

EXPENDITURE DECENTRALIZATION IN ETHIOPIA: THEORETICAL FRAME WORKS AND INTERNATIONAL EXPERIENCE - A COMPARATIVE EVALUATION

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Abstract

The study has examined expenditure decentralization in Ethiopia fiscal federalism frame works by mainly emphasizing on sub-national government using descriptive study. The study used interview and document review to collect primary and secondary data respectively. The objective of the study was to identify the trends, performance, and constraints of expenditure decentralization at sub-national governments in Ethiopia. The study found, expenditure decentralization at sub-national governments in Ethiopia is constrained by inadequate legal frame works that divides expenditure among three levels of government which involves lack of clarity and details in expenditure division that leads to ambiguity, confusion, overlapping and duplication of duties and responsibility which weaken local accountability; variation of constitutional stipulation from practical application in some functional responsibilities; absence of provision for duties and functional responsibilities of local governments in national constitution that impact uniformity in expenditure decentralization at local governments as well as mismatch between revenue and expenditure decentralization. These problems resulted in none autonomous, inefficient and ineffective local governments which may lead to poor local service provision, wastage and low accountability. The limitations are very crucial in nature and it requires immediate action on such areas as revision of legal framework which govern expenditure decentralization by clearly detailing and listing the duties and responsibilities of each level of government; elimination of duplication and overlapping of functional responsibilities; enforcement of constitutional provision of some functional responsibilities and provision of duties and expenditure responsibilities of local government in national constitution.

Keywords: *Expenditure Decentralization, Expenditure Assignment, Fiscal Decentralization, Fiscal Federalism, Local Governments, Sub National Governments, Division of Expenditure.*

Introduction

Fiscal decentralization is the distribution of fiscal decision making powers among different levels of governments such as central, regional, and local. It consists of principles of fiscal relations between national and sub national governments. The main elements of fiscal decentralization are division of revenue sources, expenditure functions, designing appropriate transfer to reduce vertical and horizontal imbalance among different level of government and establish adequate legal and institutional framework to deal with the issues of fiscal federalism (Bahl, 2001 and Birhanu, 2009).

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According to McLure and Martinez (1999), a clear division of expenditure functions among different level is the prior and basic steps in designing intergovernmental fiscal relations. Division of Expenditure is a clear specification of varied functional responsibilities at different level of governments. It is listing and detailing the activities and functions of each tier of governments. Absence of clear and precise expenditure assignments would result in instability and controversy among different levels of governments. As indicated in Martinez (1999) "designing division of revenue and transfer in the absence of a clear expenditure functions is putting the cart before the horse." and this was the mistakes committed by many developing and transition countries during the period of decentralization. In most developing countries, studies have documented various problems related with division of expenditure that involve absence of clear division of functions, overlapping tasks, contradiction in legal and institutional frameworks and inefficient assignments (Martinez, 1999).

Many observers argued that division of expenditure to sub national levels in Ethiopia such as regions and districts and urban local governments is highly decentralized where as its revenue counterpart is more centralized. The FDRE constitution defines legal power and functions of federal governments precisely while it provides residual power to regional governments and this is a clear indication of decentralized expenditure responsibilities which is crucial in provision of public services. Mismatch between expenditure responsibilities and its means of finance is an essential feature of Ethiopia fiscal decentralization according to some scholars. In addition to this, it is argued that lack of formal and inefficient division, overlapping functions, and contradiction in legal and institutional frame works are some of the constrained problems in expenditure sharing at sub national level in Ethiopia (Dickovick and Tegegne, 2010 and Fekadu, 2011).

In addition to this, though, Federal and regional government constitutions lay the base for legal frame works for expenditure decentralization; many observers criticize the clarity, comprehensiveness, and adequacy of the legal frame works that govern expenditure division at regional and local levels (Dickovick and Tegegne, 2010). This paper tries to investigate the trends, performance, composition and constraints related with of expenditure decentralization in Ethiopia in general and local governments in particular.

