule approach. Nonetheless, old habits die hard and, as discussed in Chapter 6, the EPRDF party structure displays features of the Leninist party model in the current Ethiopian political system.

The ethnic parties that were waging war against the Dergue (especially the Oromo Liberation Front and Islamic Front for the Liberation of Oromo) and other parties formed by the TPLF to represent the different ethnic groups in the country accepted the justifications, especially the arguments about national oppression and ethnic diversity. The non-ethnic parties in Ethiopia that had fought the Dergue but did not accept fully the justifications for ethnicity-based decentralisation were excluded from the Transition Council. The Council, dominated by the TPLF/EPRDF, approved the Transitional Charter, article 2 of which gives every ethnic group the right to '…administer its own affairs within its own defined territory and effectively participate in the central government on the basis of freedom, and fair and proper representation. Exercise its right to self-determination of independence'. Subsequently, the Transitional Council issued several federal proclamations, especially Proclamation no. 33/1992 on revenue assignment, fiscal transfer and regional borrowing and Proclamation no. 41/1993 on expenditure assignment, which granted devolved political, administrative and fiscal power to regional governments.

Based on one-party dynamics and with non-ethnic opposition parties excluded from it, the Transitional Council opened up some political space for ethnic parties to agree on introduction of ethnicity-based decentralised federalism in Ethiopia. Vaughan (1994: 59) cites a prominent figure in the Oromo Liberation Front as saying, 'the charter is the first time Ethiopia has had a "compact of government". In adopting it, we were saying "although we differ, […] this was the basis for joining together and working together".' Many observers also expected the devolution of power to create a democratic Ethiopian state and the introduction of ethnicity-based federalism to give ethnic groups unprecedented rights to self-government.

Variation among sub-national governments

The second factor that led to decentralisation in Ethiopia is the need for administration efficiency in the context of variation among regional states. The Prime Minister's document on 'Issues of Building Democratic System in Ethiopia' (2002: 138-41), presents three interrelated issues as reasons for decentralisation in Ethiopia, especially at the lowest levels of government.

The first reason is the enormous variation among localities or regions in Ethiopia in terms of settlement patterns, agro-ecology and economic activity. The document argues that efficient and effective public service delivery can only be possible if it is matched to the unique situation of each locality; regional and local economic development will be attained if the diverse communities formulate development plans that take their diverse demands into account; and lowest levels of administration have to be given decision-making power to address the demands of their constituencies. The document suggests that it is impossible for centralised administration to address the demands and aspiration of the diverse ethnic groups.

The second reason presented for decentralisation is the underdeveloped transport and communication infrastructure in the country, which makes it impossible for the centre to reach the remote regions. The document argues that given the vast size of the country, it is difficult, and in some cases impossible, to provide an adequate level of public services to all members of society from central locations.

The third reason is the need to allow direct participation by the people in the affairs of government, either individually or through civil society organisations. The document suggests that it is only through the lowest level of regional governments that the voices of people with diverse needs and interests can be heard and that people can directly participate in the administrative affair of their respective local governments.

The above justifications are to some extent in line with the literature, which suggests the need for decentralisation in situations where there are variations in spatial preference, large size of population and area, limited communication and road infrastructure, and so on. These reasons are given to justify the second wave of decentralisation in Ethiopia. The Prime Minister's document retrospectively (after seven years) justifies the 1995 regional constitutions for separate power and responsibility to *woreda*-level governments. The Prime Minister declares that the justifications are supplementary to the earlier argument for decentralisation, which stressed liberation of oppressed ethnic groups by giving them the right to self-determination up to and including secession. However, some authors see it differently, viewing the new administrative efficiency justifications as a signal that 'the EPRDF is attempting to step back from the "ideological rigour" of the federal constitution' (Turton, 2005: 98-9). It could also be argued that decentralisation to the lowest level reduces potential threats to the central leadership from regional leaders because the *woreda* decentralisation weakens the political power of regional governments.

Accommodating donors' demands

The third factor that led to Ethiopia's decentralisation reform was the need to accommodate donors' demands for good governance, which has been advocated as essential for economic development in many poor countries since the late 1980s. An integral part of this reform is devolution of political, administrative and financial power to sub-national governments.

The relationship between the TPLF and donors started in the 1980s, during its war against the Dergue regime. Clapham (2002: 24) observes that the opposition movements during the Dergue period, especially the

TPLF and Eritrean People's Liberation Front, were able to forge alliances with non-governmental organisations in the developed industrial world. The relationship was not only instrumental in challenging the ability of the Dergue to control food aid supplies through Addis Ababa to maintain its dominance over the population, but also provided the opposition movements with a useful source of funds and enabled them to build diplomatic and publicity linkages with donor countries (*ibid.*). The interest of the donor community in Ethiopia was also evident at the London Peace Talks in 1991 and other forums to reconcile differences among the various political parties as a basis for Ethiopia's peaceful transition to a democratic system of government after the fall of the Dergue.

The long and steady relationship gave donors the impression that the TPLF was more likely than the Dergue to accept and implement democratisation and decentralisation reforms. The TPLF partly addressed the demands of the donors by enacting the Transitional Charter, which echoes issues of democratisation and decentralisation, and involving the different ethnic parties in the political process during the transitional period. This was an important action for cementing the TPLF's relations with the donor community. To quote Vaughan (1994: 59): 'It is clear that the form of government approved by the (transitional) conference enormously calmed the anxiety of the international community. All were aware that, given the situation of the Ethiopian economy, its (the international community's) support was a prerequisite in accordance with which a new government might stand or fall.' The TPLF also pleased the international donors by formally dissolving the Marxist-Leninist League of Tigray after the TPLF/EPRDF assumed power in 1991. The League had been formed in 1985 and 'the principal objective of the League was the formation of a unitary multi-national Marxist-Leninist party of Ethiopia' (Young, 1997: 139). Merera (2002: 118) views the League's dissolution and the transition government's subsequent policy announcements as an official discarding of the TPLF's Marxist mobilisation strategy and its replacement by 'liberal democracy'.

As outlined in Chapter 3, the TPLF/EPRDF compliance with donors' demands, especially those of the World Bank, is also evidenced by the formulation of the country's long-term Agricultural Development Led Industrialisation strategy. Moreover, as argued in this study, the theoretical model that guides the design of intergovernmental fiscal relations reform (expenditure and revenue assignment, intergovernmental fiscal transfers and sub-national government borrowing) in Ethiopia is the welfare economics model, which is preferred by international financial institutions.

TPLF's political calculus

The fourth impetus for decentralisation reform was the TPLF's calculation that devolution would enable it to achieve its objective of an autonomous Tigrayan state. The original objective of the Front was to achieve the independence of Tigray; however, the TPLF leadership came to realise later that it was meaningless to have an economically unviable independent state of Tigray. There was another reason, too, that made independence unattractive. Historically, Tigray had been the centre of the former Axum Empire and the Tigrayan elite (especially Emperor Yohannes) were prominent actors in Ethiopia's political history; a small, independent state would not be very important. Moreover, Tigrayans had interacted over time with other ethnic groups and lived in all parts of the country. The TPLF therefore modified its objective to a politically and administratively autonomous Tigray within a democratised Ethiopia.

To achieve this objective, the TPLF established ethnically organised opposition movements that demanded regional autonomy within Ethiopia. Clapham (2002) points out that 'TPLF, by upholding the rights of "nationalities" was able to make common cause with movements and people in other parts of the country that had likewise been alienated by the heavy-handed and often violent politics of the Dergue.' As explained in Chapter 6, the TPLF organised the Amhara National Democratic Movement (initially called Ethiopian Peoples' Democratic Movement) in 1980 from members of a faction of the Ethiopian Peoples' Revolutionary Party. The Party was one of the prominent class-based political movements that emerged in 1972 to fight against the Dergue, but the Dergue crushed its urban armed struggle in 1977 and the TPLF partially crippled its rural movement in 1978. The TPLF also organised the Oromo People's Democratic Organisation from the prisoners captured during the protracted war with the Dergue. When the TPLF later organised the EPRDF, which included the Amhara National Democratic Movement and Oromo People's Democratic Organisation in the coalition, it was a continuation of the same policy, but this time to extend the armed struggle to the entire country.

After the TPLF-dominated EPRDF assumed state power in 1991, the TPLF continued to promote the creation and organisation of different ethnicity-based parties by providing leadership and ideological direction. According to Kymlicka (2006: 56), 'EPRDF chose to accord autonomy rights to all territorially concentrated groups listed in an ethno-linguistic census, rather than only to those groups that had actually shown a clear desire for it'. Kymlicka also notes that the TPLF adopted (imposed) multinational federalism on groups that had not yet expressed a democratic desire for it. Of course, many of the ethnic groups found multinational federalism appealing because they viewed regional autonomy as protection against more powerful neighbours and as a possible mechanism for inclusion in the Ethiopian political structure, which they had kept out of till then. To quote Clapham (2002), 'the new dispensation of devolved power provided a more congenial setting in which to pursue the project of ethnic nationalism than the mechanism imposed by the Dergue, since incorporation into the system offered considerable advantages, especially to local-level elites.'

The new multinational federalism provided the opportunity for the ethnic political elites in the regions to assume a defined territory in which they would have control. For some, it provided privileged positions and access to resources in the regional state administration. The ethnic elites realised that 'under the regime of the EPRDF, the key to get access to the resources of central government is to acquire a separate ethnic identity and an ethnically defined administrative structure' (Aalen, 2006: 256). For the TPLF, the new system was politically useful as many of the ethnic political elite did not perceive it as a façade like the one initiated by the Dergue regime. By transforming the country into ethnically defined regional states and creating ethnically defined parties under its control, the TPLF was able to extend its political and administrative control throughout the country.

To sum up, the factors that led to the post-1991 decentralisation reform in Ethiopia were ending the legacy of a highly centralised administrative system, for the TPLF's strategy of mobilising other ethnic groups in order to achieve its objective of ethnically autonomous regional states, donor demands for democratisation and decentralisation reforms, and the variation between regions in Ethiopia. Some of the factors are to be found in the literature; however, what is peculiar to Ethiopia is the justification of decentralisation to provide autonomy based explicitly on ethnicity.

8.3 Why Decentralisation Failed

When the TPLF/EPRDF introduced decentralisation reform, the ethnic political parties viewed it as an opportunity for self-administration which would bring to an end the centralised domination of the previous regimes. The TPLF's gesture of admitting various ethnic political parties into the political process during the first year of the Transitional Government was an encouraging step in the right direction. As the empirical chapters demonstrated, the formal decentralisation framework, which was patterned according the welfare economics model, formally confers on regional governments the power to develop and implement their own policies on provision of public goods and services; to raise and administer revenue; and to finance expenditure from their own sources. Grants/subsidies from the central government and borrowing from local financial markets further supplement their access to financial resources. However, during the past decade, notwithstanding the strong orientation towards more devolved forms of decentralisation, Ethiopia's experience is of increasing central control over revenue and expenditure assignment; continued high degree of regional governments' dependence on central government transfers; lack of diversity in patterns of expenditure allocation and revenue collection among regions; and no borrowing by regional government. Thus, the TPLF/EPRDF regime has derailed the implementation of devolution. Some of the many issues that led to the derailment are detailed below.

Failure to break away from previous regimes' conception of hegemonic and centralised governance

As discussed in Chapter 1, an important assumption of institutional analysts is that implementation of political and administrative reforms in many parts of the world fails because of regimes' inability to break away from old habits, structures and processes. They argue that earlier institutions shape/condition the development of new ones. The implementation of the Ethiopian decentralisation reform suffered from this problem. There were four reasons for this.

Concentration of political power. The central leadership's involvement in regional and local politics was, and continues to be, principally motivated by a project of political control, which has been a characteristics approach to governance by successive ruling elites in Ethiopia since the late nineteenth century. Emperor Haile Sellassie, through the 1942 administrative reform, withdrew political power from the traditional regional elites who had previously served as provincial administrators with an enormous amount of discretionary power. The emperor reserved for himself all the power to appoint and dismiss provincial administrators and made the provincial governors his own representatives in the various parts of the country. He aborted the local self-administration order of 1966, which stipulated the formation of elected district councils, participation by the people in local government and provision of services by local administrators. The reform was not implemented because of the regime's disposition towards highly centralised government.

The Dergue maintained the old centralised administration and appointed soldiers as chief administrators in every region, who were answerable to the central political leadership. The Dergue also formally enacted a new reform providing regional autonomy and self-administration. This was ineffective, however, as it contradicted the Dergue's mode of political operation, which relied on centralised and hegemonic rule. For its part, whilst the EPRDF regime has formally provided independent and autonomous power to regional governments, the central political leadership's dominance over the regional political leaders has never abated. As discussed in Chapter 6, the TPLF/EPRDF central political leadership has a de facto power of assigning regional political leaders as well as directly disciplining regional party members and removing disloyal members from their political positions. In Benshangul-Gumuz, the central political leadership directly intervenes in the political and administrative affairs of the regional government by sending political advisors to representing the federal government in the region. The advisors virtually control the political decision-making in the region. Assefa (2006: 154) corroborates this: '…the EPRDF has its own *rases* (that is, heads responsible for running the regional governments) in each of the states, particularly in Afar, Benshangul-Gumuz, Gambella and Somali, through whom it intervenes in the states' affairs in policy issues'. Derege (2006) found that in Gambella regional state, the EPRDF has been involved in all affairs of the regional government in order to ensure political control.

Single-party hegemony. The negative influence of single-party hegemony on decentralisation has been pervasive and intensive in Ethiopia. Formally, the TPLF allows regional ethnicity-based parties to provide political leadership to the regional governments. In practice, however, the EPRDF dominates Ethiopia's political landscape through member and affiliate parties. The member and affiliate parties do not have equal leadership status within the EPRDF because the TPLF controls the leadership structure in both the State and ruling party structure. The central political leadership has foisted a highly disciplinary and intrusive party structure on the entire federal administrative system through two mechanisms: democratic centralism and party evaluation. As pointed out in Chapter 1, democratic centralism was used by the Dergue to discipline members of the vanguard Workers' Party of Ethiopia, of which all central and regional political-cum-bureaucratic officials were members. The Dergue used the mechanism to maintain hegemonic and centralised control throughout the country. Like its predecessor, the EPRDF, too, has used democratic centralism to make regional political leaders loyal and obedient, impose detailed policy directives on regional governments, and intervene extensively in the administration of regional and even sub-regional governments.

Exclusionary politics. In Ethiopian political history, hegemonic and centralised governance has been exercised through exclusionary politics, banning of opposition political parties or limiting the role of opposition parties in political decision-making. As outlined in Chapter one, Haile Sellassie did not allow political parties while the Dergue recognised only one vanguard party, the Workers' Party of Ethiopia. The TPLF/EPRDF regime introduced a multiparty political system at both central and regional government levels. As discussed in Chapter 6, however, during the past decade, except for an initial short-lived harmonious interparty relationship, the Ethiopian multiparty political system has not been participatory or competitive. Rather, a single party has majority control over the central and regional legislatures, fully controls the Executive, and harasses and incarcerates opposition party members. The political process has excluded opposition parties. Thus, Ethiopia has never in its history had a political space of genuine multiparty politics where agreement and cooperation are cultivated and differences of opinion are entertained.

Moreover, the exclusion of opposition political parties and dominance of the central political leadership has resulted in merging of the party with the State in the Ethiopian political system. Emperor Haile Sellassie had an overriding mandate to set up government departments, invest them with duties and responsibilities by executive order, control their routine administrative activities and budget; he also had the power to appoint and dismiss all government officials. During the Dergue regime, the establishment of the Commission to Organise the Party of the Working People of Ethiopia, which later changed its name to the Workers' Party of Ethiopia, enshrined the Dergue's supremacy over the State administration. All government policies and implementation guidelines in detail were conveyed through the party structure rather than the formal State structure. Similarly, the EPRDF has also been effectively merged with the State. As discussed in Chapters 6 and 7, most high-level executives (ministers/bureau heads, vice ministers/deputy bureau heads, heads of agencies, commissioners) are party officials. The majority of middle-level executives (heads of divisions and departments in ministries/bureaus and other government agencies) are also political appointees of the ruling party. In addition, the implementation of most decisions in every sector of the economy is controlled at the centre by loyal party cadres positioned in the different departments of the Office of the Prime Minister.

Weak legislative bodies. The relationship between the legislative and executive branches of government is also important in determining the extent of hegemonic control by a central political leadership. Decentralisation and democracy demand, among other things, a legislative body that checks and balances the executive at both levels of government. Haile Sellassie's regime established a legislative body with the power to propose laws and veto laws proposed by the Executive; approve or reject all budgetary items including taxes and appropriations; summon various ministers for questioning; and initiate impeachment proceedings. However, the body was too weakly organised at both central and local levels to carry out its responsibilities. It was derisively known as the 'Garage'. The Dergue, during its final days, established a national parliament which was neither effective in proposing laws nor in checking the Executive. As discussed in Chapter 6, the EPRDF, too, established legislative bodies with formal committee structures at both the central and regional government levels, and gave them mandates to set the agenda and to hold the executive accountable. Like the previous Ethiopian regimes, however, the legislative bodies at both regional and central levels have never been accountable and responsive to their constituents during the past decade. They have never been active in setting priorities, understanding and supervising budgets and holding administrative and service delivery bodies accountable.

To sum up, like the previous Ethiopian regimes, the EPRDF has maintained centralised and hegemonic control over regional governments, which contradicts the assumptions and proposals of conventional decentralisation theories. Using the terminology in Manor (1999) the regime found itself trapped in path-dependency and it proved exceedingly difficult to throw off old-time-honoured habits of mind. The incapacity of the EPRDF regime to break away from the heavily centralised structure that has characterised Ethiopian political culture since the late nineteenth century is a major explanation for the derailment of the post-1990 decentralisation reform in Ethiopia.

Incompatibility between EPRDF's central planning and devolution

The second important factor that explains the derailment of Ethiopia's post-1991 decentralisation reform is the tension between EPRDF's demand for central planning or centralised decision-making and the decentralisation project giving regional governments autonomous power to plan and implement their respective regional policies and programmes. The empirical chapters provided evidence of this tension and analysed how it is resolved in favour of centralised planning. The main tenets of the decentralisation policy that allow regional governments to have autonomous decision-making power and the way in which they are sabotaged by the centralised policy-making process are explained below.

In the context of the welfare economics model proposals on assignment of allocation functions, the regional governments in Ethiopia technically have an overall and exclusive power to formulate and execute economic and social development policies, strategies and plans of their respective regional states. Federal Proclamation no. 41/93 gives regional governments the mandate to: prepare educational strategies, plans and programmes based on the national education policy as well as expand and manage elementary, junior, senior high-schools and colleges; expand health services, prepare regional health care plans and programmes based on national health policy and organise and administer hospitals, health centres, clinics, and research and training institutions; and develop strategies for and expand agricultural extension services. On revenue assignment, the legal framework empowers regional governments to levy, assess and collect taxes on specific revenue sources reserved for them and gives them the right to participate in and be consulted on national tax policy formulation. Regarding the intergovernmental fiscal transfer system, regions are allowed to participate in the decision-making process, especially through the House of Federation, which has the formal mandate to prepare, determine, revise and take corrective action or to manage the overall transfer system.

In practice, however, the decision-making process for the elements of intergovernmental fiscal relations reform is centralised. The three EPRDF Development, Peace and Democracy medium-term plans (1995/6 to1999/2000; 2000/1 to 2004/5; 2002/3 to 2004/5) and the sector programmes (for education, health and agriculture) that are implemented throughout the country were developed in a top-down fashion. The EPRDF party executive committee members, dominated by a few TPLF veterans and their advisors, initiate major policy issues and develop detailed draft programmes. Then the EPRDF central committee members, who are leaders of EPRDF regional member parties and are selected and appointed by the TPLF, discuss the proposed activities and targets and accept them with minor adjustments. Finally, the plans/programmes are passed on to the regional governments for elaboration and implementation. Assefa (2006: 82) outlines decision-making process:

> The central committee of the ruling coalition generates specific plans of action often through the chairman himself, [which] then form the basis of the EPRDF's five-year plan, to be implemented throughout the country [...] Consequently, the constitutional right of the states to formulate and implement plans and policies is severely diminished by the fact that the state governments follow centrally designed policies and plans.

As in the process for prioritising expenditure needs, revenue assignment issues are decided at the central political level and the decisions are given as directives to the regional governments. Chapter 4 pinpointed the process of decision-making on recently introduced taxes (value added tax and tax on interest from savings accounts) and systems of taxation (presumptive taxation) as being highly centralised and lacking in input from regional governments. The political decision-making on the distribution pool is also centralised because it involves neither regional representatives at the centre (the House of Federation and the House of Peoples' Representatives) nor regional executives and councils. During the past decade, the decision-making process for the fiscal transfer formula has been dominated by the central political leadership or the executive branch of the central government. The regions have not been actively involved.The House of Federation, which is formally responsible for managing the transfer system, has been rubber stamping the decisions.

It is clear that the EPRDF controls the entire decision-making process for the elements of intergovernmental fiscal relations and relegates the regional governments to implementing central directives. This state of affairs is incompatible with the legal framework that gives regions separate and autonomous power of decision-making.

Opposition parties' demand for political inclusion vs EPRDF's exclusive politics

As stated above, the EPRDF, unlike previous regimes, has formally allowed opposition political parties to compete and participate in the country's political and administrative structure. Although the EPRDF did not allow some political groupings to participate (especially Coalition of Ethiopian Democratic Forces), the first National Conference (1-5 July 1991) held after the fall of the Dergue and the subsequent formation of the Transitional Government Council (1991-95) witnessed a short-lived smooth relationship between the EPRDF and other opposition political parties like the Oromo Liberation Front .Except this ephemeral opening of political space for some opposition ethnic political parties, EPRDF has not been willing to allow opposition political parties to compete for political power at both central and regional levels. Chapter 6 revealed the following trends:

- In 1992, the Oromo Liberation Front (OLF), which was an important opposition party at the beginning of the transition, withdrew from the Transitional Council. The OLF attributed its withdrawal to imbalance in the allocation of seats in the Transitional Council and ministerial and ambassadorial positions, disagreement on the size of the army the two parties (EPRDF and OLF) should maintain, and the EPRDF's domination of the political leadership of the Transitional Government.

- In 1993, the Southern Ethiopia People's Democratic Coalition (SEPDC), an umbrella party organised by the EPRDF which was an active member of the Transitional Council, split up after participating in a conference that accused the EPRDF of having aborted the democratisation process and demanded a new broad-based transitional government. The EPRDF asked SEPDC members to condemn the conference declaration. Some did and the EPRDF organised them into another party, the Southern Ethiopian People's Democratic Front. Those who did not dissociate themselves from the conference declaration were forced to leave the Transitional Council.
- In 1993, some of the political parties that were part of the Transitional Council, like the Islamic Front for the Liberation of Oromo, Western Somali Liberation Front, Sidama Liberation Movement, Somali Abo Liberation Front, and United Oromo People Liberation Front, withdrew from the Transitional Government after accusing the EPRDF of not honouring the provisions of the Transitional Charter and of dominating the Transitional Government.
- The period between 1995 and 2005 has been marked by tension between the demand of opposition parties to participate in the political process and the EPRDF's exclusive politics. Opposition political parties boycotted the 1995 national elections because they were harassed through political intimidation and arrest in the pre-election period. They took part in the 2000 national elections, which confirmed the EPRDF's control of both the central and regional governments. The result was due to, on the one hand, the opposition parties' weak human, financial and organisational capacity and failure to articulate alternative policy agendas; and, on the other, the EPRDF's increased political control over the election process, prevention of the registration of opposition candidates, and intimidation of election observers. Unlike the earlier elections, the May 2005 election was the most contested in the country's history. Nonetheless, it not only confirmed the continuation of vote rigging, manipulation, harassment and intimidation of voters and candidates, but was also followed by the EPRDF's refusal to let elected opposition candidates take their seats and incarceration of elected representatives.

Moreover, as various authors have noted, during the past decade the central party leadership has been able to purge dissenters from regional governments and shut out non-ethnic and independent party organisations from the political mainstream, while incorporating and generating ethnic regional satellite parties that are beholden to the centre (Aalen 2002, 2006; Clapham, 2002; Merera, 2002). The exclusion of opposition political parties contravenes the decentralisation arrangement. Assefa (2006: 156) points out that, 'if the same party organisation controls both the federal and state levels of government and has a centralised party structure, this is likely to weaken the power of regional governments and undermine regional autonomy.' Thus, the EPRDF's increasingly hegemonic character and its disposition to remain in power by excluding opposition political parties at both levels of government, is one of the causes of the derailment of the decentralisation process.

Personal dictatorship vs devolution

Chapter 6 explained that one of the forms of personal dictatorship occurs when a leader, who is referred to as the 'Strong Man' or 'Big Man', emerges from a dominant political party, takes exclusive charge of policymaking and conveys instructions through personal emissaries. In such a situation, there is politics of exclusion, political competition is banned, political opponents are physically eliminated or indefinitely incarcerated and the institutions of participation and the formal political structure cannot check the absolute powers of the chief executive. These features are the antithesis of Ethiopia's post-1991 decentralisation reform, which demands political inclusiveness and competition. In Ethiopia, this contradiction between personal dictatorship and devolution is resolved in favour of personal dictatorship, as the following evidence demonstrates.

- In Ethiopia, a 'Big Man' has emerged from the party that controls the legislative and the executive branches of both central and regional governments and has ruled the country since 1991. He is chair of both the TPLF (since 1983) and EPRDF (since 1989). The election for the party chair by the EPRDF and the TPLF congress in September 2006 extended his leadership for two or more years. This shows that the Big Man virtually controls both the TPLF and EPRDF. He was also the country's President during the transition period (1991-95) and has been the Prime Minster since 1995. No one knows when his premiership will end because the Ethiopian Constitution does not stipulate a maximum term of office but allows the Prime Minister to lead the country for as long as the dominant party is in power.

- Chapter 3 revealed that the policymaking process in Ethiopia is centralised and, in most cases, is the exclusive charge of the leader. The 1995 policy on the agricultural extension programme, which guides the agricultural expenditure prioritising of the regional governments, was decided by the Prime Minister. He also, along with the EPRDF party ideologue, spearheaded the first and second EPRDF medium-term plans and programmes. The country's third development plan (2002/3 to 2004/5) was formulated in accordance with two documents prepared by the Prime Minster: 'Rural Development Policies, Strategies and Methods' (2001) and 'Implementation Capacity Building Strategies and Programmes' (2002). These documents were given to all levels of government to help them prepare the three-year development plans for agriculture, health and education. The Prime Minster has also written other documents, including 'Issues on Building Democratic System in Ethiopia' (2002) to provide justifications and directives on the implementation of the *woreda*-level decentralisation.
- In the May 2005 elections, the Big Man announced through the State media that his party had won even before completion of the vote count. He also declared a state of emergency, banned any form of demonstration and placed the police force under his direct command, imprisoned opposition party members and candidates and charged them with genocide and treason.
- Federal Proclamation no. 359/2003 gives the Prime Minister authority to deploy the federal police or defence forces to arrest a deteriorating security situation in a region, as well as power to set up a provisional administration and suspend the regional council and executive organ if a regional government endangers the constitutional order in the country. This central intervention, in the name of safeguarding the constitutional order, can have severe consequences as it authorises the central political leadership, which is controlled by the Big Man, to suspend the autonomy of regional governments.
- Personal dictatorship in Ethiopia is also characterised by personal emissaries, who are loyal party members, rather than formal institutions guiding implementation of central policy. The Office of the Prime Minister, rather than the central bureaucratic structure, is responsible for guiding and controlling implementation of national policies. Until recently, the Regional Affairs office within the Office

of the Prime Minister used to send advisors who virtually ran regional governments, especially Benshangul-Gumuz. Chapter 3 revealed that all communication between the central and regional bureaucracies is also conducted through the Office of the Prime Minster.

The personal dictatorship in the Ethiopia political system is incompatible with decentralisation as set out in the Transitional Charter, which aimed to end the legacy of personal dictatorship of previous regimes and demanded political inclusiveness. This incompatibility is a factor in the derailment of decentralisation in Ethiopia.

Revolutionary democracy vs decentralisation

Revolutionary Democracy has two contradictory projects: it advocates central political control as well as regional autonomy. In present-day Ethiopia, the contradiction is resolved in favour of political control, as the following examples show.

First, Revolutionary Democracy was developed by the EPRDF central political leadership as the guiding ideology of the Front. The Prime Minister's document entitled 'Revolutionary Democracy Policies and Strategies' (2000) details the governing ideological issues and the EPRDF's strategies and directives on agriculture, industry, economic infrastructure, mining, education, health, roads, and other sectors. The EPRDF uses Revolutionary Democracy as a mechanism to relate the party with the State and the central party with regional parties. The party considers the strategies and programmes in the document to be the only possible path for the country's socioeconomic and political development. The regional ruling parties strictly follow and implement the development strategies and directives in the document. This one-size-fits-all ideology, programmes and directives contradict the basic idea of decentralisation, which grants political autonomy to sub-national governments to address differences in taste, preference and ideas.

Second, Revolutionary Democracy, as indicated in the Prime Minister's document entitled 'Issues of Building Democratic System in Ethiopia' (2002), put forward an additional rationale for devolution to the lowest tiers of government. It proposes good governance, participation by people (individually or through civic organisations) and intimate linking of the socioeconomic development plans of each jurisdiction with its socioeconomic conditions (*ibid*.: 138-40). The document also suggests that lowest tiers of government (*woreda*, *kebele*) should have elected councils with power to make political decisions and formulate and implement budgets; they should have an independent and sufficient revenue base, receive block grants from regions until they are self-sufficient, employ and manage a qualified and motivated work force, and develop an appropriate local government structure and operational procedures (*ibid.*:142-3). Nevertheless, the Prime Minster's document, warns that devolution does not mean lower levels of government are totally free to plan and implement their operations (*ibid.*:144-8). It stresses that directives developed by higher authorities should guide the planning and implementation activities of lower administrative levels. It states that a high level of autonomy for the lowest levels of government can potentially lead to anarchy and diminish the coordinated performance of adjoining lowest tiers of administrations. The Prime Minister strongly emphasises that lower-level governments should strictly follow guidelines and directives developed by higher-level authorities, but should implement them by taking into account the context of their respective socioeconomic conditions.

Thus, devolution is a process where lower levels of government have the right to plan and implement different socioeconomic activities; but they also have to adhere to the higher political bodies' directives on all issues including administrative and financial procedures. Lower-level governments are also required to understand the full content of the Prime Minister‘s document and the directives. This contradiction, along with the others discussed above, has led to the derailment of the original idea of decentralisation, which gives ethnic groups self-government and regional governments power to develop and implement their regional policies, strategies and plans.

The next section discusses the role of decentralisation under neo-patrimonial regimes.

8.3 Functionalities of Decentralisation Under Neo-patrimonial Regimes

Conventional decentralisation theories provide various functionalities of decentralisation. These include better matching of resources with diverse preferences; competition among and autonomy of jurisdictions; allocation efficiencies, or a closer nexus between expenditure decisions and their beneficiaries; better participation; and greater accountability. They suggest that decentralisation shifts the expenditure power in public service provision and financing from the centre to sub-national governments and narrows the vertical imbalance. They argue that decentralisation has the potential to lead to competition among sub-national governments, which can create differences in fiscal capacity, or horizontal imbalance.

This section discusses the functionalities of decentralisation under neo-patrimonial regimes.

Creation of sub-national political leaders accountable to central leadership

Decentralisation theories suggest that the main aim of devolution is to make sub-national governments accountable to their constituencies. Downward accountability, the theories emphasise, enhances popular control over what sub-national governments have done or left undone, matches provision of public services with local needs and aspirations and enhances mobilisation of local resources. Decentralisation under neo-patrimonialism, however, leads to sub-national governments being responsive and loyal only to the central party (upward accountability). Creating and sustaining upward accountability through the patron-client relationship enables the central political leadership to dominate all political power and resources by positioning loyal clients at sub-national level. The loyal political leaders also benefit because they have access to rewarding positions in the sub-national government structure.

One of the mechanisms of sustaining upward accountability in Ethiopia is the nomination of the regional top political leaders by the TPLF/EPRDF's central leadership on the basis of loyalty and obedience. A case in point is the assignment of the regional presidency in Benshangul-Gumuz. As outlined earlier, this region has five 'native' ethnic groups. In 1991, the EPRDF appointed a member of the Berta ethnic group (comprising 26.7 per cent of the regional population) to the presidency of the region because the Berta had been allies in the fight against the Dergue. Since 1995, the EPRDF has appointed a member of the Gumuz ethnic group (comprising 23.4 per cent of the regional population) because the Berta political elite are suspected of allying itself with the Oromo Liberation Front, which has fallen out with the EPRDF. In Tigray, as explained in Chapter 6, the regional political leaders were removed after the fracture within the Tigray People's Liberation Front (TPLF) in 2001, which resulted the ascendancy of the Prime Minster and his allies. The presidents of Southern Nations, Nationalities and Peoples Region and Oromia were also removed from their positions because they sympathised with dissident groups during the struggle within the TPLF. In contrast, the president of Amhara, who allied himself with the Prime Minister during the crisis, was promoted to Deputy Prime Minister of the country.

Studies in other regions reveal similar cases. For example, Derege (2006: 225) found that in Gambella regional state the Aynwaa (comprising 27 per cent of the regional population) were initially given control of the state because of their alliance with the EPRDF in the struggle against the Dergue. This political favouritism has long thwarted the demand by the Nuer (comprising 40 per cent of the regional population) for fair representation in the regional government. However, after the Nuer helped the EPRDF during the 1998-2000 Ethiopian-Eritrean conflict, the EPRDF recognised their demand for proportional representation and assigned them eight additional seats in the regional council (*ibid.*). Vaughan (2006: 185) documents how the EPRDF used loyalty as a criterion for recruiting local allies in the Southern Nations, Nationalities and Peoples Region in the early 1990s: 'the selection of proto-administrators and the establishment of the ubiquitous "Peace and Stability Committees" were part of the same process, whereby the party's [EPRDF's] ideology was promulgated and new members recruited. The same people were targeted for both purposes, and the training they received was a political and ideological one, provided by the party.'

A related mechanism of sustaining the patron-client relationship is through maintenance of a strong inequality and power difference between the central and regional political leaders. Regional ruling parties do not evolve through regional political processes but are organised, reorganised and guided by the TPLF/EPRDF. For instance, in Benshangul-Gumuz in 1991, the TPLF/EPRDF organised one political party; then, in 1993 it established four different political parties representing various 'native' ethnic parties; in 1994 it reorganised the four parties into two regional multiethnic parties; and in 1996 it merged the two parties to form one regional party. The EPRDF central political leadership also changed the name of the Amhara regional ruling party from Ethiopian People Democratic Movement to Amhara National Democratic Movement. Similarly, the party that represents the Southern Nations, Nationalities and Peoples Region was first named Southern Ethiopia People Democratic Coalition, but was later reorganised as Southern Ethiopian Peoples' Democratic Front. The power difference and inequalities between the TPLF/EPRDF and the other regional parties is demonstrated by the dominance of the TPLF in the EPRDF's party structure and the central State resources and power as well as in party-owned businesses. The TPLF/EPRDF controls the technical resources and expertise and defines the country's sociopolitical economic policies. Moreover, as explained earlier, the central political leadership ensures the loyalty of the regional parties through party disciplinary mechanisms. It also protects the regional political leaders in exchange for their personal loyalty and obedience.

Clearly, under neo-patrimonial regimes decentralisation does not create regional governments that are autonomous, accountable and responsive to their respective constituencies. Instead, it effectively maintains accountability of regional governments to the central political leadership and extends central control. Control is maintained through patron-client relationships and recruitment of loyal political elites at the sub-national level that are subservient to the central leadership.

Reforms neither officially revoked nor actualised as designed

Under neo-patrimonial regimes, there is no guarantee that the formally devolved powers to sub-national governments will be implemented as designed. The formal powers are not also officially reversed, although they are taken back again through other mechanisms as they contradict the central political leadership's desire to dominate sub-national governments or to relegate them to being implementers of central directives. As discussed in the empirical chapters, in Ethiopia the central government gives with one hand and takes with the other. This leads to recentralisation, an issue that is not addressed by some of the conventional decentralisation theories. The following evidence of this is drawn from the empirical chapters.

Agriculture. Under the country's agricultural policy, regional governments have the official power to develop and implement regional agricultural strategies as well as expand agricultural extension service programmes. In practice, however, the centre decides all the details and the regional governments merely implement them. For example, in 1995 the central political leadership provided detailed extension packages to all regions. In 2002/3, directives spelled out in the documents prepared by the Prime Minister were conveyed to all the regional governments for implementation. Although the central directives contravene their formal power, regional governments have been unquestionably implementing them.

Education. Technically, regional governments have the power to devise and implement strategies and programmes for the expansion of education at regional level on the basis of the country's education policy as well as to organise and administer kindergartens, adult education, elementary and junior secondary schools and teacher training institutions. In practice, however, the centre dominates decisions on all the education sub-sectors regarding the content of the programmes, financial management, procurement management, construction, rehabilitation and upgrading, textbook provision, furniture and equipment for schools, community participation, monitoring and evaluation procedures, and so on. Assefa (2006: 143) corroborates this: 'In theory, higher education is a federal matter, while elementary and high-school education is within the jurisdiction of the states. The federal government, however, has issued a very detailed policy directive covering elementary to university levels of education. […] How, then, is one to reconcile the formal division of power that appears in the various proclamations with the centralising reality?'

Health. In the health sector, regional governments have the power to prepare and implement health care plans and programmes in accordance with the national health policy as well as organise and administer hospitals, health centres, clinics, and research and training institutions. Nevertheless, the discussion in Chapter 3 revealed that the central government provides regional governments with specific guidelines on implementation. For instance, in 1997/8 the centre provided detailed directives on allocation of capital and recurrent expenditure, organisation of the regional health system and community participation, distance between health posts, financial management, reporting structure and procurement system. In 2002/3, regional governments were also instructed to scale down investments in new health facilities; introduce a new 'Health Extension Package', which has the objective of disease prevention and promotion of health measures targeting households, particularly women/mothers at the *kebele* level; and deploy two health workers (the total to comprise mainly females) to each *kebele*. Whilst it is understood that the centre has the power to maintain standards in facilities, drugs and health personnel, it has been offering guidelines and directives on almost all regional functions for which regions have official mandates.

Taxes. The legal framework on revenue assignment provides regional governments with the formal power to formulate tax laws for revenue sources reserved to them and to participate in decision-making concerning tax policy. In practice, the central government imposes uniform rates and effectively reduces the regional governments' autonomous right to have differences based on the peculiarities of their regions. Another deviation is from the constitutional provision that 'the federal government and the [regional] states shall jointly levy and collect taxes on joint sources of revenue'. In 1998, the Ministry of Finance proposed a change from concurrent taxation power to independent taxing power for the central government, and the House of Peoples' Representatives and regional state councils rubber stamped the revision. The justification given by the Ministry was that it would avoid the logistic problems of bringing legislative bodies of both levels of government together at the centre to decide on each tax object jointly, but the revision took back the constitutional power given to regional governments with regard to taxation.

Budgets. The decentralisation framework in Ethiopia technically gives regional governments power to formulate and administer their budgets. The budget regulations at both levels of government, which are dictated by the centre, are similar in their detailed directives on format and procedures of budget call, budget approval and notification, budget transfer within and between public bodies and emergency expenditures, supplementary budget, and so on. In practice, the regional governments are not able to decide their allocation of resources by articulating alternative costs of inputs for carrying out activities. The main reasons for this are that the major share of regional recurrent expenditure, that is, salaries, is determined by the centre since regional governments have to use the national salary scale; determination of construction costs for the sector programmes (health and education) is also done at the centre and conveyed through the Sector Development Programme implementation manuals; and regional strategies are in practice quite tightly specified by federal policies and standards, leaving no latitude for adaptation of policies and expenditure patterns to local circumstances.

Civil service. Ethiopia's legal framework gives the federal and regional governments parallel power to enact laws concerning administration of civil servants and their conditions of service, although the centre requires them 'to ensure that educational, training and experience requirements of any job, title or position approximate national standards'. Regional governments have civil service commissions that are independently mandated to implement regional civil service laws, policies and regulations. Nonetheless, the three regional governments strictly follow the standard job structure as well as the job specifications and job descriptions developed at the centre. They strictly follow the centrally designed salary scale structure for all levels of employees, which constrain the formal power of regional governments to hire and fire. Thus, the central government controls the key human resource management elements on all categories of employees (higher, middle and lower levels) and constrains the regional governments' power to attract and retain qualified employees. Assefa (2006: 143) notes that 'At first sight, it appears that there are two entirely separate laws, governing federal and state employees respectively, but the states are required to approximate federal standards in the implementation of the laws. The policy documents issued by the federal government, moreover, blur the formal duality of authority stipulated in the Constitutions, since they spell out standards that are intended to apply to civil servants nationwide.'

The above discussion demonstrates that regional governments have *de jure* power to set their expenditure priorities and tax rates as well as manage their budgets and human resources. In practice, however, regions are required to follow directives specified by the central political leadership in performing their mandated duties. Central political leaders issue the directives without revoking the official mandates given to the regional governments. This strategy has political value because the central political leadership can impress outside observers by claiming that it is still adhering to the constitutional decentralised arrangement, while in practice there is recentralisation.

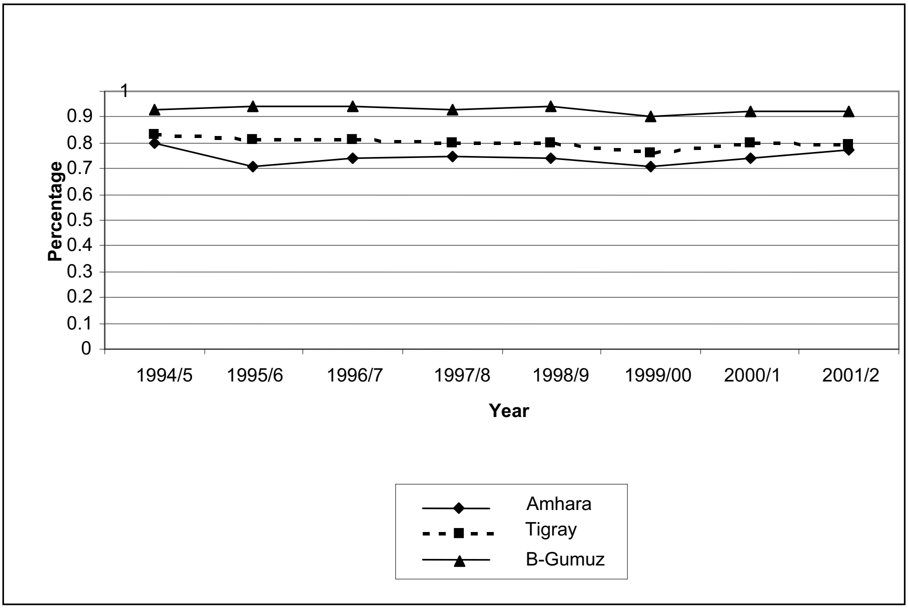
Decentralisation under neo-patrimonialism sustains vertical imbalance

As discussed in Chapter 2, one of the virtues of decentralisation is that it creates an institutional setting where decisions on public services are made within the jurisdiction in which the benefits accrue. Income from the services is also retained within the same jurisdiction. However, in many decentralised countries there is a mismatch between the revenue generated and public services provided by sub-national governments, albeit to different degrees. This mismatch, known as the vertical imbalance, is redressed by transferring subsidies from the central government, allowing sub-national government to borrow and redesigning the assignment of revenue responsibilities between the levels of government. Conventional decentralisation theories suggest narrowing the vertical imbalance so that there is a closer match between sub-national public expenditure and revenue. This is expected to signal to beneficiaries the true cost of public spending in terms of taxes raised and to achieve downward accountability and responsiveness by governments at all levels to their constituencies. This has not happened in Ethiopia. During the past decade, decentralisation has sustained the vertical imbalance, with regional governments spending more than the revenue they are collecting.

As discussed in Chapter 1, regional governments in Ethiopia are not capable of covering their spending from their own revenue sources. Table 1.3 showed that from 1994/5 to 1999/2000 all regional governments in Ethiopia covered on the average only 17 per cent of their expenditure. The standard deviation and coefficient of variation for the regions, which is 1.26 and 0.074 respectively, shows little variation and indicates sustained dependency of all regions across time. The discussion in Chapter 4 also revealed that the three case study regions' capacity to cover their expenditure from own sources is very low. Table 4.4 showed that per capita own revenue collection in the case study regions is very small, although there are some relative differences among them. This has resulted in regional governments being heavily dependent on central transfers to finance their expenditure. Chapter 5 showed that from 1994/5 to 2001/2 Benshangul-Gumuz, Tigray, and Amhara were dependent for 93 per cent, 75 per cent and 80 per cent, respectively, on central government transfers. The level of dependency did not show much change during the period. Figure 8.1 displays the three regions' unchanging dependency on central transfers.

Tigray, Amhara and Benshangul-Gumuz have been dependent for 70-80 per cent, 76-85 per cent and 90-95 per cent of their expenditure, respectively, during the eight-year period. This shows the vertical imbalance in Ethiopia has been consistently high and the regional governments have not been covering their expenditure needs from own sources.

Fig. 8.1
Three regional governments' dependency on central transfers, 1994/5 – 2001/2



Source: Data in Appendices G and K.

Citing World Bank (2000), the discussion in Chapter 5 demonstrated that the vertical imbalance in Ethiopia is relatively high by the standards of some federalised countries. In 1993/4, it was relatively low at 0.49. Then it increased to 0.60 for three consecutive years (1994/5, 1995/6, 1996/7). In 1997/8, 1998/9 and 1999/0 it went down to 0.52, 0.46 and 0.25 respectively. The decline in the last three years was not due to increase in regional revenue collection; rather, it was caused by decrease in regional revenue and expenditure. During these last three years, the share of regional expenditure went down from 39.6 per cent to 30.5 per cent and finally to 23.3 per cent; the share of revenue generation decreased from 19 per cent to 16.4 per cent and then to 17.4 per cent. The vertical imbalance in Ethiopia has not shown systematic decrease or increase during the seven-year period.

Various factors account for the sustained vertical imbalance in Ethiopia. Some of the causes discussed in the empirical chapters are summarised below.