Objectives of the Study

- **General Objective**

The overall objective of the study is to investigate the trends, performance, compositions and constraints of expenditure sharing at Ethiopia local governments.

- **Specific Objectives**

- To identify the trends, performance, composition and constraints of expenditure at sub-national government over the past eight years.
- To review the existing legal framework on expenditure sharing at federal and regional level to identify none clarity, none adequacy, inconsistencies and ambiguity in the current constitution, laws, regulations, directives, and procedures.
- To examine the level of consistencies and deviations of expenditure sharing at sub national level in Ethiopia with theoretical frame work and international practice.

Significance of the Study

The study is hoped to create better understanding about the current situation in expenditure division in Ethiopia sub-national governments. The study is believed to create deep understanding about the trends, performance, composition and constraints of expenditure decentralization at sub national levels. As a result, the findings of the study may help policy makers to differentiate the basic problems and constraint with current expenditure division and reconsider the issues to reduce or eliminate those constraints. The research may provide some clues for researchers and scholars about the topic under consideration.

Scope and Limitation of the Study

The study is conducted on three hundred and four (304) urban and districts local governments in Oromia region. The study covers three major areas. Primarily, the study investigates the trends, performance, composition and constraints in local expenditure over the same period. Secondly, the study reviews the existing legal frame works on expenditure sharing and scrutinizes prevalence of contradiction, inconsistencies, inadequacy, and none clarity in existing laws, regulations, and working procedures. Lastly, the study compares and contrasts the experience of expenditure division in Ethiopia at sub national levels with international practice of Nigeria, Brazil, Canada, and Germany to draw valuable lessons and also evaluate expenditure sharing at Ethiopia sub national level against existing theoretical frame work.

Organization of the Paper

The entire paper is organized in five chapters. The first chapter is introduction. Review of related literature and experience of selected countries in expenditure decentralization is undertaken in chapter two. This is followed by research methodology in chapter three and chapter four presents expenditure sharing at sub-national governments in Ethiopia while chapter five concludes the paper and forward policy recommendation.

Literatures Review

- **Concept of Fiscal Federalism**

As mentioned by Salami (2011), fiscal federalism is provisions for functional responsibilities to be undertaken by different levels of government and sources of revenues that can be generated by multi tiers of governmental units to carry out the functional responsibilities in provision of goods and services to the communities. Therefore, fiscal federalism gives recognition for two or more levels of government where each tiers of government have their own various expenditure responsibilities to be performed and have autonomy for its own revenue sources. And again Akindede, Olaopa, and Obiyan(2002) argued that fiscal federalism is a system of government in which revenue and expenditure responsibilities are assigned to different levels of government, appropriate system of intergovernmental fiscal transfer is established and over all appropriate administrative structure are placed to effectively carry out the provision of goods and services at each levels of government to the citizens. From this argument one can rule out that fiscal federalism

comprises expenditure and revenue sharing and intergovernmental fiscal transfer to close vertical and horizontal fiscal imbalance at sub national levels and it aimed to ensure matching between expenditure responsibilities and available financial resources and enhance autonomy of lower level governments. The following sections thoroughly discuss issues, concepts and principles related with expenditure and revenue decentralization.