- The central government controls high revenue-yielding tax bases and dominates decision-making on revenue rates, bases and tax administration. This has enabled the central government to control 83 per cent of the total revenue in the country. The calculated standard deviation and coefficient of variation in Table 1.3, which are 1.26 and 0.015 respectively, show the sustained central government control over revenue sources.
- There is little emphasis on improving the fiscal capacity of regional governments. As discussed in Chapter 4, the central and regional political leadership have not put concerted effort into mobilising own revenue. A closer look at the three EPRDF five-year development plans (1995-2005) shows that the issue of revenue collection has not been given enough attention. No studies have been made of revenue potential at the central and regional levels. It was only after 2002 that some efforts were made to overhaul the country's revenue administration system.
- Regional governments have little incentive to mobilise own revenue from their constituencies. The annual transfer formulas do not encourage regions to put more effort into raising revenue. The weight attached to revenue-raising effort in the transfer formula has been decreasing. In 1994/5 it was 20 per cent, in 1995/6 and 1996/7 it was 33.3 per cent, from 1997/8 to1999/0 it was 15 per cent, from 2000/1 to 2002/3 it was 11 per cent, in 2003/4 it went down to 7.3 per cent. Moreover, until 2001, the revenue incentive factor built into the budget subsidy formula did not create a direct incentive for regions to generate own revenue. On the contrary, the centre provided a disincentive for revenue-raising effort because of the budget-offset system, which subtracted regions' own revenue from the subsidy amount.
- Regional governments have no power to cover their expenditure through borrowing from local financial markets. Whilst there are no local capital markets and there is a risk of irresponsible sub-national borrowing, regions were not allowed to try short-term borrowing (one to five years) from private banks to reduce their dependency on the central government subsidy. Regions are also not capable of mo-

> bilising external resources from donors because the central government does not allow them to do so. The denial of power to borrow from domestic financial markets and mobilise external resources indicates that the centre has little intention of narrowing the vertical imbalance.

The statistics given above confirm the continuity of central control rather than gradual increase in fiscal devolution and regional autonomy. The discussion in Chapters 3, 4 and 5 on implementation of the decentralisation reforms showed that there is a sustained vertical imbalance in power of decision-making between the central and regional governments. The three case study regions are dependent not only on central transfers but also on detailed central instructions. The centre does not allow them to articulate and address regional interests; rather, they are required to implement central directives. A study on Gambella provides similar evidences. Derege (2006: 224) comments that 'ever since the establishment of GPNRS [Gambella People's National Regional State], the federal government has been active in the political process. The overriding motive for its involvement, however, has been to ensure political control, rather than to facilitate the evolution of a political community that articulates a regional interest.'

Maintenance of horizontal imbalance

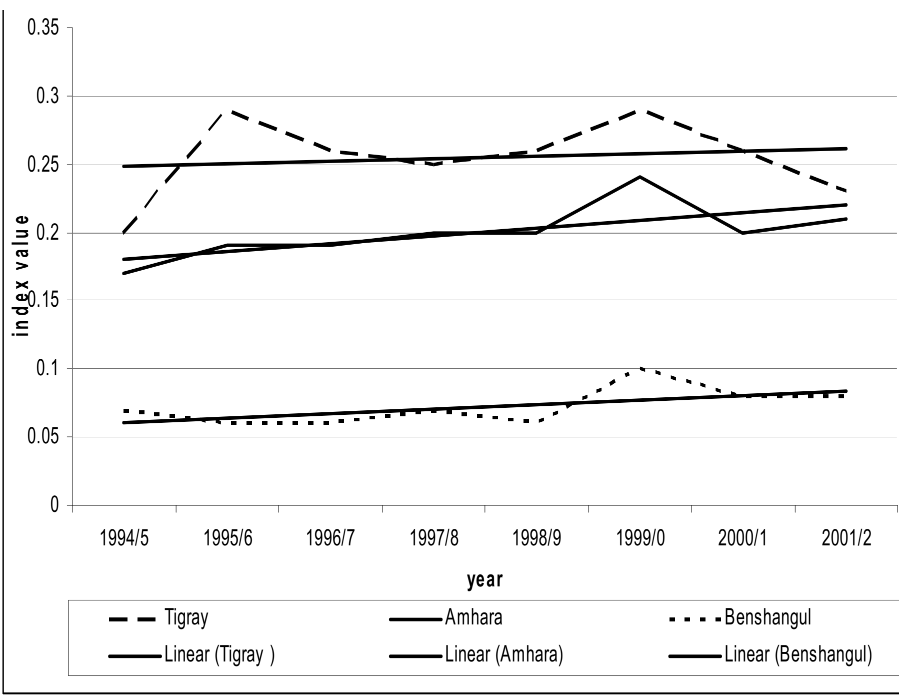
Conventional decentralisation theories consider vertical and horizontal imbalances to be twin outcomes of the mismatch between revenue and expenditure assignment under a decentralised arrangement. As stated above, vertical imbalance is the disparity between expenditure and revenue at sub-national government level, or the fiscal gap between expenditure and revenue. Horizontal imbalance refers to differences among regional governments of their capacity to cover expenditure from own revenue, or the fiscal inequality among regional governments. The theories assume decentralisation results in horizontal imbalance because of differences in resource endowment (economic development, tax bases and capacities) and they expect increased fiscal inequality because of decentralisation-induced competition between sub-national governments. Horizontal imbalance is expected to increase the ability of relatively well-off sub-national governments to raise more revenue and provide more or better public services than the poorer sub-national governments. The analysis of Ethiopia, however, revealed that decentralisation not only maintains the horizontal imbalance that existed at the beginning of the decentralisation process, but also limits the ability of regional governments to increase their fiscal capacity. It demonstrated that the central political leadership's dominance reduces the possibilities of competition, experimentation and innovation by regional governments.

The data in chapter 1 showed that the regional governments are not capable of financing their expenditure from their own revenue, although there is some degree of horizontal imbalance. Between 1993/4 and 1999/00, the emerging regions (Somali, Benshangul, Gambella, Afar), on the average, financed only 13 per cent of their expenditure; and the developed regions (Tigray, Amhara, Southern Nations, Nationalities and Peoples Region and Oromia) covered 23 per cent of their expenditure from their own revenue. During the seven-year period, the capacity of every regional government to finance its expenditure has shown little divergence. This sustained horizontal imbalance is evidenced by the coefficient of variation indices calculated for each region, which were 5.49 per cent for Tigray, 7.24 per cent for Afar, 1.11 per cent for Amhara, 1.12 per cent for Oromia, 1.06 per cent for Benshangul-Gumuz, 2.13 per cent for Southern Nations, Nationalities and Peoples Region, and 2.59 per cent for Gambella. The analysis of the three case study regional governments presented in Chapter 5 shows that average horizontal imbalance indices from 1994/5 to 2001/2 for the three case study regions were 25 per cent for Tigray, 20 per cent for Amhara and 7 per cent for Benshangul-Gumuz. This reflects the existence of some degree of differences in regions fiscal capacity, but, as Figure 8.2 shows, there is sustained horizontal imbalance in the three regions during the eight-year period.

Tigray covers 20-30 per cent of its expenditure, Amhara 15-25 per cent and Benshangul-Gumuz 5-10 per cent. Worst off is Benshangul-Gumuz, which finances on average 7 per cent of its expenditure. Figure 8.2, especially the linear trend line, shows both the horizontal imbalance among the regional governments and the absence of change during the eight-year period.

The empirical chapters provided evidence that some of the similarities that existed among regional governments at the beginning of the decentralisation process have been maintained throughout the past decade. Cases in point are the patterns of revenue collection and expenditure prioritising among regional governments. Table 4.3 showed that the three regional governments rely heavily on one tax base (employee payroll tax). The Spearman correlation coefficients calculated in Chapter 3 also confirm the similar ranking of sectoral expenditure allocation among the three regional governments. All three case regions give first priority to education sector, followed by health and agriculture. The per capita sectoral expenditure also shows a similar pattern of intersectoral allocation prioritisation.

Fig. 8.2
Horizontal imbalance in Tigray, Amhara and Benshangul-Gumuz, 1994/5 – 2001/2



Source: Data in Appendices G and K.

The above discussion demonstrates that decentralisation under neo-patrimonialism maintains horizontal imbalance. The inequality among regional governments that existed at the beginning of the decentralisation process has been sustained. Chapters 6 and 7 analysed how the central government maintains horizontal imbalance in expenditure and revenue assignment in Ethiopia. The centre has been subjecting regions to one-size-fits-all policies that limit their capacity to innovate and compete. The following discussion summarises the findings of the earlier chapters to show how the central political leadership continues to maintain horizontal imbalance in the three case study regions of Amhara, Tigray and Benshangul-Gumuz.

The central political elite has kept Benshangul-Gumuz under relatively firm political control. During the past decade, the regional government has been given neither the chance to participate in the central political decision-making process nor permission to exercise its constitutional powers within the region. The regional government is a creation of the TPLF/EPRDF, bringing together five different ethnic groups under one umbrella. It has weak administrative and technical capacity, as Benshangul-Gumuz is a newly established region. Despite this weakness, it has been given similar expenditure and revenue assignments to those of the other two governments and follows similar rules and procedures for planning and budgeting, revenue administration, human resource administration, and so on.

The central government's involvement in enhancing the capacity of the region has had two outcomes. On the positive side, the training programmes have increased the number of educated personnel in the region. From 1995/6 to 1999/0, the number of BA holders in the government apparatus increased from 127 to 361, and of MA holders from 0 to 39. However, these newly educated groups have not been given the freedom to address their constituents' problems other than by implementing central directives. To ensure their loyalty and obedience to the central political elite, they have been given political education through TPLF/EPRDF programmes, assigned to important and rewarding positions in the regional political and administrative machinery, and are guided by central party representatives in their political and administrative operations. On the negative side, the support system has been highly abused, as the TPLF/EPRDF central political leadership has been involving itself in all kinds of administrative, political and economic decision-making, at first directly through its political cadres and at present through the Ministry of Federal Affairs.

In Amhara, the direct involvement and interference of the TPLF/EPRDF has been relatively less than in Benshangul-Gumuz. The regional ruling party, Amhara National Democratic Movement, is a junior partner within the EPRDF. Some of its members hold ministerial positions in the central bureaucracy and some are also members of the EPRDF central committee. One member was a Prime Minister during the transition period and Deputy Prime Minister after the transition; until he was imprisoned on corruption charges. At present, the Deputy Prime Minister of Ethiopia is from the Amhara National Democratic Movement. Nonetheless, the relationship between it and the TPLF is no different from the patron-client one. As it cannot win credibility and significant public support from its constituency, its survival depends on its loyalty and obedience to the TPLF leadership, which commands central power and resources. Thus, the regional government has no autonomy to formulate regional policies and programmes that reflect the demands and aspirations of its constituencies. As indicated in Chapter 1, among the reasons for selecting this region for study were its historical prominence in Ethiopian politics and the fact that it has more educated and experienced professionals than the other regions. However, instead of exploiting this potential resource; the regional political leadership has engaged in persistent conflict with other Amhara ethnic political elites. As Chapter 5 outlined, the party was ordered by the TPLF to change its name from Ethiopian National Democratic Movement to Amhara National Democratic Movement because of the emergence of other contending political parties among the Amhara. The TPLF also provided protection to the party by imprisoning the leader of one of its rival parties, All Amhara People Organisation, who died while in prison. The Amhara regional government, like that of Benshangul-Gumuz, has had its powers to determine expenditure priorities, revenue assignment and borrowing constrained by central directives. It also operates with similar rules and procedures in human resource management and public finance management, which have been dictated by the central political leadership.

Tigray was selected for this study because the region's political party has the dominant political position in the present Ethiopian polity. The TPLF has two faces, one dominating the EPRDF coalition at the centre and the other as the ruling party in Tigray. At the centre, the TPLF commands State resources and power through the Prime Minister, who chairs the party; some of its other members control the regional political and administrative apparatus. Selected individual from the TPLF have been leading the EPRDF structure at the centre. The relationship between the central party members and the regional ones is not known, even among regular party members. There are no apparent differences over policy and ideology. The TPLF crisis in 2001, however, clearly demonstrated the reality of a permanent power conflict between the regional and central party leaders. The central party leaders, led by the Prime Minster, emerged victorious form that conflict and they purged and imprisoned the other faction. Thus, strong TPLF contending patrons were replaced by a regional elite loyal and obedient to the Big Man at the centre. The new regional government is protected by a proclamation issued in 2003 that empowers the Prime Minister to use the federal police and national defence forces to quell any movement that might endanger the political leadership of the region and the centre or that 'endangers the constitution'.

In spite of this, there is no marked difference from Amhara and Benshangul-Gumuz in terms of expenditure assignment, revenue assignment, intergovernmental fiscal transfer and borrowing. The education, health and agriculture bureaus have been strictly following central directives, just like the other two regions. Tigray's proclamations, working manuals, and procedures are also similar to those of the other regions. The constitutions and proclamations in the three regions not only have matching content, but also identical numerical tags. Human resource management, the budgeting system, the support and coordination system and even the sex of the deputy of speaker of the Regional Council (females during the author's fieldwork in 2004) are the same. As discussed in Chapter 3, there are minor differences in implementation of the agricultural extension programmes. In addition, unlike in the other regions, the primary education system in Tigray did not adopt self-contained classroom management until it was ordered to do so by the centre in 2004.

The above discussion showed that the central government's dominance has been responsible for the lack of differences among the regional government and for maintaining the status quo in terms of horizontal imbalance. Regional governments have not been allowed to experiment with innovative mechanisms of service provision and revenue mobilisation; instead, they have had to follow central directives strictly. This central dominance and denial of autonomy to regional governments does not match the assumptions of the mainstream decentralisation theories. However, maintaining the status quo has political value, as it enables the central political leadership to present its treatment of regional governments as fair and balanced and to assert that all regions are given equal treatment. However, as it will be discussed below, decentralisation under neo-patrimonialism has informal mechanisms for maintaining traditional clientelism.

Maintenance of traditional clientelism

As stated in Chapter 6, traditional clientelism refers to a situation where a dominant party within an ethnic coalition provides favourable conditions for or channels funds to its allies or a particular regional ethnic group in the country. In many cases, the dominant party does not employ formal mechanisms or indulge in out right traditional clientelism or favour one ethnic group or its constituency and exclude others. In Ethiopia, the TPLF, which controls the central political leadership of the EPRDF, has not officially given preferential treatment to Tigray in terms of expenditure and revenue assignment and annual subsidies. The political leadership (as patron) is apparently aware that such open favouritism could incite resentment and conflict with other loyal regional party leaders (its clients). As noted above, the central political leadership is keen to maintain horizontal imbalance as well the similarities that existed at the beginning of the decentralisation process. Chapter 5 demonstrated that the central political leadership allows approval of the annual subsidy to go through the House of Federation and arranges discussion forums for the regional and central executives to debate the fiscal transfer system and revenue assignment. However, it also noted that MPs from Tigray in the House of Federation, along with other regional representatives, question the fairness of the distribution formula and the central domination of tax assignment. The TPLF's caution about openly favouring Tigray could also be due to the fear that it might lead to ethnic war or be exploited by contending political elites to mobilise their constituencies against the regime.

Nonetheless, as pointed in Chapter 5, the traditional clientelism of the TPLF is maintained through different, non-official forms of the patronage network, which includes parapartals, off-budget funds and non-transparent central government infrastructure allocations to regions. Reliable and complete data on this patronage system are not available since they have the potential to incite ethnic conflict. However, the following information, based on earlier chapters, provides some indication of the TPLF patronage network in Ethiopia.

The first patronage mechanism is the TPLF-owned large economic organisations. As pointed out in Chapter 6, the TPLF owns large businesses, which are managed under a giant umbrella organisation, the Endowment Fund for Rehabilitation of Tigray (EFFORT); and party owned non-government organisations, which are managed by the Tigray Development Association (TDA), Dedebit micro credit, and Relief Society of Tigray. EFFORT manages the large manufacturing and service organisations operating in Tigray, which are disguised as 'endowment funds', or party-owned businesses. Chapter 6 cited Bogale (2004), Vaughan and Tronvoll (2003) and an anonymous report (2003) to conclude that TPLF-owned business enterprises have total authorised capital of over Birr 3.5bn (EUR 320m). Some of the major businesses are Mesebo Building Materials Manufacturing Sc., Almeda Textiles Manufacturing Sc., Sur Construction Co., Trans Ethiopia Sc., Addis Pharmaceutical Production Sc., Sheba Tannery Factory, and Mesfin Engineering. The TPLF claims that these organisations were established by investing capital contributed by the Tigray people during the struggle against the Dergue. It appears that these parapartals are given preferential access to central government capital and other economic opportunities. The anonymous report (*op. cit.*) reveals that by 2003, the above organisations had borrowed a total of roughly Birr 6.2bn (EUR 563m) from the three government-owned banks (Commercial Bank of Ethiopia, Development Bank and Construction Bank). The loans breakdown was: Mesebo, Birr 1.5bn; Sheba, Birr 800m; Almeda, Birr 1.2bn; Mesfin Engineering, Birr 1.3bn; Addis Pharmaceutical, Birr 400m; and Trans Ethiopia, Birr 1.2bn. These businesses are headed by prominent party members. As they are located in Tigray, they generate gainful employment and improve the lives of some members of that ethnic group.

In Amhara, the ruling Amhara National Democratic Movement also has businesses and NGOs managed by top party officials, though on a small scale. Their estimated total capital is Birr 350m (EUR 32m). Some of these organisations are Ambassel Trading House, Dashen Brewery, Zeleke Agricultural Mechanisation, and Blue Nile Transport. Their access to government capital is also limited. The anonymous report (*op. cit.*) states that only Ambassel Trading House has borrowed from a government owned bank, to the tune of Birr 500m (EUR 45m). In Benshangul-

Gumuz, the only ruling party-owned business is a microfinance institution.

The second way in which patronage is distributed is through off-budget funding, which manifests itself in arbitrary and biased assignment of donor-funded projects to regions. It is difficult to document the number and characteristics of bilateral NGOs working in the three regions, but there is no doubt that they vary in size, mode of operation and the amounts of money they make available to the regions. As stated in Chapter 5, EU Macro-net Rapport 14 (2001) confirms this disparity to some extent by pointing out how important they have become in Tigray's economy: 'off-budget donor and NGO expenditure is very important in Tigray, representing in 1998/9 and 1999/0 more than the regional Government's capital expenditure'. The EU study estimates off-budget donations and NGO contributions to Tigray between 1997/8 and 2000/1 was Birr 407.13m (EUR 37m). Another study in Benshangul-Gumuz found that off-budget donor funding between 1996/7 and 2000/1 was only Birr 70.34m (EUR 6.4m) (African Development Bank, 2001). Chapter 5 also noted that regions lack information on agreements made between donors and the central government and on the way donors select specific regions. It also quoted informants in Benshangul-Gumuz as admitting that the central political leadership influences donors' selection of regions. They identified, Irish Aid, GTZ and Italian Aid as being among the international NGOs that have contributed substantially to economic development in Tigray and SIDA as being one of those making a significant contribution in Amhara. In Benshangul-Gumuz, however, there are few NGOs and they are financially weak.

The third channel for patronage is the non-transparent distribution of centrally funded infrastructure in sectors such as transport, communications and energy. No official documents are available that give the amounts spent annually by the central government on infrastructure in the different regions. Such statistics are discussed neither in parliament nor in other public forums. When an MP asked bluntly during the 55th regular session of the House of Federation (Addis Ababa, June 1997): why the central government was channelling more funds to build infrastructure in Tigray, the Prime Minster sidestepped the question by replying: 'for individuals who consider a given ethnic group as an enemy, justice and equality is a bitter pill to swallow'. Moreover, it is an open secret in Ethiopia that the EPRDF has channelled a larger amount of central government funds to Tigray than to the other regions under the pretext of post-war reconstruction.

The above information clarified the new patronage mechanism employed by the TPLF. As the system is secretive, it is difficult to document its impact on the economic development gap among the regions and to show which particular groups in Tigray have benefited from it. Ethiopian Economic Association Report (2000/1: 126), which was cited in Chapter 1, finds that Tigray increased its share of both value added and employment in the manufacturing sector five-fold between 1995/96 and 1998/9, an increment that is mainly explained by the activities of the party-owned manufacturing and service organisations operating in the region. Moreover, it is common in a neo-patrimonial regime setting for regional political and business elites that are loyal to the central political leadership to be the main beneficiaries of patronage, and it is possible that this is also the case in Ethiopia.

Use of annual subsidy to keep regional government machinery afloat

The conventional decentralisation theories discussed in Chapter 2 suggest the need for intergovernmental fiscal transfers to redress mismatch between revenue and expenditure. Different forms of transfers are used to bridge vertical and horizontal imbalances, correct benefit spillovers, ensure a minimum standard of services across regions and stimulate public expenditure on projects of high national importance but low local priority. In Ethiopia, however, annual subsidies to regional governments are channelled to keep the regional government machinery afloat.

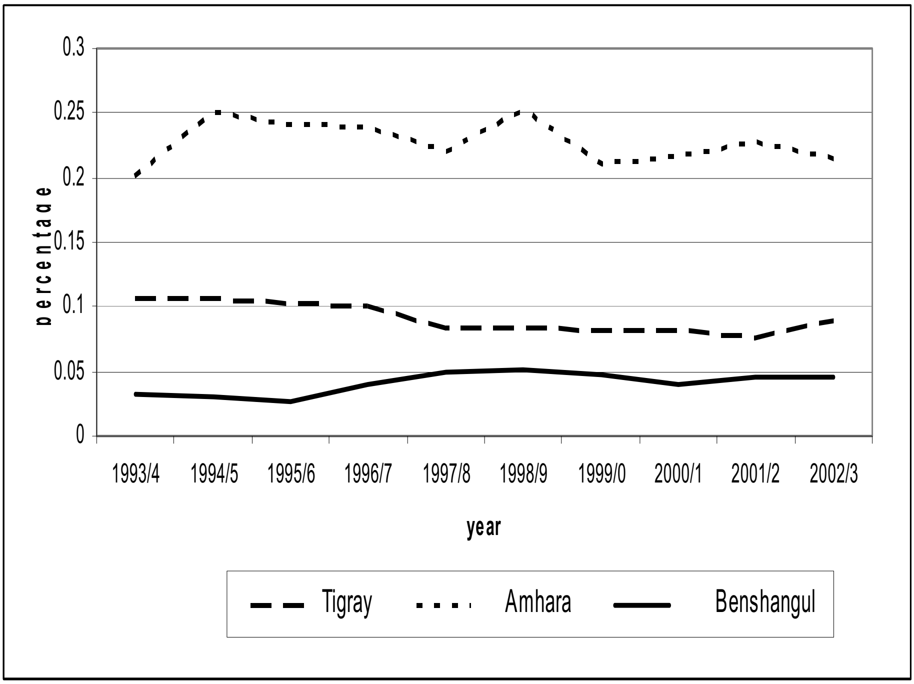
Formally, the objective of the Ethiopian transfer system is to correct the horizontal imbalance through fiscal transfers; in other words, to maintain equity among regional governments as well as narrow the gap in per capita income among regions. An examination of the per capita expenditure and subsidy figures that were given in Chapters 3 and 5 shows that the equity objective has not been attained. Benshangul-Gumuz, which finances only 7 per cent of its annual expenditure from its own sources, has higher per capita expenditure in education, health and agriculture sectors than Tigray and Amhara, which finance 25 per cent and 20 per cent of their annual expenditures respectively. Between 1994/5 and 2001/2, the total average per capita expenditure in the three sectors was Birr 103.9 for Benshangul-Gumuz, Birr 62.8 for Tigray and Birr 34.1 for Amhara. The same situation is observed in the per capita subsidy for the same period: Birr 241.2 for Benshangul-Gumuz, Birr 76.0 for Tigray and Birr 45.3 for Amhara. This difference was maintained throughout the eight-year period. The similarity between the per capita subsidy and per capita expenditure indicates that regional governments are mainly financing their expenditure from central transfers.

Given the incapacity of Benshangul-Gumuz to finance its own expenditure, the higher per capita subsidy suggests that the central government is attempting to redistribute income in its favour. However, the gap in per capita subsidy and expenditure between Amhara and Tigray does not support the thesis of the central government trying to correct revenue-expenditure gaps among the regions. Tigray receives a higher per capita subsidy than Amhara, even though it finances more of its expenditure from its own revenue. Interestingly, comparison of the absolute amount of subsidy channelled to the regions does not yield a similar result: on the average, 23 per cent of the total central government subsidy was allotted to Amhara, 9 per cent to Tigray and 4 per cent to Benshangul-Gumuz. Thus, Benshangul, which had the highest per capita expenditure and subsidy, had the lowest subsidy in absolute terms. This mismatch suggests that the intergovernmental fiscal transfers are decided at the central level on the basis of the annual expenditure of regional governments. The following points substantiate this.

First, the increase in number of civil servants could explain the difference in per capita subsidy and per capita expenditure. Chapter 7 and Appendix M show that from 1995/6 to 2000/1, the number of civil servants increased by 144 per cent in Benshangul-Gumuz, 16.5 per cent in Amhara and 35 per cent in Tigray. Since the subsidies mainly finance capital expenditures specified by the central government and regional governments' recurrent expenditure (70 per cent of the subsidy being used to cover salary costs), the increase in civil servants would be expected to result in higher per capita expenditure and so higher per capita subsidy. This would favour Benshangul-Gumuz, which increased its civil service by a much higher percentage than the other regions. That region's statistics collaborate this: the percentage increase in its civil service employees (144 per cent) is consistent with the increase in its per capita subsidy (122 per cent).

Second, as the discussion in Chapter 5 revealed, there have been frequent changes and adjustments in the transfer formula indictors, sub-indicators and weights, which actually lacked a pattern and were difficult to interpret. Despite changes in the formula, lengthy debates and regional governments' complaints, the formula led to only marginal changes in the actual allocation. Figure 8.3 displays the trend between 19993/4 and 2002/3.

Fig. 8.3
Actual regional share of subsidy from distribution pool, 1993/4 – 2002/3



Source: Data in Appendix L.

The graph shows that the annual subsidy given to the regions between 1993 and 1995, which was calculated ad hoc, was no different from the formula-based transfer between 1995 and 2003. Amhara's share during the 10-year period was 20-25 per cent, Tigray's 8-10 per cent and Benshangul-Gumuz's 4-5 per cent. The practically unchanging share of each region's subsidy indicates that the amount is determined by the top central political leaders, using an incremental approach, along with the distribution pools every year. As stated in Chapter 5, this study argues that the annual subsidy is simply determined by calculating the costs of regional recurrent expenditure (salaries of civil servants and other operation and maintenance costs) and centrally mandated capital projects. In addition, the central government also covers unexpected recurrent costs, especially salaries, of regional governments.

Third, the qualitative analysis on the decision-making process for the annual transfer formula in Chapter 5 also demonstrated that neither the better-off regions (Tigray and Amhara) nor the one lagging behind (Benshangul-Gumuz) are content with the intergovernmental fiscal transfer system. Information from documents and interviews in the regions shows that regional governments have been demanding changes in the transfer formula weights and allocations as well as more transfers. The dissatisfaction is caused by the fact that the increased central government subsidy has not decreased the regions' dependency on the centre or improved their social and economic infrastructure; rather, it has been used mainly to finance the annual regional recurrent expenditure.

On the basis of the above arguments, it is clear that Ethiopia's annual regional subsidies, especially from the central Treasury, are determined incrementally to enable regional governments to provide minimum services as well as maintain law and order. It confirms the contention of some writers that subsidies increases the lower level governments' expenditure rather than the income of their constituencies, as well as of those who argue that local governments can simply use the grant as a substitute for local revenue.

8.5 Conclusion

On the basis of the empirical findings in the previous chapters, this chapter argued that conventional decentralisation theories cannot explain the derailment of decentralisation under a neo-patrimonial regime. Then, it presented a theory on decentralisation under a neo-patrimonial regime, drawing on the study's findings. It discussed three important issues relating to the particular circumstances that led to decentralisation reforms in Ethiopia, the re-emergence of a new, neo-patrimonial regime which led to derailment of the original decentralisation reforms and redefinition of decentralisation to serve the purpose of reproducing the neo-patrimonial regime.

As in many sub-Saharan countries, an important reason for decentralisation reforms was ending the legacy of hegemonic and centralised rule. The EPRDF wanted to undo the historical centralised domination of the Ethiopian state by politically and administratively empowering the ethnic groups and accommodating their demands for self-administration. A second reason was the need for administrative efficiency, which required accommodating variations in agro-ecology, economic activity, settlement patterns, and so on, among regions and matching public service delivery with the unique situation of each locality. The emphasis on administrative efficiency and the EPRDF's desire to accommodate international donors' demands for good governance, including devolution of power to sub-national governments, are the most commonly cited reasons in the literature.

The EPRDF's perspective of ethnic groups in Ethiopia as diverse and distinct, and deserving of the right to self-administration up to and including secession, and the TPLF's political calculus to achieve devolution based on ethnic lines are peculiar to the Ethiopian situation. This is because no other African country has a decentralisation arrangement that is exclusively based on ethnic markers; nor does any other African regime work to attain ethnic-based autonomy by mobilising ethnic groups in addition to their own to demand such an arrangement. Aalen (2006: 243) points out that 'many African states have introduced territorial and non-territorial measures to accommodate their ethnically diverse population, ranging from federalism in Nigeria, to the moderate regional devolution in South Africa, and the unbalanced union of Zanzibar and Tanganyika in Tanzania. It seems, however, that Ethiopia has gone further than any of those countries in promoting ethnic diversity through a federal system which is explicitly based on ethnicity.'

The decentralisation reform that was originally introduced in Ethiopia on the basis of the above justification was subsequently derailed by the EPRDF itself. This chapter argued that different factors led to derailment of decentralisation reform in Ethiopia. The key one, however, was the EPRDF's failure to break away from the previous regime's conception of centralised and hegemonic rule. The chapter contended that the involvement in regional and local politics by the EPRDF's central political leadership has been principally motivated by a project of political control. It also argued single-party hegemony, exclusionary politics, the merger between the party and the State, and the dominance of the executive over the legislative have undermined the decentralisation reform. These policies have been the characteristic approach to governance by successive ruling elites in Ethiopia since the late nineteenth century. This chapter also identified four tensions that resulted in derailment of the Ethiopian decentralisation process: between the EPRDF's central planning and the devolution project; opposition parties' demand for political inclusion and the EPRDF's stance on political exclusion; Revolutionary Democracy and the Ethiopian decentralisation reform; and personal dictatorship and devolution. The EPRDF resolved these incompatible projects by upholding central planning, exclusionary politics, personal dictatorship and Revolutionary Democracy because those fit with its demand for central and hegemonic governance.

So, Ethiopia has ended up with a peculiar form of decentralisation that is functional to the reproduction of the new, neo-patrimonial EPRDF regime. As discussed in Chapter 2, the conventional theories state that decentralisation leads to better matching of resources with diverse preferences, competition among sub-national governments, allocation efficiency or a closer nexus between expenditure decisions and their beneficiaries, accountability of politicians and officials, and active participation by local communities. They suggest that decentralisation narrows vertical imbalance and has the potential to widen horizontal imbalance among sub-national governments. This chapter, however, argued that the conventional decentralisation theories cannot explain the functionalities of decentralisation under neo-patrimonialism. By focusing on the Ethiopian case, it provided six functionalities of decentralisation under neo-patrimonial regimes:

(i) To establish sub-national governments with upward accountability rather than downward accountability. This allows the centre to increase its dominance of the society by creating subservient regional political elites.
(ii) To retain the official reform as proclaimed without implementing it as designed. This also has political value, as outside observers (some international donors) and the pubic (the uninformed) have the impression that the regime is keeping to the constitutional decentralisation arrangement.
(iii) To sustain vertical imbalance. This allows the regime to ensure its fiscal dominance and maintain regions' dependency on central transfers.
(iv) To sustain horizontal imbalance. The EPRDF allows neither the relatively developed regions to grow more autonomous (with own

taxes) nor the emerging regions to fall much behind. This makes the EPRDF appear to be a regime that forbids lopsided distribution of national resources among the regions.

(v) To maintain traditional clientelism. The central political leadership maintains a cleintelistic relationship with its allies or constituents, creating decentralised arrangements and favouring certain regions through other informal patronage mechanisms.

(vi) To keep regional governments' machinery afloat through annual subsidies. This helps the central government to create regional governments that are financed by the centre to keep law and order in various parts of the country and provide minimum services. It also provides the regional elite with an interrupted flow of salaries and other benefits.

In short, this chapter proposed a decentralisation theory for a neo-patrimonial setting. Accordingly, it reflected that neo-patrimonial regimes initiate decentralisation reforms with some accepted justifications, especially to undo the legacy of centralised administration. Nonetheless, the reforms are derailed because the regimes cannot throw off old-time-honoured habits of centralised and hegemonic rule. Far from achieving the results expected by the conventional decentralisation theories, under neo-patrimonialism, decentralisation serves the regime's dominance by establishing sub-national governments that continue to be dependent on central government transfers for most of their expenditure; implement detailed directives from the central political leadership to guide their expenditure prioritising and revenue administration and collection; have little accountability to their constituencies; and display an unchanged pattern of expenditure prioritising and revenue collection.

9 Conclusion and Summary of Main Findings

9.1 Introduction

Focusing on Ethiopia's post-1991 decentralisation reform initiated by the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF), this study had two objectives:

- to identify and analyse factors in the political and administrative institutional arrangements in a neo-patrimonial regime, which sustain central dominance on expenditure and revenue assignments and regional governments' uniform dependence on central government subsidy, policy guidelines and administrative instructions;
- to examine the relevance of the conventional decentralisation theories as applied in Ethiopia and suggest an alternative neo-patrimonialism based theory of decentralisation that explains Ethiopia's intergovernmental fiscal relations reform process.

To achieve these objectives, Chapters 3, 4 and 5 analysed Ethiopia's expenditure and revenue assignments, fiscal transfers and sub-national borrowing in light of the five conventional decentralisation theories discussed in Chapter 2. On the basis of a conceptual framework developed in Chapter 1, Chapters 6 and 7 analysed the extent to which the political and administrative institutional arrangements under neo-patrimonialism shaped Ethiopia's intergovernmental fiscal relations reform. Contending that the existing conventional theories are unable to explain intergovernmental fiscal relations as they have evolved in Ethiopia, Chapter 8 provided an alternative decentralisation theory for a neo-patrimonial setting that explains the Ethiopian decentralisation reform process.

This chapter summarises the main findings of the study. First, it highlights the appropriateness of the decentralisation policy intentions. Second, it summarises the implementation of the four elements of intergovernmental fiscal relations. It identifies the challenges of applying the assumptions of conventional decentralisation theories, especially the welfare economics model, in Ethiopia by examining the extent to which the observed implementation trends are consistent with the model. Third, it highlights the findings on how the EPRDF regime has used political and administrative institutional arrangements to derail the decentralisation reform and its implementation. Finally, it concludes by reflecting on an alternative explanation of decentralisation under neo-patrimonial regimes that explains Ethiopia's decentralisation features.

9.2 Appropriate Policy Intent

Different political, administrative and economic intentions underlie the introduction of decentralisation reforms. The widely cited objective in many sub-Saharan African countries is to resolve the 'failure of the centralized state' (Wunsch and Olowu, 1990). Another intent of decentralisation, which is in line with conventional decentralisation theories, is to create an administrative and political structure to accommodate variations in preferences among jurisdictions. As stated in Chapter 2, such an arrangement is expected to, among other things, achieve a better match between expenditure needs and fiscal resources, establish autonomous and accountable governments, create an institutional setting for competition among regions and people's participation. Some of the above intentions were behind the introduction of the post-1991 decentralisation policy in Ethiopia.

The EPRDF's initial objective during the transitional period was to end the legacy of the highly centralised and unitary Ethiopian state. Later, the party declared a second wave of *woreda* decentralisation, which was intended to accommodate variations among sub-national governments. However, Ethiopian decentralisation policy is peculiar, as it envisions a decentralised federal arrangement explicitly based on ethnicity. This study found that the decentralisation reform is appropriate for Ethiopia because of the variations in political history, population, urbanisation, ethnic diversity, economic activity, and so on, among the three case study regions. Seen in the light of the conventional decentralisation theories, such variations warrant a decentralised arrangement. The variations among the three case study regions are summarised below.

The people of Amhara and Tigray have been living together since time immemorial. According to historical records, the political elites from both groups have been swapping senior and junior positions to control State power and resources since the first century. The ethnic political elite in Benshangul-Gumuz, a region incorporated into Ethiopia in the middle of the nineteenth century, have the power neither to rule their region nor to participate effectively at the centre.

Tables 1.1 and 3.1 summarised the differences in the economic situation of the three regions. Benshangul-Gumuz has poorly developed economic infrastructure such as telephone lines, postal services, electricity, roads, access to potable water, television, and so on. Differences in farming systems, land fertility and degree of rural poverty are also to be found. Land degradation is higher in Amhara and Tigray than in Benshangul-Gumuz. In 1994/5, the population exposed to drought was 34 per cent in Tigray, 15 per cent in Amhara and 18 per cent in Benshangul-Gumuz. Tigray and Amhara have sedentary populations, who are livestock–cereal subsistence farmers and use archaic oxen-ploughing techniques. The agricultural density, in Tigray and Amhara is 5.9 and 5.0 persons per hectare respectively. Benshangul-Gumuz, with agricultural density of 3.8 persons per hectare, has fertile rangeland, and the local people are semi-pastoralists who use hoe-farming techniques. The three regions' percentage share of manufacturing enterprises in the country in 1998/9 was 3.6 per cent for Tigray and 6.7 per cent in Amhara; the share of Benshangul-Gumuz was insignificant. From 1991 to July 1998, the regional share of total private investment projects approved in Ethiopia was 10.55 per cent for Tigray, 7.55 per cent for Amhara and 0.84 per cent for Benshangul-Gumuz. Amhara, followed by Tigray, has the largest population, area, crude density and number of *woredas*. Urbanisation is highest in Tigray, followed by Amhara. Benshangul-Gumuz is the least urbanised of the three regions. There is ethnic diversity in Benshangul-Gumuz, while one ethnic group dominates in the others.

Whilst the decentralisation reforms are appropriate for accommodating the variation among the regional governments and ending the legacy of a heavily centralised and unitary state in Ethiopia, the implementation was derailed. The original intention of devolving administrative, political and fiscal power to sub-national governments was derailed in practice mainly because the EPRDF failed to break away from the previous Ethiopian regime's conception of centralised and hegemonic rule.

9.3 Implementation of Ethiopia's Intergovernmental Fiscal Relations Reform

This study examined the process of designing the policy details of intergovernmental fiscal relations. It also analysed the implementation of the intergovernmental fiscal relations reform by focusing on how much power and autonomy regional governments have actually had to determine expenditure priorities, set tax rates and bases, be involved in the decision-making process for the intergovernmental transfer system, and borrow money from internal sources. The following paragraphs summarise the findings.

During the first year of the Transitional Government, there was agreement among many of the ethnic political parties to provide ethnic groups in Ethiopia with extensive rights to self-administration up to and including secession. Nonetheless, the details regarding revenue and expenditure assignment, fiscal transfer and borrowing were decided without actively involving regional governments. Some of the policy documents were decided after the main opposition ethnic parties (Oromo Liberation Front, Islamic Front for the Liberation of Oromo, Western Somali Liberation Front, Sidama Liberation Movement, Somali Abo Liberation Front and United Oromo People Liberation Front) left the Transitional Council in 1992 and 1993. Those documents included policies on expenditure prioritising (the Agricultural Development Led Industrialisation Strategy of 1994, Education and Training Policy of September 1994, Health Policy of September 1993, and Agricultural Extension Programme of 1995), Federal Proclamation no. 41/1993 on expenditure assignment between levels of government, and Federal Proclamation no. 33/1992 on revenue assignment, intergovernmental transfer and sub-national borrowing. These policies were designed without studying the expenditure demand and revenue potential at national and regional levels; without a systematic analysis to relate expenditure assignment of regional governments with their revenue assignment; without due consideration of the historical and institutional environment, administrative and political capacity of regions, degree of mobility of different economic units, redistribution or spillover effect of revenue sources, positive and negative externalities in the provision of public goods, availability of local capital markets, and so on.

The decision-making process on the above policies did not involve regional governments; however, later they had to comply with instructions from the centre on the inclusion of similar provisions, especially on expenditure assignment, in their respective regional constitutions. As discussed in Chapter 3, the 1995 federal Constitution adopted these specific policies on the four elements of intergovernmental fiscal relations with minor modifications. The political process of designing the detailed decentralisation policy did not follow the classical approach of crafting a federal constitution through a 'bargain between prospective national leaders and officials of constituent governments for aggregating territory, the better to lay taxes and raise armies […] which is that all parties are willing to make them' (Riker, 1964: 11-12). Young (1998: 195) corroborates this: 'Constitution-making under the EPRDF has little in common with the bargaining, trade-offs, and compromises that usually typify such processes; rather it reflects the weakness of the country's democratic institutions, the political objectives of the governing party, and its position of dominance within a state where serious opposition had been crushed or marginalised.'

The analysis of how expenditure assignment is implemented considered the process of formulating medium-term plans/programmes and annual budget data. The study found that the three centrally developed EPRDF Development, Peace and Democracy medium-term plans (1995/6 to 1999/2000; 2000/1 to 2004/5; 2002/3 to 2004/5) provide specific guidelines on expenditure assignment to regional governments. The contents of the three medium-term plans are similar. The second and third medium term plans provide additional directives on food security, capacity building (including human resource development) and the rural marketing system. The common understanding is that plans are indicative propositions for guiding actions, but a closer look at EPRDF medium-term plans show that they are not only indicative but also provide standards for and detailed activities to be carried out in the different sectors of the economy. Nonetheless, the medium-term plans did not specify the financial resources required to implement the detailed activities and failed to match preferences with available financial resources.

The process of formulating the medium-term plans involved three main steps. First, the EPRDF party executive committee, dominated by a few veterans of the Tigray People's Liberation Front (TPLF) and their advisors, initiated major policy issues and developed detailed draft programmes. Then, the EPRDF central committee members, who are leaders of the EPRDF regional member parties, which are selected and appointed by the TPLF, discussed proposed activities and targets and accepted them with minor adjustments. The central committee usually accepts ideas coming from a few top TPLF political leaders as absolute and unquestionable. Finally, the centre gave the medium-term plans to regional governments for elaboration and implementation.

The three regional governments produced medium-term plans with labels similar to those in the federal programmes, except for the prefixes in the titles identifying the regional state issuing the documents. In Tigray and Amhara, the development of the medium-term plans followed similar processes. The top regional government political leaders are involved in the discussions on the EPRDF's proposed plans at the centre, and they carry the accepted documents to their respective regions for further discussion among regional political leaders, bureau heads and handpicked experts. Then, the regional executive body adopts the central directives and issues similar guidelines to the regional sector offices and lower tiers of government. In Benshangul-Gumuz, however, advisors sent from the central government give direction and have to approve the medium-term plans. In all the case study regions, the members of parliament, who are controlled by the Executive, rubber stamp the regional plans.

A closer look at regional expenditure prioritising (medium-term and annual plans and budgets) for agriculture, health and education shows that they are guided by central directives. Prioritising in the agricultural sector follows activities and guidelines specified in national agricultural extension package programmes and the White Papers on rural development. Expenditure assignment in the education and health sectors strictly follows sector policies developed by the Transitional Government, and the National Education and Health Sector Development Programmes (ESDP and HSDP). These programmes, which have a 20-year span (1997-2016), are the basis for regional governments' decisions on expenditure priorities in the two sectors. They specify expenditure goals, targets and indicators through two documents known as the Programme Action Plan and Programme Implementation Manual. They give detailed implementation guidelines on governance, financial management, procurement management, construction, rehabilitation and upgrading, and monitoring and evaluation procedures. In short, whilst Ethiopia's legal framework entrusts regional governments with power to develop their own strategies and policies on the three sectors, the central government dominates expenditure assignment.

Implementation of revenue assignment is analysed by investigating decision-making on revenue bases and rates, administration and collection of revenue, and data on actual annual revenue collection. The past decade has witnessed introduction of new taxes (on bank deposits, VAT, turnover tax, rental income tax and capital gains tax), tax systems (the presumptive tax system and the withholding tax system) and various tax rate amendments. The process of deciding the newly introduced tax policies is similar in all the cases: proposals are sent from the Prime Minister's Office to be read by the Speaker of the House to the House of Peoples' Representatives. The document is then referred to either the Legal or Economic Committee of the House of Peoples' Representatives for further analysis. After some time, the committee presents the original document again to the House for approval. Regional governments' direct participation in decision-making is minimal even though they are expected to implement the policies. In the past decade, all regions have ratified only one proclamation, on the Rural Land Use Fee and Agricultural Income Tax. Regions developed this proclamation under the instructions of the central government and on the basis of a template designed by the Federal Ministry of Finance. In short, many of the decisions on revenue assignment do not directly engage regional governments, which are also not adequately and reliably informed about the revenue situation of regional and central governments. In 2002, for the first time the regional governments voiced their opinions, complaining that the rationale for revenue assignments between regional and central governments was not clear and transparent, and proposing amendments. However, there have never been changes or improvements in the revenue assignment in response to regional suggestions.

The analysis also revealed that distribution of tax revenue is heavily inclined towards the federal government. From 1993/4 to 1999/2000, the federal government's average tax collection was 83 per cent of the total. The dominance of the centre also remained constant throughout the period. This made regions heavily dependent on federal subsidies. The received wisdom from decentralisation theories is that, when sub-national units are responsible for a significant proportion of their overall resources, they will act in a fiscally responsible manner; however, this cannot be tested in Ethiopia because the sub-national levels of government are not allowed to have the resources to finance a large proportion of their expenditure themselves.

The analysis of centre-region fiscal transfers considered the process of deciding on the transfer pool and transfer formulas as well as data on annual subsidies. It found that the determination of the transfer pool is ad hoc and is part of the annual budgeting process. The Ministry of Finance and Economic Development, in consultation with the Office of the Prime Minister, develops technical proposals on the distribution pool to be submitted for approval to a Council of Ministers committee chaired by the Prime Minister. In effect, decision of the committee is final. Subsequently, the distribution pool is formally approved by, first, the full session of the Council of Ministers and then the House of Peoples' Representatives. The federal parliament has never altered the distribution pool. The regional governments have never been involved in the process of decision-making and have never been informed appropriately about such issues that determine their yearly subsidy.