- **Concepts of Expenditure Decentralization:** Expenditure sharing is identifying the responsibilities and functions of different tiers of government such as central, regional and local governments. In other words, it is specifying who do what? And who pay for what (Vazquez, 1998)? For fiscal decentralization to be succeeded, it is essential to clearly assign the functions and responsibilities for each level of governments. Absence of or lack of clear division of functions and expenditure responsibilities would lead to instability and under provision of different public services. According to Vazquez (1998), decentralization of expenditure functions is considered as the first and basic steps in design and implementation of fiscal decentralization and it is contended that designing other components such as revenue and transfer without clear assignment of expenditure responsibilities is like putting the cart before the horse which is the mistake committed by many developing and transition countries during their period of decentralization (Vazquez, 1998).
- **Approach in Expenditure Decentralization:** According to Li gal et.al (2004), Expenditure -led and revenue -led are the two commonly used approaches in expenditure responsibility sharing. Expenditure-led primarily make clear and exclusive assignment of functions to different level of governments before assigning any revenue sources and it is based on subsidiary principles while revenue-led approach first assigns different revenue sources to different level of government due to political bargain or power interest of the regions. An expenditure-led approach is argued the best in sharing functional responsibilities among different levels of governments. It reduces duplication of activities, instabilities, and inefficiencies in provision of public services. The approaches clarify what and who should do and it is based on subsidiary principles which say functions and accountabilities should be based on the closeness to the people. The principle assume " the level of government which is closer to the people should, in principles, be able to provide services more efficiently and effectively than remote, centralized authority, if assignment of responsibilities is appropriate and the system of intergovernmental arrangement produces the right type of incentives"(Birds, 1993). Revenue-led approach of expenditure sharing first divides each sources of revenue among different level of government before assigning functional responsibilities due to political bargain or power interest of the regions. This approach is not advisable in most countries of the world.
- **Principles of Expenditure Decentralization:** According to Martinez (1993) there is not the sole/single best way to share expenditure responsibilities among different levels of governments. The criteria of expenditure division change over time due

to change in cost and technology and the adequacy of any criteria is judged by its ability to achieve the goal set in decentralization by central governments. According to Vazquez (1993), however, expenditure decentralization should consider the following commonly used criteria.

- **Principle of Efficiency:** The principle requires expenditure sharing should leads to efficient allocation of resources. Efficient allocation of resources can be achieved through "subsidiary principle" that requires the provision of services should be made by the nearby governments level which is compatible with the "size of benefit areas" related with those services. For instance the benefit areas for garbage collection is local residents and its provision should be made by local governments where as the benefit areas for air traffic is national and it should be provided at national level. It is argued that assignments of small benefits areas to central government or assigning services of large benefits areas to local governments would result in inefficient allocation of resources due to two main reasons. Primarily, local governments are more informed about the needs and preferences of local communities than central governments and can allocate resources to the priority of local communities that improve efficiency. Secondly, local communities are in a position to monitor and control the quality of public service provision at and this may improve local system of accountability on local authority through electoral vote that would improve efficiency in resource allocation. In general, expenditure assignment can improve efficiency through subsidiary principle, instituting communal system of accountability, and linking cost of services with the benefit.
- **Principle of Macroeconomic Stability and Growth:** According to Martinez (1998) expenditure sharing should ensure the overall macroeconomic stability and growth. Expenditure related with stability and economic growth such as huge public investment, activities related with price stability and foreign exchange adjustments massive unemployment compensation naturally is assigned to central governments. But, some activities such as primary education and primary health care which have local nature and be provided by local governments may also be taken as the responsibilities of central governments due to its spillover and re distributive effect.
- **Principle of Redistribution:** Expenditure related with income distribution such as welfare and poverty reduction programs is argued to best suited to central governments. But, it is habitual to see local government in designing and implementing income generating and poverty reducing activities that can enhance income distribution.
- **Common Problems in Expenditure Division:** According to McClure and Martinez (1998) there are a number of expenditure problems in different countries across the globe. Some of the common problems are lack of formal assignment, inefficient assignment, ambiguity in some assignment, and co-sharing in some assignment and it is further explained as follow.