Decisions on the transfer formula indicators and weights have been based on two systems. Ad hoc transfer was in operation during the initial years and formula-based allocation has been in use for the last decade. During the first three-year period (1993-95), there was little debate on the issue in the Transitional Council. Since the establishment of the House of Federation and House of Peoples' Representatives, the decision making process has been the following: first, the Office of the Prime Minister gives instruction to the Ministry of Finance and Economic Development to develop the indicators and weights; then the Council of Ministers gives initial approval, after which the House of Federation debates and approves it; finally, the House of People's Representatives endorses it along with the annual national budget. During the past decade, there have been frequent changes in the formula and intense debates between members of the House of Federation and the Ministry of Finance and Economic Development on inclusion and/or exclusion of indicators and sub-indicators, on weights assigned and the accuracy and reliability of the information base. The intensity of the debate has gradually increased. Members' articulation of their regional demands has been encouraging, but none of them have resulted in changes. Regional governments have never been given a chance to be directly involved in decisions on the distribution pool and transfer formulas. Only in 2003 were regional governments invited to a workshop organised by the House of Federation to discuss past subsidies.

Detailed analysis of sub-national borrowing is not available, as no region has apparently borrowed from the banks. Whilst the legal framework in Ethiopia allows regional governments to borrow from domestic sources, this right is constrained by the central government's power to determine the terms and conditions of the loans. The pretext for denying regions the power to borrow is protection for the federal government from having to bailout a region that borrows irresponsibly. However, this power gives the central government a crucial instrument for controlling regional governments' behaviour.

Thus, the study found sustained centralised control rather than emergence of viable regional governments that are autonomous and accountable to their constituencies. The regional governments were following directives from the central government in all elements of intergovernmental fiscal relations.

9.4 Challenges of Applying Welfare Economics Model of Decentralisation in Ethiopia

Whilst there are no documents that clarify the specific theory used to guide the Ethiopia's decentralisation policy, Chapter 3, 4 and 5 demonstrated that the Ethiopia's legal framework on intergovernmental fiscal relations share many of the assumptions and proposals of the welfare economics model. From the Constitution and various proclamations, the following three points can be inferred to clarify the issue:

(i) As discussed in Chapter 3, a closer look at the country's Constitution shows that stabilisation and distribution functions are the remit of the central government. The Constitution considers levels of government as independent entities and assigns the allocation functions on the basis of benefit rules and externalities. It also treats the three regions equally, despite the relative differences among them. The levels of government have parallel legislative, executive and judicial powers; regions have separate domains of power to formulate and implement economic and social development policies, strategies and plans. There is no indication of what the relationship on expenditure assignment should be between the regional and federal executives, except for some general provisions stipulating assistance and advice from the centre to regional executives as and when necessary. No specific sectoral legislation provides shared or joint responsibilities among the levels of government. Federal Proclamation no. 40/1993, which provides specific sectoral assignments, gives central and regional governments independent sub-sectoral activities in the education and health sectors and parallel assignments in the agricultural sector.

(ii) Chapter 4 also indicated that revenue assignment in Ethiopia agrees to some extent with the welfare economics model, which suggests giving separate revenue sources to levels of government on the basis of the benefit principle or mobility of tax bases. The central taxes include national tax to finance nationwide services, especially non-benefit taxes or mobile taxes. Sub-national governments are assigned taxes with immobile bases (real estate tax), taxes easy to administer (payroll tax), and benefit charges. There are no indications of shared responsibilities in revenue assignment on specific taxes as suggested by the intergovernmental relations school. Rather, the Ethiopian Constitution confers independent power on regional governments to levy and collect taxes from sources reserved for them.

(iii) Chapter 5 also revealed that Ethiopia's legal framework upholds the objectives of intergovernmental transfer as specified by the welfare economics model. Accordingly, the constitution stipulates that the central government provide grants to correct externalities and horizontal imbalances.

Thus, expenditure and revenue assignment in Ethiopia follows many of the features of the welfare economics model, or the 'layer-cake model', which implicitly assumes that levels of government occupying identifiable and separate spheres of power and responsibility. It also suggests that decentralisation reforms can achieve allocation efficiency as well as autonomy, diversity, innovation and competitiveness of sub-national governments. Ethiopia's past ten years of experience, however, reveal that intergovernmental the fiscal relations reform is not progressing in accordance with the model. This study argued that the failure is due to existing political and administrative institutional arrangements, or incompatibility of the *de facto* institutional arrangements with the proposals of the welfare economics model. The following paragraphs summarise the main challenges.

Top-down institutional arrangements. The layer-cake assumption of the model, which informs the design of Ethiopia's decentralisation legal framework, is inconsistent with the actual centre-region relationships. Following the assumption, both levels of government formally have parallel powers to formulate and execute economic, social and development policies, strategies and plans. The proclamation that details expenditure assignment gives the central and regional governments specific functions. However, as found in Chapter 3, the *de facto* rules guiding expenditure assignment are top-down and 'one-size-fits-all' policies and programmes. This is evidenced by the central ruling party's five-year development plans/programmes and the sector development programmes, which give regional governments little discretion or autonomy to set region-specific expenditure priorities. The discussion in Chapter 4 also revealed that regional governments are formally empowered to levy and collect taxes, and to have separate tax administrations. However, the *de facto* arrangements oblige them to adopt a unified and harmonised tax system and uniform tax administration system that constrain regional governments' autonomy and capacity to mobilise revenue. The Ethiopian case also reveals that there is little clarity on discretionary power of regional governments' to modify and reject the central government's standards and policy guidelines. There are also no procedures and guidelines to structure relationships between the central and the regional executives. Thus, the institutional arrangements contradict the prescription of the welfare economics model that sub-national governments be given sufficient power and autonomy to prioritise and implement provision of public goods and services, enact tax bases and rates and mobilise and administer sufficient financial resources.

Measurement of business mobility. Ethiopia's experience demonstrates misapplication of welfare economics model principles for revenue assignment. Theoretically, mobility of economic units is understood in terms of utilisation of inputs for production and provision of goods and services across different sub-national governments, irrespective of the working capital of economic units. This holds for multinational and multiregional corporations and enterprises in the developed world. In Ethiopia's case, mobility is measured in terms of the nature of business enterprises (sole proprietorships or partnerships) and their working capital. Business organisations, whose supply of main production inputs and provision of goods and services are mainly confined to one locality or regional administration (like local restaurants, bakeries, clinics and local hotels) are considered mobile economic units while in reality they are immobile units.

There is also misapplication in assignment of profit and excise taxes from non-incorporated businesses (partnerships and sole proprietorships). The welfare economics model considers such taxes to be progressive, mobile and productive. It recommends that they come under the domain of the central government. However, the principle can be waived if taxes are not highly progressive and immobile, and if the tax yield from the sources is meagre. In the Ethiopian case, there is rigid application of the principles without adequate study of the yield from the tax bases and the degree of mobility of business entities. Many of the economic units considered to be big and mobile business enterprises are in reality small businesses that can be subject to retail sales taxes and be under the domain of regional governments. The placing of this type of immobile economic unit under the central government has led to tax evasion and hinders sub-national governments from capturing local taxes from local economic units. Thus, the central government's desire for control of all the lucrative sources of taxes results in the misapplication of the welfare economics model on revenue assignment.

Continuing dependency on central Treasury funds. The welfare economics model proposals on intergovernmental fiscal transfers have partially shaped the Ethiopian fiscal transfer system. One of the recommendations of the model – closing the regional fiscal need gap through block grants – has been adopted. However, there is an unusual outcome: sustained regional dependency on central Treasury funds to keep the regional administrative machinery running and no improvement in regional government' fiscal capacity.

Difficulties in sub-national borrowing. Ethiopia's sub-national borrowing follows some elements of the welfare economics model, which prohibits borrowing by regional governments to close annual budget deficits, so that the federal government will not have to bail out regions that borrow irresponsibly. The model does allow sub-national borrowing for capital expenditure through bond financing, but the case study regions have not borrowed because the central government has exclusive power to determine the conditions and terms under which loans can be obtained. Moreover, the weak capital market in Ethiopia makes this proposal of the model less applicable.

Distortions in accountability mechanism. The model assumes that sub-national governments are accountable to their constituencies, since each constituency decides the public service it gets and the payment it makes for the services it receives. In Ethiopia there is mismatch between local expenditure and costs due to regional governments' heavy dependence on central fiscal transfers and directives. Thus, the theoretical assumption that local people pay taxes and local governments have to justify their expenditure in terms of benefits to taxpayers is questionable in Ethiopia, where regional governments are dependent on the centre for more than 75 per cent of their expenditure.

Lack of horizontal sub-national competition. The model's assumption, especially that of Tiebout (1956) on horizontal competition among sub-national governments has little relevance in Ethiopia. The option of 'voting with feet' has little bearing, as there are no differences in service provision and tax packages among sub-national governments. Moreover, the country's ethnicity-based decentralisation and poor economic development of regions do not provide incentives for individuals and economic units to select desirable jurisdictions freely. Rather, the ethnicity-based decentralisation arrangement has worked in a perverse manner, leading to ethnic exclusion, or restricting the free movement of people to run businesses in localities of their choice.

No room for innovation. The exponents of the welfare economics model, especially Oates (1972) assume that decentralisation leads to innovation or learning by lower levels of government in service delivery, and revenue mobilisation. As discussed in Chapters 3 and 4, Ethiopia's political and administrative institutional arrangements do not provide such opportunity, as regions are only channels of central directives to lowest levels of government (*woreda* and *kebele*). For the last decade, the central government has controlled service delivery modalities, revenue collection and administration procedures, and public finance and human resource management systems through regulations and proclamations. The regions have little autonomy to change modalities of service delivery and other management techniques, as the central instructions are very specific and leave no room for innovation and flexibility.

Voters' preferences irrelevant. The model assumes elections to be a vital instrument for allocation efficiency, or mechanisms for revealing expenditure and tax preferences of voters/consumers. It also takes for granted that residents' demands for public goods are revealed through elections and that governments work in the public interest. The link between elections and revelation of tax and public goods preferences hardly exists in Ethiopia, and lower-level governments never decide tax rates and expenditure priorities by taking the preferences of their constituents into account. While there is some degree of heterogeneity among the three regions in terms history, political and economic development, which justifies the need for decentralisation, all residents in different regions are provided with similar types of public goods and services. Chapters 3 and 4 found that the actual process of expenditure prioritising, which involves making decisions on the quality and quantity as well as financing of provision of public goods and services, is dominated by the central government.

Centralised civil service recruitment policies. Technically, Ethiopia's administrative institutional arrangements share the features of the welfare economics model for decentralised public finance and human resource management systems. In Ethiopia, however, such decentralised power is taken back from the case study regions by the central government. The regions have little autonomy to recruit and retain motivated and capable personnel, who could potentially articulate regional demands and aspirations; identify available resources; and develop appropriate expenditure and revenue plans and budgets. The public finance system is also highly centralised, as the regions are subject to uniform rules and procedures dictated by the centre. The system does not permit budgetary decisions to reflect constituencies' preferences and does not provide financial and performance information for accountability.

In short, this study has argued that the welfare economics model guides Ethiopia's decentralisation policy, although it is not implemented in its totality since many of its proposals are inconsistent with the political and administrative institutional arrangements of the country. One possible reason for the EPRDF's use of the model is that its assumption of a layer-cake government structure, treating levels of government as separate and independent units, parallels the original justifications of the post-1991 decentralisation. As outlined earlier, these were: the EPRDF's perception of ethnically structured Ethiopian regional governments as separate entities that deserve the right to self-administration and have independent constitutional power; and its expectation that the legacy of central domination would be ended by limiting the power of the central government and structuring the central and regional governments separately. Such good intentions, which were clearly reflected in the early period of the transitional government, along with the favourable political conditions that allowed the inclusion of ethnic parties into the political process, have made international donors, especially the World Bank, suggest such a model. As indicated earlier, this welfare economics model is preferred by international financial institutions that place most of their emphasis on economic efficiency. Nonetheless, whilst on paper the design of the intergovernmental fiscal relations reform is patterned on a welfare economics model, the implementation has been derailed. The following section provides the main findings on how the EPRDF derailed the decentralisation reform through the political and administrative institutional arrangement in Ethiopia.

9.5 Impact of Political and Administrative Institutional Arrangements on Decentralisation

Implementation of intergovernmental fiscal relations reform involves both political and administrative processes. On the basis of the concepts discussed in Chapter 1, this section clarifies how political and administrative institutional arrangements under neo-patrimonialism shape implementation of intergovernmental fiscal relations and sustain central government control over regional governments' expenditure and revenue assignment as well as their uniform dependency on central government transfers.

Political institutional arrangements

The analysis of the impact of political institutional arrangements considered three main issues: the political party system (interparty and intraparty relations), State-party relationships and legislature-Executive interactions. Chapter 5 outlined the conceptual framework for the elements of political institutional arrangements and analysed their impact on intergovernmental fiscal relations. The study argued that, of the four overlapping dimensions of a neo-patrimonial regime identified by Bratton and Van de Walle (1994), the EPRDF regime appears to share some features of a competitive one-party system. This is evidenced by the regime's pretence of involving opposition parties in the political competition. The EPRDF also shares the features of personal dictatorship in a neo-patrimonial setting. Selected features from both dimensions explain the nature of Ethiopia's neo-patrimonial regime under the EPRDF.

These include: existence of different political parties in the political field, and the emergence of a 'Strong Man' or 'Big Man' from a dominant party, who rules through a patron-client network, takes exclusive charge of policy-making and rejects alternative policy options from other political parties, implements instructions through personal emissaries rather than formal institutions, and undermines the performance of institutions set up to provide checks and balances. The analysis in the previous chapters revealed the prevalence of these traits in the political institutional arrangements of the current Ethiopian regime. These are summarised as follows.

A few individuals led by a 'Big Man' have controlled the decision-making process during the implementation phase of the reform. The discussion on expenditure assignment showed that a few individuals led the development of the EPRDF's medium-term plans/programmes for the centre and regions, and that other members of the EPRDF authorised the plans/programmes without debate or amendment. The EPRDF Executive members, especially the two leading officials of the TPLF (the Prime Minister and the party ideologue) spearheaded the first two main medium-term plans. However, a major shift took place in the domain of policy-making, from a few 'Big Men' to one 'Big Man', following the internal TPLF/EPRDF power struggle in 2001. This created an opportune time for the Prime Minister – 'the Big Man' – to come up with policy and implementation directives compiled in six documents distributed throughout the country. These were White Papers providing detailed guidelines for formulating and implementing the third development plans at central and regional levels.

A typical feature of neo-patrimonialism was found in the earlier analysis of State-party relationships. As evidenced in the previous chapters, the EPRDF is coterminous with the present Ethiopian state. The four elections (1992, 1994, 1995 and 2000) in Ethiopia, which were considered by internal and external observers as mere exercises on political manipulation, created regional enclaves, sustained the established patron-client relationship between the central ruling party and regional ruling parties and confirmed the dominance of one-party rule over the State apparatus. This does not fit the assumptions of the decentralisation theories, which regard elections as a mechanism to hold public officials accountable and responsive or to remove political parties from the State apparatus when they fail to deliver. The following are two more ways in which the EPRDF has dominated the Ethiopian state since 1991.

In Ethiopia, it is difficult to differentiate between high-level political leaders and high-level bureaucratic elite. Most high-level executives (ministers/bureau heads, vice-ministers/deputy bureau heads, heads of agencies, commissioners) are not only members of the ruling party but also party officials. The majority of middle-level executives (heads of divisions and departments in ministries/bureaus and other government agencies) are also political appointees of the ruling party. In 2001, after the fracture within the TPLF/ EPRDF, the winning group realised that the lack of distinction between the party and three branches of government had impeded achievement of separation of power as well as of checks and balances among the three branches of government. The ruling party issued a new directive with the intention of appointing its own members to ministerial (at federal level) and bureau head (at regional level) positions and filling the rest of the government positions with professionals. However, by 2004, the directive had had little impact in terms of replacing political appointees in the upper, middle and lower levels within the civil service. This shows that the formal measures taken by the government are simply a pretence of observing the ethos of a meritocratic bureaucracy. Such politicisation of the bureaucracy is also a feature of neo-patrimonial regimes. The observation by Chabal and Dazol (1999) that many African governments have failed to triumph over patrimonialism and effectively embrace the Weberian approach of State formation, applies to Ethiopia.

The fact that the communication channel between the central bureaucracy and regional executive is only through the Office of the Prime Minister is evidence of personal dictatorship. The central bureaucracy has no legal mandate to be directly involved in the operation of regional bureaucracy, other than by extending support when the regions ask for it. In some cases, the central bureaucracy has given directives and guidelines as per the instructions of the top central political leaders. The implementation of most of the decisions on every sector of the economy is also controlled at the centre by loyal party cadres positioned in the different department of the Office of the Prime Minister. These cadres control the sector ministries. In the Ethiopian system of intergovernmental relations, the political channel is a more important to link between the central and regional governments than the formal bureaucratic structure.

This limits direct interaction and communication between technocrats at the central and regional levels and the professional competence of the bureaucracy.

Abbink (2006: 196) argues that in present-day Ethiopia, 'the country and its politics are treated as the privileged domain of power holders who operate in an informal and often non-transparent manner, and over which the formal institutions do not have a decisive say.' Medhane and Young (2003: 289) corroborated this State-party fusion '… as is the case with other political movements in Africa, the EPRDF has effectively merged with the state'.

The analysis of legislature-executive interaction demonstrated that neo-patrimonialism does not allow formal institutions to check the absolute powers of the chief executive. Ethiopian legislative bodies with formal committee structures at both the central and regional government levels have the mandate to set the agenda and hold the executive accountable. However, the members of parliament, who claimed to represent the diverse interests of the various groups in society, were handpicked by the central political leadership but passed through rigged election processes. As during the rule of previous Ethiopian regimes, the legislative bodies at both regional and central levels during EPRDF rule have never been accountable and responsive to their constituents. They have never been active in setting priorities, understanding and supervising budgets and holding administrative and service delivery bodies accountable. In addition, as Abbink (2006) clearly puts it, Ethiopia also lacks independent civil society that can be a countervailing force to the dominant party or government.

Interparty relations, or the relationship between the ruling party and the opposition parties, has been full of recriminations and has lacked political inclusiveness. At the federal level, the opposition parties had no seats in the constitutional assembly after the 1994 elections and in the federal parliament during its first term (1995 -2000) and were shut out of the political process. During the second term (2001-05) they only took 2.4 per cent of the federal parliamentary seats and none in the regional parliaments. A matter of concern in interparty relationships is that differences in political agendas have never been the subject of a policy dialogue; instead, they have been used as sources of political confrontation and polarisation. The May 2005 elections were the climax, with confrontations resulting in the killing and injuring of innocent civilians (according to the October 2006 report of the enquiry commission, 193 civilians and six policemen were killed and 763 people injured due to excessive force used by the ruling party) and imprisonment of a number of opposition party members (most of whom had won seats in the federal and regional parliaments). The absence of participation in the political process, although there is some semblance of competition, is a distinctive feature of neo-patrimonialism.

The intra-party relationship in Ethiopia also displays one of the critical features of neo-patrimonialism in the relationship between the central ruling party and regional parties: the patron-client relationship. This has hampered regional ruling parties' autonomy, responsiveness and accountability to their constituencies. Using the concepts of Clapham (1985), Lemarchand (1972) and Smith (2003), this study identified the classical features of a patron-client relationship: strong inequality and power imbalance among the parties, exchange of transactions (grants and protection in return for loyalty, obedience and voting support) and a paternalistic clientelistic relationship. The use of party disciplining mechanisms is an additional, peculiar feature of the patron-client relationship in Ethiopia, revealed though the analysis of empirical data. The above features of a patron-client relationship are observed in the interaction between the TPLF, the dominant party, with other member parties of the EPRDF (including Amhara National Democratic Movement) and other affiliate regional ethnic parties (for example, Benshangul-Gumuz Peoples' Democratic Unity Front). The findings are summarised below.

The member and affiliate parties do not have equal status within the EPRDF and the Ethiopian government structure. The TPLF is dominant in both structures and controls State power and resources. The Amhara National Democratic Movement (ANDM) is a junior member. The Benshangul-Gumuz Peoples' Democratic Unity Front (BGPDUF), which is considered to be an affiliate party, is under the complete control of the EPRDF and has no position in the ethnic coalition party and State structures. In terms of economic power, the TPLF owns a large number of party businesses, the ANDM has a few and the BGPDUF has none. The TPLF chair has been the leader of the EPRDF since 1989 and his term was extended in September 2006 for another two or more years. The TPLF also established the regional ruling parties. The TPLF/EPRDF dominates technical resources, and local and foreign financial resources and knowledge, and determines all policies at the centre.

The patron-client relationship is maintained through exchange transactions. The patron, or TPLF, which controls the central resources, provides patronages and maintains clientelistic relations through intergovernmental fiscal transfers. The annual subsidies from the central Treasury (excluding loans and assistance from external sources) are used to keep the administrative machinery of the regional governments afloat. The patron makes sure that the regional governments' expenditure, especially on salaries, is fully covered. If the annual grant cannot cover recurrent expenditure, it releases additional funds. For instance, in 1997/8 the central government met the costs incurred because of the annual salary increment of teachers in all regions as the regions were not capable of doing so. The centre also ensures that regional governments have the impression that official grants are distributed evenly.

The second item in the exchange transaction is the protection that the TPLF provides to loyal regional party leaders. A case in point is the Benshangul-Gumuz regional government's president who has survived for 15 years despite power struggles among the region's ethnic political elites. Challenges have often come from the Berta ethnic group, which claims its legitimacy to rule because it is the majority and waged armed struggle against the Dergue regime. The TPLF has also protected the ruling ANDM by imprisoning members of other political parties that claim to represent the Amhara ethnic group. In Tigray, after the fracture within in TPLF, the central leadership protected the newly appointed regional leaders. The Big Man's power to protect those loyal to him was confirmed by a proclamation after the rift within the TPLF that gave him full authority to protect loyal regional clients from other contending but less-trusted ethnic political elites.

In return for protection from above, the regional political leaders prove their loyalty and obedience to the central political leadership. Dyadic clientelism was evidenced when a top ANDM political leader supported the Prime Minister during the TPLF crisis and was promoted from president of Amhara regional state to Deputy Prime Minister of the country. Other regional political leaders who were suspected of not being loyal were ousted from power and some were imprisoned on corruption charges. The president of Southern Nation, Nationalities and Peoples Region and the president of Oromo regional state are cases in point.

In contrast, loyalty and obedience to the central leadership have been critical in enabling the president of the Benshangul-Gumuz region to stay in power for so long.

Voting support is another element of exchange transaction expected from the client by the patron. To obtain the maximum number of votes, regional governments have extended patronage through pyramidal clientelism. As discussed in Chapter 6, the central political leader channels funds for social services and agricultural extension programmes to loyal regional governments, who in turn use them to garnering voter support. Poor peasants who voted for the opposition candidates were denied access to medical services, agricultural input credits and seeds and sometimes evicted from their farms. Moreover, the regional patrons usually select the candidates who run for elections. In some cases, the candidates are not even known to the voters as their selection is based on their loyalty and obedience to regional patrons.

Ethiopia's system of patron-client relationships has a further dimension, that of the Leninist party discipline mechanism practised by the EPRDF for many years. It has three major features. One, the ruling party's ideology, labelled Revolutionary Democracy, provides political principles and party socio-economic development programmes that govern all regional parties. Two, the party's decision-making system, known as 'democratic centralism', gives the central government absolute control of the regions. Democratic centralism has two core elements: the democratic aspect allows members to participate in discussions, give suggestions and recommendations, while the centralism aspect requires members to accept every decision from the centre, especially from the few members of the party executive committee. Three, the party evaluation system is a tool for political control, enabling the central ruling party to ensure that members of regional governments' executive and legislative bodies are loyal and devoted to the party's ideology and programmes. Frequent periodic party evaluations are carried out in both the political and bureaucratic structures at all levels. The system encourages conformity, reduces incentive for innovation and forbids challenges to the status quo. The party programme clearly specifies that compliance with central political thinking is a prime membership requirement. The Dergue also used this system of democratic centralism and party evaluation as a mechanism to dominate all members of the vanguard party.

The above discussion showed how the elements of the political institutional arrangements under neo-patrimonialism led to central dominance rather than the emergence of autonomous sub-national governments. This was evidenced by the State-party relationship, where one dominant party controls the State and restricts emergence of alternative policies and implementation modalities on intergovernmental fiscal relations; absence of political inclusiveness, which manifests itself in inter-party relationships, and in turn limits the representation of different interests and groups in the political decision-making processes; fragile legislature-Executive interaction, which deters the legislature from suggesting alternative ideas and debilitates the legislatives power to check and balance the Executive; and, the patron-client relationship, which guides the intra-party relationship and deters autonomy and downward accountability of regional parties. Lack of downward accountability is reflected in the unequal relationship between the central and regional parties, exchange transactions of protection and loyalty, and party disciplining mechanisms of democratic centralism and party evaluation. In all the three case study regions, the top political and bureaucratic leaders are allowed to discuss policies, plans and programmes, but are strictly required to implement policy decisions made by top central political leaders irrespective of their relevance or appropriateness to regional situations. The party evaluation system serves to ensure regional politicians' and officials' adherence to plans/programmes and instructions given by the central political leadership. Members who question and challenge decisions of top central political leaders are subjected to severe criticism at party evaluation sessions and are expelled from the party.

Administrative institutional arrangements

The discussion on administrative institutional arrangements examined issues pertaining to public finance, human resource management, and support and coordination systems. The analysis of the public finance system considered medium-term fiscal planning and budgeting systems, revenue administration and fiscal transfer administration.

The discussion on the medium-term fiscal planning revealed the absence of effective arrangements to determine medium-term financial expenditure and revenue plans. Whilst there have been attempts at the federal government level to introduce different techniques of expenditure planning, they have failed to achieve efficient and effective allocation of resources. Regional governments rarely attempt to project financial expenditures and revenue, and have little advance knowledge of the central subsidy. Governments at both levels have failed to determine, ahead of time, what public goods are to be provided and at what cost.

Annual budgeting exercises at both levels of government are cyclical (involving budget call, formulation, hearing, approval, disbursement and control). They also often tend to appear repetitive as they involve both budgeting without subsidy ceilings ('blue-sky budgeting') and budgeting after notification of ceilings. Annual budgeting is incremental and serves instrumental to justify monthly financial requests from sector bureaus. It is also used to ensure that money is spent according to line-item expenditure. Budgeting has been used neither for management and planning, nor to articulate regional demands and available resources in a coordinated manner. Whilst regional governments have been formally fully authorised to administer their budgets in a way that fits their particular situations, the empirical evidence in Chapter 7 showed that the regions uniformly put themselves in a single straight-jacket system of budgeting rules and procedures dictated by the centre. This does not fit the theoretical proposal of having different types of budgeting systems that correspond to sub-national governments' institutional capacity.

A few features of decentralised tax administration were observed in the system of revenue administration, which are reflected in the existence of tax administration authorities at the centre and regional levels. However, the system is deficient since it does not keep adequate taxpayer records and does not effectively process information for this purpose. Tax assessment and collection procedures, rates and bases, and penalties for default are specified in the federal tax proclamations and are uniformly applied across regions. The system of tax administration is archaic (it was developed in the 1960s) and weak. In some cases, the manuals and directives issued by the centre have not been coherent and clear, which results in cumbersome tax administration and collection. Tax education and public participation in formulating tax policies have had little impact in increasing revenue. In short, the system is neither properly decentralised to maintain the principle of subsidiarity nor adequately centralised to provide advantage of economies of scale.

Fiscal transfer administration entails notification, disbursement and auditing of subsidies. Medium-term subsidy notification and annual regional subsidy notification do not occur until the budget period starts, or one month before the fiscal year begins. This creates uncertainty among regional governments. Subsidies are disbursed from two sources: the central Treasury, and foreign loans and assistance. Disbursement from the Treasury is predictable; funds released from external sources are unpredictable. Two deficiencies were observed in the disbursement process. First, there is a budget offset system that reduces the budget subsidy by an amount depending on what a region receives from external sources (70 per cent of the loans and 30 per cent of the assistance). The central government's rationale for this is that it maintains equity by avoiding distortions that might be caused by the flow of external funds to regions. However, the budget offset system penalises regions and is a disincentive to mobilising financial resources from external sources. Second, regional governments have no information on types of loans and assistance that count towards the budget offset system; the procedures that are used by the centre to channel donor-funded big projects to specific regions; and procedures and indicators employed by the central government to select locations for big infrastructural projects such as telecommunications, electricity, roads, and airports. Moreover, there is no information exchange and effective coordination among agencies responsible for releasing grants from the Road Fund, Ethiopia Social Rehabilitation and Development Fund, HIV/AIDS Fund, Water Harvesting, Food Security, and so on. These off-budget funds are not recorded in the consolidated national budget.

Central government auditing of the fiscal performance of regional governments, especially with regard to subsidies, has been deficient. Some of the weaknesses are due to regional governments' unwillingness to make their account books and other financial information available to the central auditors, the difficulty of segregating subsidy and non-subsidy accounts, and capacity problems of the auditing offices. The central political leadership is also reluctant to audit annual regional subsidies as long as regional political leaders are loyal to it. The existing audit system is capable only of considering the input side or line-item expenditures and is unable to provide comprehensive and realistic information on output and outcomes or effectiveness of central subsidies to regions.

The human resource management system is uniform throughout the country, although the country's constitution formally declares a decentralised human resource management system. All the central policies and procedures (organisational structure, salary scales, hiring and firing, promotion and training, job grading and position classification, and so on) have been applied in the regions. Technically, the regional governments have been fully authorised to hire and fire, but their power to attract and retain qualified employees, who are capable of articulating regional expenditure, prioritising and mobilising resources, has remained very limited. Regional governments have no power to determine attractive salary scales and design suitable job structures. Experts and lower-level employees have little workplace freedom to think and innovate; instead, they have to implement orders from political appointees who are in charge of following up the implementation of central directives. These and other related factors result in inability of regions to attract and retain qualified civil servants. Table 7.1 demonstrated that the three case study regions, especially Amhara and Tigray, are not able to attract a sufficient number of college graduates with at least a first degree.

Until recently, rules and procedures enacted in the 1960s guided the systems of budgeting, revenue administration and human resource management. At present, reforms are under way, including in the fields of human resource management, planning, budgeting and revenue administration. The 'centre-first' approach is used to implement reform measures and they are still in the process of being rolled out to the regions. As they have not been fully operationalised, it is too early to analyse their impact on the implementation of intergovernmental fiscal relations. Critics, however, argue that the existing political, financial and administrative capacity of the country are insufficient to implement the reform measures, which are moreover not yet fully contextualised to the country's reality.

The central government provides support to the regions through training and other programmes to upgrade regional financial, human resource and other areas of the administrative system. It is difficult to document the type, frequency and impact of the support provided. The central government's long-term training has enabled regions (especially Benshangul-Gumuz) to raise the professional level of some employees. Federal ministries, through standardised procedures and reporting, attempt to coordinate the implementation of intergovernmental fiscal relations. However, the centre-region reporting system has major weaknesses, as no proper channels have been defined to link the two levels of government. The top central political leaders, who are also top bureaucratic officials, often summon regional bureau heads and experts for annual, mid-term and other occasional discussion forums. The forums had been useful not only to exchange experience but also to indoctrinate and convey instructions and directives from the central political leadership to the regional bureaus. The support and coordination systems have been tools of direct intervention in the political and administrative affairs of emerging regions like Benshangul-Gumuz.

In short, whilst the formal decentralisation system in Ethiopia gives regional governments exclusive decision-making power over the elements of administrative institutional arrangements, they are in practice controlled by the central government. The arrangements are also deficient in facilitating the decentralisation process. The planning system does not involve a coordinated approach that considers relationships among different sectors and the impact of one sector over another. As regional and federal governments have difficulties in projecting financial resources, they often fail to spell out the amount of financial resources required to achieve expenditure targets. Similarly, annual budgeting exercises in the three regions under study have never been used to articulate regional demands and to coordinate resources and aspirations, but are effective in controlling payments in the line-item expenditure. Regions are also not allowed to follow budgeting system that are suited to their institutional capacity as they are subjected to a single straight-jacket system of planning and budgeting rules and procedures dictated by the centre. The human resource management system that is currently in use is centralised and does not enable regional governments to attract and retain qualified and motivated employees that are capable of planning and implementing provision of public goods and services. The support and coordination system results in mixed outcomes. Whilst helping to enhance the capacity of regions, it serves the central government as a channel for conveying instructions and directives from the centre to the regions.

The above findings show how the EPRDF, through the political and administrative institutional arrangements, derailed the decentralisation reform and increased its control over expenditure and revenue assignment as well as fiscal transfers, and strengthened regions' dependency on central government subsidies, policy guidelines and administrative instructions.

9.6 Towards an Alternative Theory of Decentralisation Under Neo-patrimonialism

By analysing the post-1991 intergovernmental fiscal relations reform in Ethiopia, this study revealed that the impetus for the reform included terminating the legacy of heavily centralised and hegemonic rules; providing administrative and political structures that could address variations in agro-ecology and economic conditions among sub-national governments; accommodating donors' demands for democratisation and decentralisation; and furthering the TPLF/EPRDF political leaders' vested interests. This led to a decentralised ethnic federal arrangement that formally allows regional governments to develop and implement their own policies on the provision of public goods and services; finance expenditure from their own revenue sources; obtain additional financial resources from central government subsidies and by borrowing from local financial market; and be accountable and responsive to their constituencies. As stated earlier, on paper the Ethiopian intergovernmental fiscal relations reform was patterned on the welfare economics model, but its implementation was derailed.

This study contends that the main reason for the derailment of the decentralisation reform was the EPRDF's failure to break away from previous Ethiopian regimes' disposition to control the regional governments politically and administratively, single-party hegemony, exclusionary politics, and mergers between party and State. Related factors in the derailment of Ethiopia's decentralisation reform were the tensions between the formal decentralisation reform and the EPRDF's disposition to central planning; Revolutionary Democracy and devolution; personal dictatorship and political autonomy; and opposition parties' demands for political inclusion and the EPRDF's stance on political exclusion.

On the basis of the empirical findings on Ethiopia's decentralisation, Chapter 8 developed an alternative neo-patrimonial regime-based theory of decentralisation. To answer the question of why decentralisation reforms are pursued by neo-patrimonial regimes, the chapter provided the following six functionalities of decentralisation under such regimes.

First, contrary to the conventional decentralisation theories' expectation of downward accountability to enhance popular control over what sub-national governments have done or left undone, to improve the match between provision of public services and local needs and aspirations, and to enhance mobilisation of local resources, decentralisation under neo-patrimonialism leads to sub-national governments' responsiveness and loyalty to the central ruling party organ (upward accountability). As demonstrated in the Ethiopian case, the mechanisms used to create and sustain upward accountability include nominating top regional political leaders on the basis of loyalty and obedience, protecting regional political leaders against disloyal regional political contenders and maintaining a strong inequality and power differences between the central political leaders and regional political leaders. Maintained through a patron-client relationship, upward accountability enables the central political leadership to dominate political power and resources in society by positioning loyal clients at sub-national levels. The loyal political leaders also benefit because they have access to rewarding positions in the sub-national government structure.

Second, under neo-patrimonialism the formal decentralisation policies are neither officially revoked nor actualised as designed. The formal devolved powers to regional governments are not implemented because they contradict the central political leadership's inclination to dominate sub-national governments and relegate them to being implementers of central directives. In Ethiopia regional governments have formal power to set their expenditure priorities and tax rates as well as manage their budgets and human resources. In practice, however, regions are required to follow the directives of the central political leadership, irrespective of their relevance to their regional situations. The central political leaders issue directives on all elements of intergovernmental fiscal relations without officially reversing the mandates given to the regional governments. This has a political value because it creates the impression to outside observers and the public at large that it is adhering to the constitutionally stipulated decentralised arrangement, while in practice there is recentralisation.

Third, the conventional decentralisation theories suggest the need for narrowing vertical imbalance so that there is a closer match between sub-national public expenditures and revenue raised. This signals to beneficiaries the true cost of public spending in terms of taxes raised and approximates a closer nexus between expenditure decisions and their beneficiaries. Decentralisation under neo-patrimonial regimes, however, sustains vertical imbalance. The Ethiopian decentralisation fiscal trend shows continuation of the vertical imbalance observed in the early years of decentralisation. Chapters 1 and 8 observed that during the past decade Ethiopian regional governments as a whole have been dependent for 83 per cent of their expenditure on central transfers. The level of dependency has not shown much change during the past decade. Vertical imbalance in Ethiopia is consistently high and regional governments have not been covering their expenditure needs from own revenues. Sustaining the vertical imbalance keeps regional governments fiscally dependent on the centre, ensures the fiscal power of the central government and allows the centre to dominate regional governments both politically and administratively.

Fourth, decentralisation under neo-patrimonialism sustains horizontal imbalance. This contradicts the expectation of conventional decentralisation theories that fiscal inequality among sub-national governments would increase because of decentralisation-induced competition among sub-national governments and differences in resources endowment. This imbalance could enhance the ability of well-off sub-national governments to raise more revenue and provide more or better public services than the poorer sub-national governments. Ethiopia's empirical fiscal decentralisation trend reveals that decentralisation maintains the horizontal imbalance that existed at the beginning of the decentralisation process. Regions that otherwise would be able to gain from devolved powers are now stopped from realising these gains. During the past decade the emerging regions on the average financed only 13 per cent of their expenditure and the developed regions covered 23 per cent of their expenditure from their own revenue sources. The average horizontal imbalance indices from 1994/5 to 2001/2 for the three case study regions were 25 per cent for Tigray, 20 per cent for Amhara and 7 per cent for Benshangul-Gumuz. This reflects the existence of some degree of differences in regions' fiscal capacity. Nonetheless, as shown in Chapter 8, the trend was sustained as the horizontal imbalance among the three regions during the eight-year period did not show much change. Sustaining the horizontal imbalance, however, has political value, as it provides the central political leadership with the opportunity to give the impression to the regional political elite and others that its treatment of all regional governments is fair and balanced. Regional political leaders can also be convinced that there is no lopsided distribution of the national cake and all regions are being given equal treatment.

Fifth, decentralisation under neo-patrimonialism maintains traditional clientelism, in which a dominant party with in an ethnic coalition provides favourable conditions or channels funds to its allies or a particular ethnic group. In such cases, the central dominant party uses informal mechanisms rather than formal ones. This study demonstrated that in Ethiopia the traditional clientelism between TPLF and its constituencies is maintained through non-official patronage. The forms of such patronage are patronage through parapartals, or TPLF-owned large economic organisations (for example, Endowment Fund for Rehabilitation of Tigray) and party-owned non-government organisations, which are managed by the Tigray Development Association, Dedebit Micro-credit, and Relief Society of Tigray; patronage through off budget funding, which is manifested in arbitrary and biased patterns of assignment of donor-funded projects to regions; and patronage through distribution of centrally funded infrastructure such as transport, communications and energy. Traditional clientelism helps the centre to maintain a closer link with its constituents and secure a political and social base in a specific part of the country.

Sixth, the conventional decentralisation theories suggest fiscal transfers are aimed at bridging vertical imbalances and horizontal imbalances, correcting benefit spillovers, ensuring minimum standard of services across nations and stimulating public expenditure on projects of high national importance but low local priority. Under neo-patrimonialism, fiscal transfers are mainly used to keep sub-national government machinery afloat. The fiscal transfer system is not used to correct fiscal inequality. Average per capita expenditure in the agriculture, health and education sectors and the per capita subsidy figures vary widely among regions. Rather, the central political leadership makes sure that regional governments cover their recurrent expenditure, especially the cost of salaries. This is evidenced by, among other things, the mismatch between horizontal imbalance and per capita subsidy, consistency between increase in per capita subsidy and increase in number of the civil servants in the regions, and sustained share of absolute subsidy in the total distribution pool. The use of transfers for running regions' administrative machinery enables the regional political leaders keep law and order in the regions, provide minimum services and pay salaries to the regional civil servants. It also enables the central government to maintain its control over regional governments.

In conclusion, this study has analysed post-1991 Ethiopian decentralisation policy in the light of conventional decentralisation theories. It has found that there is increased central political leadership domination rather than devolved administrative, financial and political powers to regional governments. Using a conceptual framework based on institutional analysis, it has demonstrated that political and administrative institutional arrangements under neo-patrimonialism do not lead to the evolution of autonomous, accountable and responsive regional or local leadership, and cannot create an institutional setting that helps improve the match between diverse preferences and available resources. The analysis in the empirical chapters led this study to come up with an alternative decentralisation theory that explains the functionalities of decentralisation to neo-patrimonial regimes. This alternative theory reveals, that under neo-patrimonialism the formal decentralisation reform is neither revoked not actualised as designed, but is effectively used by the central political leadership to keep sub-national government's administrative machinery afloat and sustain upward accountability, vertical imbalance, horizontal imbalance, and traditional clientelism.

Appendices

Appendix A Constitutional Provisions for Expenditure Assignment

Federal provisions

- Formulate and implement the country's policies, strategies and plans in respect of overall economic, social and development matters
- Establish and implement national standards and basic policy criteria for public health, education, science and technology as well as protection and preservation of cultural and historical legacies
- Levy taxes and collect duties on revenue sources reserved for the federal government
- Draw up, approve and administer the federal government budget
- Formulate and execute the country's financial, monetary and foreign investment policies and strategies
- Enact laws for the utilisation and conservation of land and other natural resources, historical sites and objects
- Establish and administer national defence and public security forces as well as the federal police force
- Administer the National Bank, print and borrow money, mint coins, regulate foreign exchange and money in circulation
- Determine by law the conditions and terms under which states can borrow money from internal sources
- Formulate and implement foreign policy as well as negotiate and ratify international agreements
- Develop, administer, and regulate air, rail, waterways and sea transport and major roads linking two or more states, as well as postal and telecommunication services

- Determine and administer the utilisation of waters or rivers and lakes linking two or more states or crossing the boundaries of the national territorial jurisdiction
- Regulate interstate and foreign commerce
- Administer and expand all federally funded institutions that provide services to two or more states
- Deploy federal defence forces, at the request of a state administration, to arrest deteriorating security situation in regions
- Enact all necessary laws governing political parties and elections as well as possession and bearing of arms
- Determine matters relating to nationality, immigration, granting of passports and patent inventions, and protect copyrights
- Establish uniform measurement and calendar standards
- Enact a labour code, commercial code, penal code and civil laws

Regional provisions

- Formulate and execute economic, social and development policies, strategies and plans of the state
- Establish a state administration that best advances self-government and democratic order based on the rule of law
- Levy and collect taxes and duties on revenue sources reserved for the states
- Draw up and administer state budgets
- Administer land and other natural resources in accordance with federal laws
- Enact and enforce laws on the state civil service and civil servants' working conditions and ensure that educational, training and experience requirements for any job, title or position approximate national standards
- Establish and administer a state police force and maintain public order and peace within the state
- Protect and defend the federal constitution
- Enact and execute the state constitution and other laws

Sources: Articles 51, 52 and 54 of the 1995 Constitution of the Federal Democratic Republic of Ethiopia (1995), and Article 47 of the 2001 regional constitutions of Amhara, Tigray, Benshangul-Gumuz.

Appendix B Agricultural Activities in First Plan Period

Table B.1

Planned agricultural activities in the three regions during first medium-term plan period (1995/6 – 1999/2000)

Tigray	Amhara	Benshangul-Gumuz
Increase output of smallholder farmers from 552,0000 to 7.49 million quintals and productivity per hectare from 6.1 to 7.8 quintals	Increase cultivable land from 4310332 to 4615819 hectares and production from 32,737,097 to 56,455,345 quintals	Increase crop production and engage 10% of the population in settled farming
Increase use of improved seeds	Raise use of selected and cleaned seeds from 35,213 to 18,0918 quintals	Enhance supply of improved seeds to farmers
Increase use of fertiliser	Raise fertiliser usage from 53,652 to 1,225,254 quintals	Increase supply of fertiliser
Provide credit services	Provide input credit to 500,000 farmers and increase loan distribution from Birr 38 m. to Birr 196 m.	—
Increase the number of farmers to be included in the agriculture extension programme	Expand new extension package programme to increase percentage of participating farmers to 39%	Include 30,000 farmers in the extension programme
Enhance the capacity of the extension agents, and upgrade the level of certificate holders to diploma holders, raising the number of diploma holders from 688 to 1027	Upgrade qualifications of 2530 extension agents and train supervisors and other personnel	Raise number of extension agents to 600, develop capacity of 596 multi-purpose development workers

(Continued)

Tigray	Amhara	Benshangul-Gumuz
Construct 500 micro-dams to irrigate 50000 hectares, construct soil bunds on 180000 hectares, stone bunds on 514000 hectares, trenches on 2000 hectares, check dams of 4500 kilometres and maintain conservation structure on 49000 square kms.	Undertake structural design of 300 micro-dams, construct 170 micro-dams to irrigate 30,000 hectares of land, raise productivity of irrigated land to 40 quintals per hectare; perform catchments design and studies	Establish a commission for sustainable agriculture and environment rehabilitation
Produce animal fodder on 380 hectares of land	Increase production of animal fodder	—
Provide veterinary services (4.15 million doses of vaccine, construction of 51 animal health clinics), establish health clinics, rural technology centres, poultry production centres	Provide veterinary services	Construct 25 livestock clinics and barns for providing livestock medical services
Provide animal breeding and artificial insemination services (inseminate 8470 cows)	Provide animal breeding and artificial insemination services	—
Increase meat, milk and egg production	—	Enable inhabitants to practise improved fishing methods
727 nurseries will continue to produce seedlings, 123 nurseries will be established, 435000000 seedlings will be planted, 59,518 hectares of closed area will be protected and 23,500 hectares will be closed	1410 nurseries will continue to produce seedlings, 1410 will be newly established, 480,000 seedlings will be produced, 500,000 hectares of forest areas will be closed and protected	Create awareness about conservation and preservation of protected forest resources and prepare seedling plots
Conduct land use study on 377 hectares	—	Conduct study on land use system

Sources: Amahara National Regional State (1995), Tigray National Regional States (1995) and Benshangul-Gumuz Regional State (1997).