- **Lack of Formal Division:** In some developing and transition countries there are no clear or expenditure functions in constitution, or other laws. In such cases, sub national government functions and tasks is not clear or not adequately detailed this would leads to poorly defined correspondent revenues. Thus, formal expenditure division is essential element for budget planning at all level of governments.
- **Inefficient Assignment:** This is another problem in expenditure sharing and it is occurred when functions are not assigned to appropriate level of governments. Inefficient division is commonly occurred in assigning capital expenditure to central government where local government is in a position to make responsible. For example, while local government should be made responsible for delivery of primary education, federal government retains these responsibilities over construction of schools which leads to less optimal return. Responsibilities for drinking water and garbage collection are generally assigned to central government while this should be undertaken by local governments. Even though it is argued that lack of technical capability at sub national government level for retaining capital expenditure responsibilities, local governments are seen to make capital investment decision adequately. Thus, assigning some capital expenditure responsibilities to local governments can enhance its efficiency.
- **Ambiguity in Some division:** Ambiguity in division of expenditure is occurred when one task is assigned to more than one level of governments. Such sharing result in a situation where each level of government does not consider the function as its own responsibilities and the provision of such services would suffer a lot.
- **Shared Responsibilities:** Duplication of responsibilities across different level of government for a particular function is mostly seen in decentralized system. Co-sharing of responsibilities is not a problem when a particular function in common areas is clearly assigned to different level of governments but it is problematic when a function that should be undertaken by one level is assigned to each level in such a way that leads to duplication of responsibilities.
- **Prerequisites for Successful Expenditure Division:** In general, McClure and Martinez (1998) argued that for successful sharing of expenditure there should be elected local government to enhance local accountability; clear assignments of functions and tasks; adequate autonomy for local government in planning, prioritization and allocation of resources; correspondence between expenditure division and sources of available revenues and there should be strong central government regulation, monitoring and conflict resolution at sub national levels.
- **Review of International Experiences on Expenditure Decentralization**

This section examines the international experience of some selected countries such as federal republic of Germany, Canadian federation, federative republic of Brazil and federal republic of Nigeria on expenditure decentralization among central, regional and local government levels to draw some valuable lesson which can improve revenue and expenditure sharing in Ethiopia.

- **Federative Republic of Brazil:** As per article 18 of the 1988 constitution of the federative republic of Brazil, the political and administrative organization of the country is divided into the union/central, the states and local government/municipalities. Thus, Brazil is divided into the central government, twenty seven states (including federal district), and five thousand and five hundred fifty nine (5559) municipal or local governments. The constitution also provides different functions and revenue generating powers to the three levels of governments which would be briefly presented in the following paragraphs.
- **Expenditure Decentralization in Brazil Federative:** As mentioned above, Brazilian constitution divides the expenditure responsibilities or functions as the exclusive power of the union/centre, concurrent power of the union and the states, exclusive power of the states and exclusive power of the local government/municipalities. According to article 22 of the 1998 constitution, defence, foreign relations, postal services, currency, national high way, nuclear energy, planning, regulation of labour conditions, finance, banking, insurance, foreign and interstates commerce, commercial advertising, telecommunication and data processing, interstates transport, employment insurance, mining, energy, social security, immigration, native right, and naturalization are the exclusive power of the central government while education, health, protection of the environment and natural resources, culture, agriculture, hydroelectricity, housing, food distribution, police and social welfare are the concurrent power of the union and the states and in this case, the federal government has the responsibility of setting the standards for these services where as the states has the responsibilities of providing the services to the communities in these particular areas(article 24 of 1998 constitution). Article 25 of the constitution provides the exclusive residual legislative power to the states which says 'any subjects not specified by the constitution have been reserved for the states by the constitution' while as per article 29 of the constitution, municipal local governments have been given the exclusive legislative power on the subjects of local interest to supplement federal or state legislation and also they are given such functions and responsibilities as preschool and elementary education, public transport, land use, historical and cultural preservation and health care services.
- **Canadian Federation:** Canadian federation is composed of three territories and ten provinces and is governed by three orders of governments namely the federal, the provinces and local governments. The divisions of power between federal and provincial governments are constitutional where as the power of local governments are not but it is delegated by exclusive discretion of the provincial governments. Canadian constitutional act of 1982 provides different functions and revenue raising power to the federal and provincial government which would be briefly presented as follows:

- **Expenditure Decentralization in Canadian Federation:** The constitutional expenditure responsibilities of Canadian federation is divided as exclusive federal (article, 91), exclusive provincial (article, 92-93) and concurrent power of federal and provincial (articles, 94-95) responsibilities. As per article 91 of Canadian constitutional act, the federal government has given many functions such as public debt and property, regulation of trade and commerce, defence, military and naval services, criminal laws, unemployment insurance, money and banking, patent and copy right, postal services, and census and statistics. The federal government may also spend in areas of exclusive provincial responsibility through its spending power despite of constitutional allocation of responsibilities. The power of the provinces are listed under article 92 of the constitution which includes protection of property and civil right, hospitals, management and sale of public land, administration of justice, administration of municipal institutions, and all matters of local natures. Article 92A gives provinces with exclusive power over none renewable natural resources, forestry, and electrical energy. Article 93 provides provincial jurisdiction over education where as article 94A and 95 provides concurrent power for federal and provincial government over public pension, agriculture, and immigrations. Canadian provinces have exclusive legislative responsibilities in purely regional/provincial and local government matters and they are responsible to finance most of their expenditure responsibilities which indicate highly decentralized expenditure functions at provincial levels. As mentioned d before, the constitution does not provide any power to local governments and they are under the full responsibilities of the provinces. However, some expenditure functions like local protections services, transportation systems, education, health and welfare, water and sewers, and garbage collection are delegated to local government through discretion of provincial governments. But recently provinces are passed legislation which provides more flexibility and autonomy to local government despite the responsibilities delegated is varied across provinces.
- **Federal Republic of Germany:** The administrative structure of the federal republic of Germany is composed of the federal, sixteen (16) Lander (state), and 11500 local governments. As per version 2010 of the basic law of federal republic of Germany, the division of legislative power includes exclusive federal, joint power of federal and the Lander (state), and the residual power of the Lander or the states. In terms of division of power related with fiscal federalism, the Germany case is unique in that all legislative power of defining tax base and setting the rate is exclusively belongs to the federal government while the administration of both federal and the Lander law is belongs to the Lander government but the revenue raising and expenditure power are concurrent power of the federal and the Lander government. In general, the basic law of Germany prescribes division of expenditure and revenue to all the three administrative structure of the government as it would be briefly presented as follows.

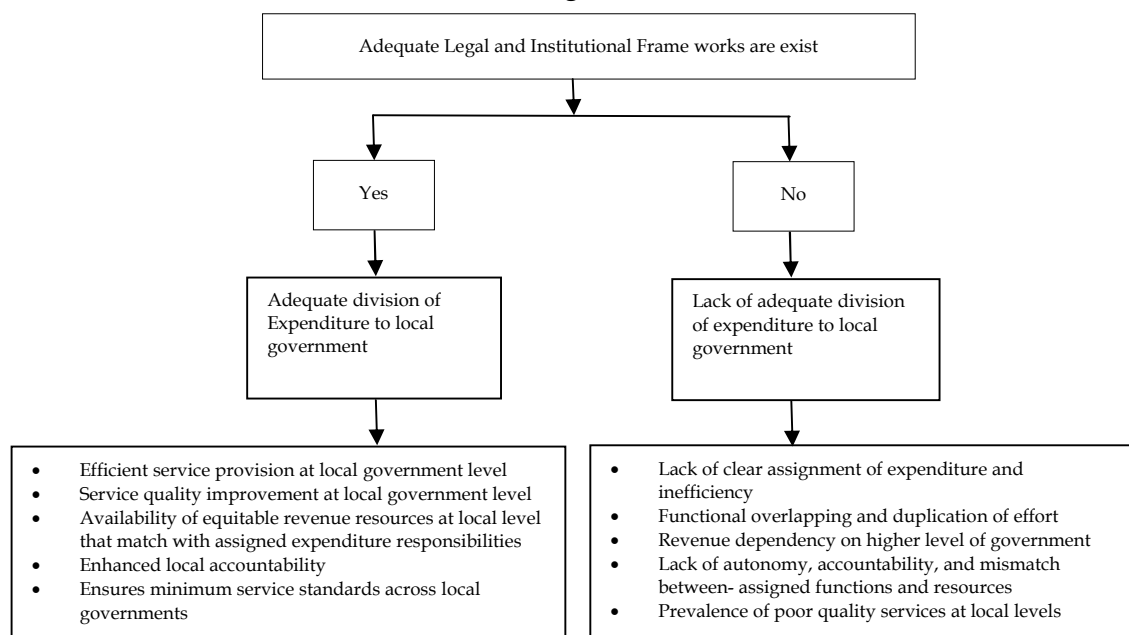
- **Expenditure Decentralization in Federal Republic of Germany:** As mentioned above, the basic law of federal republic of Germany provides the expenditure functions of the country as exclusive federal, joint functions of federal and the Lander and residual responsibilities are solely assigned to the states while local government also retains some of their expenditure responsibilities of its own. As per article 73 of the basic law of Germany, the exclusive responsibilities of the federal government includes foreign affairs, defence, immigrations and citizenships, air transport, railway transport, criminal laws, foreign trade while article 74 of the basic law lists the concurrent power of federal and the Lander government such as civil law, labour relations, regulations of nuclear energy, road transport, environmental protection, university construction, agricultural policy development, educational planning , research policy and coastal protection. And again in the area of higher education, regional planning, and natural resource conservation, the federal government has the power to ensure uniformity and supervision while the Lander or the states have the power to customize and details the law on the same areas. The Lander exercises the residual power of legislatives. Local government in the Germane is constitutionally autonomous. It exercises many responsibilities assigned to the Landers but its organization and supervision is under Lander governments. The main feature of the basic law of Germany is cooperation among levels of government in carrying out its function and creation of uniformity of living standards of the people across the Lander and local government. And again the legislative power is more centralized while the responsibilities to administer both federal and the Lander law are given to the Lander government. The Lander also has the residual legislative power. This clearly shows the high decentralization of expenditure responsibilities to the Lander government as well as the local governments.
- **Federal Republic of Nigeria:** Nigeria follows the federal government structure. The Nigerian constitution of 1999 allows the existence of the federating units and recognizes three levels of government namely federal, the states, and local. Currently, there are one federal government territory, thirty six states, and seven hundred and seventy four local governments in Nigeria. The constitution details the division of expenditure functions and areas of fiscal autonomy for each levels of government which would be briefly described as follows.
- **Expenditure Decentralization in Nigerian Federation:** The 1999 constitution of Nigeria spells the functional responsibilities as exclusive federal, concurrent list for federal and the state, residual power of the states and functional list for local government and this described as follows.

The exclusive functional responsibilities for federal government are those functions which are solely undertaken by federal government like foreign affairs, foreign currency, police, defence, aviations, bankruptcy and insolvency, banks, banking and promissory notes, borrowing of money, citizenship, naturalization and aliens, commercial and industry

monopolies, construction and maintenance of roads, control of capital issues, copyright, drugs and poison control ..etc (schedule of 1999 Nigerian constitution). The concurrent functional lists are those responsibilities undertaken by both the federal government and the states such as census, higher education, industrial development, national parks and antiquities, generation, transmission and distribution of electricity in the states, ownership regulation and control of business enterprise, and establishment of agricultural research centre in regions. As per section 4(7a) of the constitution, the residual power is assigned to the states government which is the functional responsibilities not included in exclusive list of federal government and concurrent lists of both federal and states government. Section 7(5) of the constitutions lists the functional responsibilities of local governments which includes provision of local public goods, cemetery, refuse disposal, public convenience, naming of roads, street and house numbering, licensing, collection of rates, regulation and control of the sale of liquor, radio and television license...etc.