Appendix C Agricultural Activities in Second Plan Period

Table C.1

Planned agricultural activities during second medium-term plan period (2000/1 – 2004/5)

Tigray	Amhara	Benshangul-Gumuz
Continue extension package programme in rainfall-sufficient areas and improve packages on seeds, chemical fertilisers and agronomic practices	Increase supply of fertiliser (from 740,445 to 1.4 m. quintals); increase number of farmers under extension program from 1.6m. to 2.88m., improve extension agent to farmer ratio from 1:744 to 1:600	Increase use of fertiliser from 20,284 to 66,983 quintals; improved seeds from 1779 to 6691 quintals; involve 60,000 farmers in extension programme; increase number of extension agents from 200 to 700
Carry out livestock development programmes (beekeeping; poultry, goat sheep and cattle development; animal feed production; veterinary services; and vaccination)	Carry out livestock and fishery development programes (cattle breeding, animal feed production, veterinary services, poultry farm, beekeeping and fish farming, hides and skin production)	Carry out livestock and fishery development programmes (fish farming system, cattle breeding, fodder preparation, veterinary services, hides and skins production)
Conduct soil and water conservation and reforestation	Conduct soil and water conservation, forest and agro forestry development , improve farming system	Conduct reforestation programme, soil conservation, biomass, wildlife protection
Divert run-off water, dig shallow and deep water wells, and construct micro-dams	Develop irrigation schemes and increase irrigable land from 76,800 to 110,000 hectares	Develop 695 hectares of land through irrigation scheme

(Continued)

Tigray	Amhara	Benshangul-Gumuz
Produce non-perishable and high economic value products	Produce high economic value products (vegetables and fruits, coffee, spices) along with traditional crops	Produce high economic value agricultural products and develop nurseries for vegetables, fruits and coffee
—	Perform crop protection (expand integrated pest management programme, continue first-year protection strategy), improve status of existing plant clinics and laboratories)	Protect against pests and insects and develop plant clinics (reduce amount of wastage by insects and pests from 30% to 15%)
Implement national food security programme (resettlement programme, off-farm activities and expansion of service cooperative societies)	Implement national food security programme	Implement villagisation and resettlement programmes, improve marketing system, organise and expand service cooperatives

Sources: Amahara National Regional State (2000), Tigray National Regional States (2000) and Benshangul-Gumuz Regional state (2000).

Appendix D Agricultural Activities in Third Plan Period

Table D.1

Planned agricultural activities during third year-plan period (2002/3-2004/5)

Tigray	Amhara	Benshangul-Gumuz
Change settlement pattern of rural communities by developing small towns	Expand villagisation programmes and develop rural towns	Change settlement pattern from dispersed to collectivised by establishing rural towns
Make farmers complete primary education and short-term agricultural training and aim to raise their annual income to Birr 4800.	Make farmers complete primary education and short-term agricultural training, raise their annual income to Birr 4000–5000	Educate farmers to practise hoe farming and use improved agricultural inputs and new farming technology
Encourage farmers to produce high economic value products and implement market-led agricultural development	Encourage farmers to produce high economic value products and implement market-led agricultural development	Encourage farmers to specialise in certain crops and harvest high economic value crops for market
Develop and expand service cooperative societies to facilitate rural marketing system and input and credit supply	Expand service cooperatives for rural marketing and supply of inputs and credits and provide training in management, marketing, storage, transportation.	Develop service cooperatives to facilitate supply of agricultural inputs and consumption goods and to seek markets for agricultural products
Expand ongoing extension package in rainfall-sufficient areas and provide alternative improved technology and inputs suited to farmers' demands	Promote diversified agriculture by providing farmers with different types of extension packages (livestock, oil seeds, spices, cereals, coffee)	Involve farmers in extension programmes, provide packages on crops, livestock, post-harvest technology, natural resource conservation; promote mixed farming
Increase food security (raise agricultural production and productivity, promote off-farm activity, provide food aid and implement resettlement programme)	Increase food security (raise agricultural production and productivity, promote off-farm activity, provide food aid and implement resettlement programme)	Implement food security programme (increase agricultural production and productivity, promote off-farm activity, provide food aid)

(Continued)

Tigray	Amhara	Benshangul-Gumuz
Expand livestock development by providing farmers with improved breeds and veterinary services and expanding animal fodder production	Expand livestock development and provide extension services (veterinary services, improved breeds, animal feed, modern beekeeping technology)	Expand livestock and fishery development and provide extension services (veterinary services, improved breeds, animal feed, modern beekeeping technology)
Expand production of non-perishable and high-value products (pepper, garlic, lentils, spices) and involve EFFORT in agro-processing (packing, processing and seeking foreign markets)	Expand agro-processing	Involve private sector in post-harvest agro-processing (packaging, storage, processing, transportation and developing rural marketing system)
Develop new soil and water conservation systems and reforestation programmes	Develop and expand water systems, soil conservation programmes and forest development	Introduce shifting cultivation methods and undertake studies into natural resource conservation methods
Construct micro- and medium-scale irrigation schemes, implement family-based water harvesting programme and suspend construction of macro-dams	Expand micro- and medium-scale irrigation schemes, involve farmers in water harvesting activity and suspend construction of large irrigation schemes	Develop low-cost and small-scale irrigation scheme, and river diversion and water harvesting schemes
Assign three qualified extension agents (in soil and water conservation, crops, livestock) to each k*ebele*	Assign three qualified extension agents (in soil and water conservation, crops, livestock) to each k*ebele*	Increase number of qualified extension agents, supervisors and demonstration plots
Improve rural banking system and rural transportation system	Establish rural banks and rural marketing system	Establish agricultural research institutes

Sources: Amhara National Regional State (2001), Tigray National Regional State (2001) and Ministry of Federal Affairs (2003) for Benshangul-gumuz.

Appendix E Educational Activities in First Plan Period

Table E.1

Planned educational activities in the three regions during first medium-term plan period (1995/6 – 1999/2000)

Tigray	Amhara	Benshangul-Gumuz
Raise participation in primary schools to 50% (120,000 students every year)	Raise primary enrolment to 35%	Increase primary enrolment
	Limit teacher-student ratio to 1:50	–
Raise student-text book ratio from 5:1 to 1:1	–	–
–	Establish 2 primary school teacher training centres, strengthen the existing 4 educational broadcasting stations and educational material production centre	–
	Increase female teachers (1-4) by 35%	–
Enrol 500,000 adults in literacy programme	Increase percentage of literate adults to 80%	Enrol 75,000 adults in literacy programmes (establish 90 teaching stations and recruit 1350 teachers)
–	Strengthen professional capacity of teachers	–
Increase number of secondary school students	Increase secondary school enrolment by 10% and achieve student-teacher ratio of 50:1 at this level	Increase coverage of senior secondary education from 4% to 16.4%

(Continued)

Tigray	Amhara	Benshangul-Gumuz
Provide secondary schools with adequate supplies and materials	–	Improve standard of secondary schools
Provide technical education for those who have completed 8th grade	Reorganise the three technical schools	–
Provide in-service training for 2750 teachers	Establish primary school training centres at *woreda* level and secondary training at zonal level and train 5000, 1100 and 520 teachers at certificate, diploma and degree levels respectively	–
Construct 600 primary schools and 12 adult training centres, upgrade existing school (546 primary 3 secondary , 1 teacher training institute, 1 technical and vocational school, 23 adult training centres)	Construct 594 first cycle primary schools and 1252 elementary schools and provide them with adequate facilities	Construct 32 first cycle junior secondary schools, perform maintenance on 64 schools and construct additional 252 classrooms

Sources: Amahara National Regional State (1995), Tigray National Regional State (1995) and Benshangul-Gumuz Regional state (1997).

Appendix F Health Sector Activities

Table F.1
Planned health sector activities in the three regions during first medium-term plan period (1995/6 – 1999/2000)

Tigray	Amhara	Benshangul-Gumuz
Expand health services; provide education on preventive health and vector-borne diseases	Expand health services on basis of prevention methods and providing wider health coverage to rural population	Advise people on preventive rather than curative measures
Raise health service coverage from 40% to 70%	Raise health coverage from 34% to 56%	Improve health coverage from 41% to 60%
Expand immunisation programmes: BCG (90%), DPT (90%), measles (90%)	Raise vaccination coverage to reach 80% of the population	Raise vaccination coverage
Focus on mother and child health care (increase contraception coverage to 30%; antenatal services to 68%; post-natal to 30%)	Raise family planning coverage to 24%	–
–	Establish 3 schools to train community health agents and health assistants	–
–	Strengthen existing clinics, health centres and hospitals	–
Expand mother and child health care	Improve mother and child health services	Double health coverage for mothers and children
Raise ratio of health persons to population to 1:250000. Regional hospitals to serve 1 m. people. Upgrade 142 clinics; construct referral hospital, and adequately equip health institutions	Construct 421 clinics, 23 health centres, 8 rural hospitals and 1 referral hospital; undertake maintenance and adequately equip existing health institutions	Construct 6 health stations, 30 health centres; renew the 2 hospitals and 12 clinics

Sources: Amahara National Regional State (1995), Tigray National Regional States (1995) and Benshangul-Gumuz Regional state (1997)

Appendix G Regional Government Expenditure

Table G.1

Amhara regional government's actual capital expenditure, 1994/5 – 2001/2 (Birr)

	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2
Agricultural development	35 907 038	53 330 747	49 465 765	36 393 960	42 324 089	32 005 130	26 528 724	28 475 518
Natural resources and water supply	22 672 410	28 702 963	34 792 989	66 901 027	50 482 510	40 446 088	52 346 905	32 162 900
Mining and energy	43 476	1 178 293	0	1 374 415	608 738	1 122 230	0	0
Industry	46 795	0	0	0	43 004	0	0	0
Tourism	339 324	0	6 168 766	197 691	0	21 967	0	0
Road construction	7 316 812	57 335 108	84 013 149	92 657 515	78 310 731	71 478 034	32 601 297	31 596 746
Science & tech.	0	0	2 440 805	32 501	8 271 819	8 118 376	0	0
Transport and communica-tions	4 391 365	7 907 514	462 188	0	0	0	0	0
Financial agencies	0	0	0	0	0	0	0	0
Education	25 669 788	20 221 074	47 967 620	37 294 108	45 496 196	29 580 243	198 683 632	72 903 146
Health	26 172 567	37 830 248	27 554 258	44 810 089	34 554 943	24 500 673	12 927 729	17 811 228
Urban devt. and housing	19 414 046	4 938 278	6 711 500	1 240 665	436 371	1 565 871	23 796 678	4 134 078

(Continued)

	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2
Social welfare	920 219	194 358	1 582 738	1 298 404	790 043	117 753	271 691	124 847
Culture and sport	0	0	689 543	1216 759	1394 844	395 731	5 081 946	366 011
Foreign relations and development	0	0	0	0	0	0	0	55 476
Development support services	0	0	0	0	4 797 929	65 987	16 505	254809
Public and administration buildings	67 119 792	11 463 769	29 391 651	13 568 075	26 640 418	13 449 982	33 569 595	74 487 718
Capital contribution	0	0	0	0	0	0	0	0
Total capital expenditure	*210 013 632*	*223 102 352*	*291 240 972*	*296 985 209*	*294 151 635*	*222 868 065*	*385 824 702*	*262 372 477*

Source: 'Ministry of Finance and Economic Development Financial Report' (various years).

Appendix G Regional Government Expenditure

Table G.2
Amhara regional government's actual recurrent expenditure,1994/5 – 2001/2 (Birr)

	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2
Organs of the State	58 206 751	35 823 052	27 404 980	36 665 012	60 360 720	45 556 857	58 360 468	68 466 292
Justice	8 293 589	9 840 735	12 165 999	13 816 682	15 726 797	17 702 616	19 744 236	28 270 033
Public order	34 136 208	4 881 1232	55 631 183	58 849 109	67 114 656	62 195 440	68 147 341	77 619 812
General service	21 597 355	23 478 069	26 120 487	39 791 873	44 224 998	45 384 791	55 024 163	54 554 317
Militia affairs office	0	0	0	0	0	0	0	0
Agriculture and natural resources	74 598 637	69 686 954	75 418 548	77 692 873	95 802 987	86 922 547	96 677 340	114 885 675
Industry	2 076 769	3 915 413	4 509 301	4 446 015	5 209 334	5 159 936	6 285 701	7 097 857
Mining and energy	363 675	3 345 085	4 167 979	4 893 972	6 015 278	6 815 857	7 080 190	7 513 951
Trade and tourism	2550226	714352	0	0	0	0	0	38 550
Transport and communications	1 825 270	2 057 865	2 391 615	2 318 503	2 514 975	2 410 311	3 104 333	3 809 165
Construction	4 287 277	6 045 321	7 211 275	8 584 835	8 763 392	6 079 580	8 505 797	8 379 608
Economic devt. study	0	0	0	0	0	0	0	0
Education and training	166 824 272	191 612 762	202 011 415	212 343 804	233 619 652	230 251 314	256 440 203	312 616 701
Culture and sport	2 902 346	1 994 191	1 595 096	1 797 801	2 309 450	2 468 070	3 876 577	5482 811
Health	54 343 822	58 836 792	58 213 145	68 525 230	81 373 909	70 058 553	71 075 248	89 490 215

(Continued)

	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2
Labour and social affairs	2 477 517	2 716 456	4 521 123	6 438 492	6 863 673	6 113 539	6 635 380	3 841 233
Rehabilitation	3 253 087	3 477 723	4 087 240	5 660 215	4 772 375	4 375 987	4 709 530	4 726 346
Pension payments	42 222 122	42 958 250	45 713 739	47 529 656	0	0	0	0
Compensation payments	0	0	4 115 088	0	0	0	0	0
External assistance	0	202 572	0	0	0	0	0	0
Total recurrent expenditure	*479 958 923*	*505 516 824*	*535 278 213*	*589 354 072*	*634 672 196*	*591 495 398*	*665 666 507*	*786 792 566*

Source: 'Ministry of Finance and Economic Development Financial Report' (various years).

Appendix G Regional Government Expenditure

Table G.3

Benshangul-Gumuz regional government's actual capital expenditure, 1994/5 – 2001/2 (Birr)

	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2
Agricultural development	2 538 280	2 694 022	1 311 954	2 797 141	8 413 917	11 061 581	3043358	5999225
Natural resources and water supply	2311912	1044519	1424216	1504184	4541588	7 854 705	2 698 025	5 055 446
Mining and energy	0	0	0	0	0	0	0	0
Industry	0	0	0	377 308	2 052 456	2 149 120	1 175 777	1 299 236
Tourism	0	0	0	0	0	0	0	0
Road construction	8 308 357	8 692 405	7 848 019	1 1 467 264	23 490 081	23 827 607	34 863 511	43 612 598
Science and technology	0	0	0	0	0	0	0	0
Transport and communication	1 263	0	151 952	184 294	641 485	617 715	0	6 596
Financial agencies	0	0	1 697 668	0	0	0	0	0
Education	4 867 079	2 245 846	6 256 212	12 093 560	11 859 088	7 822 493	9 317 641	11 100 697
Health	5 066 131	4 240 241	9 689 264	9 976 388	9 799 661	9 399 277	4 874 914	5 184 928
Urban development and housing	3 685 165	1 608 779	492 916	42 636	6 609 717	8 803 567	6 292 761	9 692 569
Social welfare	0	31 324	0	0	0	0	0	0
Culture and sport	0	0	0	0	107 402	697 452	1 048 562	520 017

(Continued)

	1994/5	**1995/6**	**1996/7**	**1997/8**	**1998/9**	**1999/00**	**2000/1**	**2001/2**
Foreign relations and development	0	0	0	0	0	0	0	0
Development support services	0	0	0	0	0	0	0	0
Public and administration buildings	2 908 369	30 465 390	37 230 585	28 896 656	21 459 131	16 224 931	11 618 775	5 144 065
Capital contribution	0	0	0	790388	0	0	0	0
Total capital expenditure	*29 686 556*	*51 022 526*	*66 102 786*	*68 129 819*	*88 974 526*	*88 458 448*	*74 933 324*	*87 615 377*

Source: 'Ministry of Finance and Economic Development Financial Report' (various years).

Appendix G Regional Government Expenditure

Table G.4

Benshangul-Gumuz regional government's actual recurrent expenditure, 1994/5 – 2001/2 (Birr)

	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2
State organs	3 773 599	5 179 413	4 472 614	6 638 836	9 214 452	9 515 648	23 135 493	15 467 031
Justice	1 031 267	909 379	1 129 192	8 586 948	11 182 345	11 262 650	15 817 918	18 388 617
Public order	4555874	5633317	6191286	0	0	0	0	0
General services	2 944 356	2 688 436	8400 616	4 620 666	6 551 355	5 056 989	5 252 781	6 963 515
Militia Affairs Office	0	0	0	0	0	0	0	435699
Agriculture and natrl. resources	5 370 924	5 840 618	2 576 098	2 949 870	9 555 513	13 862 613	16 155 179	15 278 078
Industry	0	739 553	683 888	939 819	1 084 511	1 202 196	1 215 751	1 414 069
Mining & energy	322 505	161 687	0	0	125 007	174 227	168 481	0
Trade & tourism	881 192	0	0	0	0	0	0	0
Transport and communication	254 409	96 304	0	0	0	0	0	0
Construction	1 107 496	859 709	762 686	1 443 592	1 166 922	1 989 661	3 029 295	3 377 070
Economic devt. study	0	0	0	14 260 667	6 007 821	2 118 129	2 387 503	3 221 332
Educ. & training	10 052 338	11 208 353	8199 250	5 706 798	13 876 076	15 756 086	18 413 786	23 427 736
Culture & sport	575 154	452 918	272 988	487 851	928 951	623 561	904 250	1 103 308
Health	7 230 409	6 905 864	5 915 300	6 713 645	10 597 326	7 846 719	10 250 636	12 921 248

(Continued)

	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2
Labour & social affairs	423 137	304 577	0	0	111 548	390 701	360 718	515 667
Rehabilitation	1 008 301	1 170 250	947 154	1 284 791	1 488 947	1 424 932	1 528 795	1 832 242
Pensions	446 768	459 087	496 488	604 829	0	0	0	0
Compensation payments	0	0	0	0	0	0	0	0
External aid	0	33 555	0	0	0	0	0	0
Total recurrent expenditure	*39 977 729*	*42 643 020*	*40 047 560*	*54 238 312*	*71 890 774*	*71 224 112*	*98 620 586*	*104 345 612*

Source: 'Ministry of Finance and Economic Development Financial Report' (various years).

Appendix G Regional Government Expenditure

Table G.5

Tigray regional government's actual capital expenditure, 1994/5 – 2001/2(Birr)

	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2
Agricultural development	11 901 456	13 314 100	9 231 998	11 899 230	7 373 714	5 065 644	7 475 038	5 392 767
Natural resources & Water Supply	23 798 951	11 718 313	83 015 648	58 512 125	32 707 373	25 950 586	22 710 981	17 016 123
Mining and energy	162 766	86 730	175 145	35 861	0	17 798	10 922	0
Industry	98 311	57 000	49 169	0	0	160 225	665 806	859 451
Tourism	0	0	0	9 260	0	0	0	0
Road construction	32 675 140	32 499 930	32 668 202	26 723 688	20 633 949	10 054 538	30 837 322	15 389 038
Science and technology	0	0	0	0	0	0	0	0
Transport and communications	1 214 152	741 470	534 825	177 077	37 945	364 719	28 335	0
Financial agencies	0	0	0	0	0	0	0	0
Education	34 123 747	34 953 756	38 154 767	19 572 459	8 393 003	23 203 846	45 225 371	41 046 351
Health	21 561 437	16 791 092	16 913 367	32 538 781	24 457 010	27 953 835	23 211 104	18 230 121
Urban development and housing	8 323 685	10 236 666	13 962 197	2 305 948	886 068	192 954	927 717	0
Social welfare	44 076	6 825 788	10 031 732	12 064 750	8 813 890	1 743 518	2 093 249	3 378 680
Culture and sport	0	0	0	499 999	361 106	219 961	510 500	920 999

(Continued)

	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2
Foreign relations and development	0	0	0	0	0	0	0	0
Development of support services	0	0	0	0	0	0	0	0
Public and administration Buildings	3 295 409	4 154 693	11 043 516	4 855 781	9 196 396	1 362 119	8 030 772	12 989 682
Capital contribution	0	0	0	0	0	0	0	0
Total capital expenditure	*137 199 130*	*131 379 538*	*215 780 566*	*169 194 959*	*112 860 454*	*96 289 743*	*141 727 117*	*115 223 212*

Source: 'Ministry of Finance and Economic Development Financial Report' (various years).

Appendix G Regional Government Expenditure

Table G.6

Tigray regional government's actual recurrent expenditure, 1994/5 – 2001/2(Birr)

	1994/5	1995/6	1996/7	1997/8	1998/9	1999/0	2000/1	2001/2
State organs	15 429 940	12 981 432	11 424 025	14 024 148	12 814 550	15 256 507	25 153 785	22 962 129
Justice	3 713 634	8 417 326	28 362 179	31 895 690	36 767 727	38 042 802	41 528 413	47 415 269
Public order	14 159 768	16 716 125	0	0	0	0	0	0
General services	5 674 514	5 985 456	6 738 632	6 390 161	7 163 674	7 664 369	8 357 193	11 405 960
Militia Affairs Office	0	0	0	0	0	0	0	0
Agriculture and natrl. resources	19 577 254	20 347 954	19 565 012	20 700 693	21 333 928	20 527 349	22 800 396	26 214 820
Industry	348 718	611 387	1 674 531	1 661 641	1 743 500	1 786 878	2 065 511	2 836 680
Mining & energy	230 624	803 164	2 630 631	3 118 701	3 320 730	2 813 962	2 190 916	2 600 958
Trade & tourism	969 263	1 166 340	1 547 196	1 759 428	2 019 029	0	2 451 410	3 041 104
Transport and communica-tions	409 436	243 437	0	0	0	2010 295	0	0
Construction	13 433 385	1 678 919	2 249 363	2 739 670	2 643 036	0	3 306 690	4 275 160
Economic devt. study	0	0	0	0	0	2600916	0	0
Educ. & training	45 781 728	50 506 990	57 146 823	60 842 748	70 442 578	72 279 781	84 998 095	109 932 741
Culture & sport	736 375	787 102	469 194	538 416	746 856	655 363	721 834	964 139

(Continued)

	1994/5	**1995/6**	**1996/7**	**1997/8**	**1998/9**	**1999/0**	**2000/1**	**2001/2**
Health	26 627 176	26 285 453	27 592 146	34 233 568	40 328 722	36 060 442	39 191 477	51 857 779
Labour & social affairs	629 321	650 268	2 357 399	2 718 625	2 505 686	2 470 262	2 634 687	3 632 186
Rehabilitation	1 356 537	1 370 597	1 799 692	1 702 783	1 880 109	1 810 791	2 040 333	2 323 754
Pensions	11 610 085	18 428 815	21 753 881	23 165 852	0	0	0	0
Compensation payments	0	0	0	0	0	0	0	0
External aid	0	121 792	0	0	0	0	0	0
Total recurrent expenditure	*160 687 758*	*167 102 557*	*185 310 704*	*205 492 124*	*203 710 125*	*203 979 717*	*237 440 740*	*289 462 679*

Source: 'Ministry of Finance and Economic Development Financial Report' (various years).

Appendix H.1 Spearman Rank Correlation Coefficient

The coefficient measures the degree of agreement or similarity in rankings or prioritization of the various items of expenditures among the three regions. The formula is provided as follows:

Spearman rho = $1 - 6\sum d^2/n(n^2 - 1)$

d^2 = difference between the ranks, or the difference between the amount of actual resources expended on each item of expenditure between the two regions.

n = the number of expenditure items, 18 for capital expenditure and 20 for the recurrent expenditure.

Table H.1.1

Spearman rank correlation coefficient for capital and recurrent expenditure

	Rank correlation coefficient for capital expenditures			Rank correlation coefficient for recurrent expenditures		
		Tigray	Amhara		Tigray	Amhara
1994/5	Amhara	0.865	1.0	Amhara	0.980	1
	B-Gumuz	0.899	0.838	B-Gumuz	0.961	.929
1995/6	Amhara	0.936	1.0	Amhara	0.950	1
	B-Gumuz	0.857	0.862	B-Gumuz	0.883	.941
1996/7	Amhara	0.752	1.0	Amhara	0.755	1
	B-Gumuz	0.719	0.683	B-Gumuz	0.616	.841
1997/8	Amhara	0.916	1.0	Amhara	0.769	1
	B-Gumuz	0.619	0.602	B-Gumuz	0.590	.477
1998/9	Amhara	0.744	1.0	Amhara	0.786	1
	B-Gumuz	0.775	0.680	B-Gumuz	0.835	.710
1999/00	Amhara	0.734	1.0	Amhara	0.722	1
	B-Gumuz	0.779	0.710	B-Gumuz	0.845	.718
2000/1	Amhara	0.863	1.0	Amhara	0.722	1
	B-Gumuz	0.866	0.846	B-Gumuz	0.838	.739
2001/2	Amhara	0.810	1.0	Amhara	0.788	1
	B-Gumuz	0.727	0.770	B-Gumuz	0.812	.673

The three regional governments' actual expenditure data on the various items of capital and recurrent expenditures are used in calculating the coefficient. The coefficient is calculated separately for capital and recurrent expenditure because the number of items listed under capital expenditure and recurrent expenditure are different.

The result shows that correlation coefficient are all significant at the 0.01 level (2 tailed) with the exception of the coefficient between Benshangul and Amhara for the recurrent expenditure in 1997/8, which is significant at the 0.05 level (2-tailed test).

Appendix H.2 Peterson's Homogeneity Index

The index is used to measure homogeneity or similarity in expenditure allocation on various items of expenditures among the regions. This index is simple to calculate and easy to understand. The formula is given as follows:

$$\mathbf{I = 1.0 - 0.5 \sum \left| ai - bi \right|}$$

ai – the proportion of allocation for each item of expenditure in region A

bi – the proportion of allocation for each line of expenditure in region B

According to this formula, if two regional governments allocate equal amount of money for each item of expenditures, the index will be 1 because the absolute value of the difference between expenditure allocations of region A and B will be 0. But if expenditure allocation of the two regions is different the absolute value of the difference in allocation will be greater than 0 and the index value will be between 0 and 1. If one region allocates all its resources to only one expenditure item and the other allocates all its resources to a completely different item of expenditure the absolute value of the difference will be 2 resulting in an index of 0.

The data used are the actual annual regional capital and recurrent expenditure. The steps involved in the computation are:

(i) Determining the percentage share of allocation for each line item out of the total expenditure envelope (no distinction is made between capital and recurrent as all are listed under one column);

(ii) Computing the absolute value of the difference among each item of expenditure for each pair of regions; and

(iii) Summing up the absolute values of the difference for each item of expenditure and for each pair of regions (Tigray Vs Amhara, Tigray Vs Benshangul-Gumuz, and Amhara Vs Benshangul-Gumuz).
(iv) Multiplying the value by .5 and deducting from 1 to get the index.

Table H.2.1 shows the index calculated for the years between 1994/5– 2001/2.

Table H.2.1
Peterson homogeneity index for the three regions

	Tigray vs Amhara	**Tigray vs Benshangul**	**Amhara vs Benshangul**	**Mean homo-geneity index**
1994/5	0.6920	0.8290	0.7050	0.7420
1995/6	0.7990	0.6430	0.6470	0.6963
1996/7	0.6780	0.4680	0.5480	0.5647
1997/8	0.7390	0.5270	0.4870	0.5843
1998/9	0.7320	0.6030	0.6240	0.6530
1999/00	0.7000	0.6080	0.6330	0.6470
2000/1	0.7390	0.6520	0.5780	0.6563
2001/2	0.7600	0.6570	0.6160	0.6777

Source: Adapted from Bakus (1990) <http://www.le.ac.uk/bl/gat/virtualfc/Stats/peterson.htm> (accessed March 2005).

Appendix H.3 t-test

The t-test is calculated using the formula:

$$t = \frac{\hat{Y}i \quad \hat{Y}ii}{\sqrt{s^2\, i} \,/ni \;-\; \sqrt{s^2 ii}\,/nii}$$

$\hat{Y}i$ and $\hat{Y}ii$ –are the sample mean (the mean expenditure on agriculture or education or health)
ni and nii – are the sample sizes (eight years of expenditure)
$s^2\, i$ and $s^2 ii$ – are the sample variance

The p-value reported with the t-test represents the probability of error involved in accepting the research hypothesis about the existence of a difference. The null hypothesis is that there is no difference between the mean capital expenditure allocation on agriculture or education or health among the regions during the eight year period is zero. The following guidelines are offered for interpreting the p-values (Griffiths 1998).

- if p-values are greater that 0.01: minimal evidence against the null hypothesis (accept the null hypothesis)
- if p-value is between 0.05 and 0.10 slight evidence that he null hypothesis does not hold
- if p-value is between 0.01 and 0.05: moderate evidence that the null hypothesis does not hold
- if p-value is less than 0.01: strong evidence that the null hypothesis does not hold

The actual capital expenditure of the three sectors is used to compute the t-test and the results are displayed in Table H.3.1.

Table H.3.1
Computed t-values and p-values for capital expenditure in three sectors

		Tigray		Amhara	
		t-value	p-value	t-value	p-value
Agriculture	Amhara	0.0744	0.9428		
	B-Gumuz	4.2906	*0.0036*	6.3543	*0.0004*
Education	Amhara	0.6227	0.5532		
	B-Gumuz	2.5627	0.0374	1.5780	0.1586
Health	Amhara	2.4453	0.0444		
	B-Gumuz	2.2480	0.0594	-0.1529	0.8828

The above result shows two outcomes:

(i) There is no strong evidence to reject the null hypothesis or there is no difference between the mean capital actual expenditure on education and health among the three regions.
(ii) The null hypothesis is rejected or there is difference between the mean capital actual expenditure on agriculture between Tigray and Benshangul and between Amhara and Benshangul.

Appendix I Revenue Assignment Provisions

Table I.1
Constitutional provisions for revenue assignment

Federal	Regional	Concurrent powers
Levy and collect income taxes on employees of federal government, international organisations and enterprises owned by federal government	Levy and collect income taxes on employees of state and private enterprises	Levy and collect personal income taxes on employees of jointly established enterprises
Levy and collect profit, sales and excise taxes on enterprises owned by federal government	Levy and collect profit, sales and excise taxes on income of enterprises owned by the states	Levy and collect profit, sales and excise taxes on jointly established enterprises
–	Levy and collect profit and sales taxes on individual traders within their territory; levy and collect taxes on incomes of private farmers and farmers incorporated in cooperatives	Levy and collect taxes on profits of companies and dividends due to shareholders
–	Levy and collect taxes on income from mining operations, royalties and land rent on such operations	Levy and collect taxes on incomes from large-scale mining and all petroleum and gas operations, and royalties on such operations
Levy and collect taxes on income from air, rail and sea transport	Levy and collect taxes on income from transport services rendered on waters within their territory	–
Levy and collect taxes on income from houses and properties owned by the federal government and fix rents	Levy and collect taxes on income from private houses and other properties within the state and collect rent on properties owned by the state	–

(Continued)

Federal	Regional	Concurrent powers
Determine and collect fees and charges relating to licences and services rendered by federal government organs	Determine and collect fees and charges relating to licences and services rendered by state organs	–
–	Determine and collect fees for land usufructuary rights	–
–	Fix and collect royalty for the use of forest resources	–
Levy and collect duties, taxes and other charges on imports and exports	–	–
Tax income and winnings from national lotteries and other games of chance	–	–
Levy and collect taxes on monopolies	–	–
Levy and collect federal stamp duties	–	–

Source: 1995 Constitution of the Federal Democratic Republic of Ethiopia.

Appendix J Federal Share of National Revenue

Table J.1

Federal government's share of revenue collection from aggregate annual national revenue (in simple decimals)

	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	Average federal share
Direct taxes								
Employee income tax	0.61	0.53	0.48	0.47	0.47	0.45	0.45	0.49
Rental income tax	0.00	0.00	0.11	0.11	0.63	0.01	0.60	0.21
Business profit tax	0.63	0.72	0.79	0.78	0.74	0.77	0.79	0.75
Agricultural income tax	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.00
Tax on div. & games of chance	0.96	1.00	0.98	1.00	0.96	1.00	1.00	0.99
Capital gains tax			0.00	0.00	0.00	0.00	0.00	0.00
Rural land use fee	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Urban land lease tax		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total direct taxes	0.55	0.60	0.64	0.61	0.54	0.56	0.58	0.59
Indirect taxes								
Excise on local products	1.00	1.00	1.00	1.00	0.99	0.99	1.00	1.00
Sales tax on goods	0.87	0.82	0.75	0.73	0.74	0.75	0.73	0.77
Service taxes	0.81	0.84	0.77	0.82	0.82	0.86	0.90	0.83
Stamp sales & duty	0.57	0.64	0.48	0.48	0.43	0.52	0.43	0.51
Total indirect taxes	0.88	0.87	0.82	0.82	0.81	0.83	0.81	0.83
Foreign trade taxes	*0.99*	*1.00*	*1.00*	*1.00*	*1.00*	*1.00*	*1.00*	*1.00*
Total tax revenue	0.83	0.83	0.82	0.82	0.80	0.81	0.81	0.82
Non-tax revenue								
Charges & fees	0.49	0.57	0.54	0.51	0.61	0.69	0.72	0.59
Sale of goods & services	0.38	0.32	0.30	0.40	0.44	0.57	0.72	0.45

(Continued)

	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	Average federal share
Government investment	1.00	1.00	1.00	1.00	1.00	0.99	0.99	0.99
Miscellaneous revenue	0.65	0.49	0.67	0.48	0.40	0.58	0.41	0.53
Pension contribution	0.35	0.30	0.29	0.27	0.26			0.29
Extraordinary revenue	–	–	1.00	1.00	1.00	1.00	1.00	1.00
Privatisation proceeds	–	–	–	1.00	1.00	1.00	1.00	1.00
Capital revenue	0.99	1.00	1.00	1.00	1.00	0.99	1.00	1.00
Total non-tax revenue	0.81	0.88	0.87	0.85	0.83	0.88	0.87	0.86
Total revenue	0.82	0.85	0.84	0.83	0.81	0.84	0.83	0.83

Note: Tax on div. = Tax on dividends.
Source: 'Ministry of Finance and Economic Development Financial Report' (various years).

Appendix K Regional Revenue Collection

Table K.1

Amhara actual revenue collection (million Birr)

	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2
Direct taxes								
Employee income tax	23.62	26.14	29.86	33.31	37.06	40.1	45.506	60.63
Rental Income tax	0.02	0.03	0.11	0.22	0.23	0.4	0.346	0.267
Business profit tax	9.5	11.36	12.54	12.76	13.02	13.4	15.713	15.62
Agricultural Income tax	20.67	20.67	26.29	27.51	35.6	37	37.338	36.79
Tax on div. & games of chance	–	–	–	0.01	–	0	0.075	–
Capital gains tax	–	–	0.01	0.15	0.28	0.6	11.557	1.185
Rural land use fee	20.79	20.83	26.26	28.05	34.79	37.4	37.216	36.342
Urban land lease fee	–	–	–	–	–	–	*(Continued)*	
Total direct taxes	74.6	79.03	95.07	102.01	120.98	128.9	147.751	150.834
Indirect taxes								
Excise on local products	0.01	–	0	0	1.25	0.1	0	–
Sales tax on goods	4.64	7.17	7.15	7.79	7.72	9.4	9.885	7.498
Service taxes	0.99	1.84	2.03	2.43	2.67	3.2	3.738	3.008
Stamp sales & duty	1.83	1.95	2.28	2.27	2.01	2.6	2.416	2.446
Total indirect taxes	7.47	10.96	11.46	12.49	13.65	15.3	16.039	12.952
Foreign trade taxes	–	*0.01*	–	–	–	–	–	–
Non-tax revenue	–	–	–	–	–	–	–	–
Charges & fees	8.94	9	10.73	9.69	7.5	7.1	7.032	6.954

(Continued)

	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2
Sale of goods & services	13.63	17.14	20.9	23.22	23.42	23.4	23.418	23.734
Government investment	0.15	0.22	0.19	0.25	0.27	0.2	0.219	0.00952
Miscellaneous revenue	4.08	6.41	7.79	18.31	22.56	18.4	18.505	22.21
Pension contribution	11.53	12.48	13.98	14.72	–	–	–	–
Capital revenue	0.03	–	–	–	–	–	–	–
Total non-tax revenue	38.36	45.25	53.59	66.19	53.75	49.1	49.174	52.90752
Total revenue	120.43	135.25	160.12	180.69	188.38	193.3	212.964	216.692

Note: Tax on div. = Tax on dividends.
Source: 'Ministry of Finance and Economic Development Financial Report' (various years).

Table K.2

Benshangul-Gumuz actual revenue collection (million Birr)

	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2
Direct taxes								
Employee income tax	1.85	2.2	2.13	2.47	3.08	3.8	4.253	6.279
Rental income tax	–	0.02	0.04	0.01	0	0	0.01	0.0767
Business income tax	0.08	0.1	0.13	0.24	0.3	0.5	0.314	0.793
Agricultural income tax	0.37	0.29	0.42	0.64	0.78	0.9	0.782	0.873
Tax on div. & games of chance	–	–	–	–	–	–	–	–
Capital gains tax	–	–	–	–	–	–	–	–
Rural land use fee	0.38	0.29	0.41	0.68	0.85	0.9	0.894	0.805
Urban land lease fee								
Total direct taxes	2.68	2.9	3.13	4.04	5.01	6.1	6.253	8.8267
Indirect taxes								
Excise on local products	0	–	0	0	0	0	0	0.04
Sales tax on goods	0.29	0.27	0.17	0.16	0.16	0.3	0.418	0.476
Service taxes	0.01	0.01	0.01	0.27	0.49	0.4	0.515	1.098
Stamp sales & duty	0.02	0.02	0.02	0.04	0.15	0	0.033	0.046
Total indirect taxes	0.32	0.3	0.2	0.47	0.8	0.7	0.966	1.66
Foreign trade taxes	–	–	–	–	–	–	–	–
Non-tax revenue	–	–	–	–	–	–	–	–
Charges & fees	0.28	0.24	0.22	0.39	0.43	0.4	0.291	0.379
Sale of goods & services	0.81	0.99	1.03	1.48	1.91	2.4	2.604	2.434
Government investment	0.02	0.03	0.03	0.04	0.03	0.1	0.079	0.175
Misc. revenue	0.13	0.13	1.31	1.11	1.22	5.9	4.366	2.15

(Continued)

	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2
Pension contribution	0.75	0.88	0.95	0.98	–	–	–	–
Capital revenue	0.04	–	–	–	–	–	–	–
Total non-tax revenue	2.03	2.27	3.54	4	3.59	8.8	7.34	5.138
Total revenue	5.03	5.47	6.87	8.51	9.4	15.6	14.559	15.625

Notes: Tax on div. = Tax on dividends; Misc. revenue = Miscellaneous revenue.
Source: 'Ministry of Finance and Economic Development Financial Report' (various years).

Table K.3
Tigray actual revenue collection (million Birr)

	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2
Direct taxes								
Employee income tax	10.33	11.36	15.32	17.64	19.17	22.1	27.533	33.18
Rental income tax	0.07	0.22	0.84	1.02	0.97	1.1	2.141	1.45
Business income tax	4.94	10.65	13.28	11.07	9.34	9.6	12.639	11.11
Agricultural income tax	5.29	4.39	4.63	3.91	4.27	4.4	5.327	4.34
Tax on div. & games of chance		0.05		0.1			0.208	0.077
Capital gains tax		0.03	1.1	1.14	1.16	1.5	0.561	0.836
Rural land use fee	6.15	5.64	5.81	4.9	5.55	5.6	6.753	5.507
Urban land lease fee				0		0	0	
Total direct taxes	26.78	32.34	40.98	39.78	40.46	44.3	55.162	56.5
Indirect taxes								
Excise on local products	0.12	0.02	0	3.13	0.12	0.1	0.25	0.255
Sales tax on goods	12.02	21.95	33.95	24.62	13.13	15.5	15.782	7.194
Service taxes	0.32	0.83	1.75	2.4	2.69	2.3	3.314	2.463
Stamp sales & duty	3.56	6.61	6.04	4.06	4.67	3.8	4.961	4.137
Total indirect taxes	16.02	29.41	41.74	34.21	20.61	21.7	24.307	14.049
Foreign trade taxes								
Non-tax revenue								
Charges & fees	7.06	13.92	10.3	7.03	9.17	10.8	6.295	5.282
Sale of goods & services	3.77	4.15	4.75	5.35	5.99	6.3	6.524	9.704
Government investment	0.05	0.06	0.06	0.05	0.05	0.1	0.06	0.049
Misc. revenue	1.37	2.45	2.9	4.13	5.09	4.9	4.841	7.038

(Continued)

	1994/5	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1	2001/2
Pension contribution	3.48	3.91	4.25	4.79				
Capital revenue								
Total non-tax revenue	15.73	24.49	22.26	21.35	20.3	22.1	17.72	22.073
Total revenue	58.53	86.24	104.98	95.34	81.37	88.1	97.189	92.622

Notes: Tax on div. = Tax on dividends; Misc. revenue = Miscellaneous revenue.
Source: 'Ministry of Finance and Economic Development Financial Report' (various years).

Appendix L Regional Subsidy

Table L.1a
Total actual regional subsidy, 1994/5 – 1998/9 (Birr)

	1994/5	1995/6	1996/7	1997/8	1998/9
Tigray	248 553 315	269 678 876	286 058 897	269 407 115	243 241 605
Afar	71 988 652	113 796 269	141 528 855	184 001 472	219 832 576
Amhara	583 391 744	631 090 925	725 080 936	712 817 263	741306 622
Oromia	624 417 715	743 942 571	914 225 670	89 651 882	507 131 037
Somali	97 788 900	111 276 570	153 039 340	228 277 674	217 301 232
B-Gumuz	69 821 420	68 869 568	111 331 738	156 874 054	152 675 383
South	420 228 428	516 709 224	538 296 271	570 206 725	621 630 111
Gambella	55 096 020	65 341 456	94 101 047	81 144 928	135 426 280
Harari	29 683 885	34 232 453	37 499 944	68 957 895	52 955 863
Addis	106 988 267	45 424 712	1 689 616	26 806 788	1 012 209
Dire	21 380 602	9 696 804	15 581 481	32 866 117	34 082 567
Total	*2 329 338 948*	*2 610 059 428*	*3 018 442 795*	*3 227 878 857*	*2 926 595 485*

Source: 'Ministry of Finance and Economic Development Financial Report' (various years).

Table L.1b
Total actual regional subsidy, 1999/00– 2002/3 (Birr)

	1999/00	2000/1	2001/2	2002/3
Tigray	211 938 053	316 365 781	300 613 990	42 211 035
Afar	168 154 523	211 281 478	230 196 073	257 551 432
Amhara	542 996 307	840 307 260	893 578 772	1 010 796 775
Oromia	629 058 702	1 130 739 828	104 897 361	1 279 480 589
Somali	226 539 356	305 458 370	311 622 858	384 770 536
B-Gumuz	121 168 836	153 015 126	17 521 998	210 248 873
South	491 427 924	629 316 010	641 256 799	843 697 056
Gambella	96 024 751	125 058 466	135 065 502	140 100 345
Harari	55 303 824	6 4051 314	66 339 139	79 875 771
Addis	24 410 836	50 556 224	40 349 588	88 490 330
Dire	23 218 965	37 456 818	86 507 123	88 490 330
Total	*2 590 242 077*	*3 863 606 675*	*3 929 723 442*	*4 717 882 191*

Source: 'Ministry of Finance and Economic Development Financial Report' (various years).

Appendix M Civil Servants' Education Level

Table M.1

Education of civil servants in the three regions and at the federal level

Region	Education level	1995/6	1996/7	1997/8	1998/9	1999/00	2000/1
Tigray	Reading & writing only	1138	1160	1144	974	933	743
	Formal education (12th grade and below)	4049	6621	6345	8204	8625	9212
	Diploma (12 +1 or 12+2)	11401	10200	12180	11544	11607	12652
	1st degree (BA or BSc)	668	715	682	686	670	786
	2nd degree (MA or MSc)	82	103	127	116	85	119
	PhDs	–	3	2	4	3	3
	Not stated	–	–	–	–	2	–
	Total	*17338*	*18802*	*20480*	*21528*	*21925*	*23515*
Amhara	Reading & writing only	3633	3078	2502	2182	1986	2418
	Formal education (12th grade and below)	16418	17392	18028	20118	22391	17912
	Diploma (12 +1 or 12+2)	36095	37647	36579	37179	38526	36858
	1st degree (BA or BSc)	2848	2775	2770	2500	3013	2814
	2nd degree (MA or MSc)	348	383	350	280	290	326
	PhDs	3	6	8	5	5	5
	Not stated	–	–	59	–	–	8847
	Total	*59345*	*61281*	*60296*	*62264*	*66211*	*69180*
Benshangul- Gumuz	Reading & writing only	149	170	143	192	202	218
	Formal education (12th grade and below)	1168	1237	2165	2795	3202	3352
	Diploma (12 +1 or 2)	1630	2070	2484	2900	3228	3527
	1st degree (BA or BSc)	127	151	245	312	346	361
	2nd degree (MA or MSc)	0	6	26	32	42	39
	PhDs	1	1		2	2	–
	Not stated	–	–	–	4	4	4
	Total	*3075*	*3635*	*5063*	*6237*	*7026*	*7501*
Federal government	Reading & writing only	7654	7059	6572	6257	5692	5827
	Formal education (12th grade and below)	18009	18124	18484	19426	20110	19228
	Diploma (12 +1 or 2)	9829	9674	9485	9599	9632	9822
	1st degree (BA or BSc)	3488	3474	3543	3769	4013	3987
	2nd degree (MA or MSc)	1552	1500	1496	1573	1564	2061
	PhDs	184	181	147	152	161	414
	Not stated	1304	3740	580	706	758	495
	Total	*42020*	*43752*	*40307*	*41482*	*41930*	*41834*

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