Conceptual Frame Works of the Study

Fig 1



Source: Developed by researcher

The study argued that the state of fiscal federalism at Ethiopia local government is determined by the status of existing legal and institutional frame works(independent variable) which govern division of expenditure (dependent variable which depends on legal and institutional frame works). The legal and institutional frame works are constitution, laws, regulations, directives and procedures which are placed to share expenditure to different levels of government. Existence of adequate legal frame works in Ethiopia would result in the following condition: Clear, formal and appropriate division of expenditure to sub national government including local levels. The commutative and overall effect of clear, formal and appropriate decentralization of expenditure on local governments would be: efficiency in local

service provision in accordance to local needs and preferences of the communities and ensures local accountability to local communities through local election and periodic performance monitoring and evaluation by locally elected councils as well as direct participation of local residents which ensures provision of quality services by local authority. Absence of adequate legal frame works result in the reverse which means prevalence of inefficiencies, absence of clear assignment of expenditure; inconsistency and duplication of efforts; wastage, low level of accountability, mismatch between local expenditure and revenue, and overall poor quality services at local government levels.

Research Methodology

This section deals with different procedures and techniques required to answer the major study questions. It consists of research design, population and sample design, data type and its sources, data collection techniques/instruments, and method of data analysis employed:

- **Research Design**

In this paper, the study employed descriptive research design. The study adequately analyzes the trends, performance and composition of expenditure. It also examines the consistency and inconsistencies of expenditure division in Ethiopia against international practices and theoretical frame work.

- **Population and Sample Design**

In Oromia regional state, there are three hundred four(304) local governments from which two hundred sixty five(265) are rural/districts while thirty nine(39) are town administration. The defined population for the study is all urban and districts (304) in the region including regional bureau of finance and economic development and regional revenue authority. The study try to use census to address all urban and district local governments in the region for secondary data including regional BOFED and regional revenue authority at aggregate level while it rely on selected respondents at regional and local level for its primary data.

- **Data Type and Sources**

The study employed primary and secondary data. Primary data is collected from selected respondents of Oromia bureau of finance and economic development, Oromia region revenue authority and some selected districts finance and revenue authority based on its convenience. All secondary data on trends, performance and composition of expenditure is collected from MOFED, BOFED and Oromia region revenue authority. Different documents such as federal & regional constitution and related laws, regulations, directives; annual budget proclamation, and annual reports are used to collect secondary data. To supplement the study with international practices, experiences of selected countries are collected from secondary sources.

- **Data Collection Instruments**

The study employed interview and desk study as an instrument for data collection. Interview is employed to collect primary data from regional and district level respondent as conveniently as possible. At both regional and urban and district level, coordinators in BOFED,

coordinators in regional and district revenue authority, and coordinators in district finance are interviewed adequately. Accordingly, at regional level, BOFED budget coordinator, BOFED expenditure coordinator, coordinators of budget at regional BOFED are interviewed while in fifteen (15) district, coordinator of procurement and finance are also interviewed.

Document review is employed to collect secondary data from all 304 urban and district local governments in the region. Different documents such as national and regional constitution, laws, regulations, annual budget proclamation, directives, manuals and annual reports which are related with division of expenditure assignment is thoroughly reviewed and analyzed to clearly identify source of revenues given to federal, region, and districts; functions and responsibilities assigned to each level of government; and the trends, performance, and composition of regional and local level revenue expenditure. Desk study is also employed to examine international practices in revenue expenditure decentralization in federal republic of Nigeria, federal republic of Germany, Canadian federation, and federative republic of Brazil from secondary sources.

- **Method of Data Analysis**

The study employed the following method of data analysis which includes: The study adequately details and list functional responsibilities assigned to federal, regional and local government and compare and contrast it with the experience of federal republic of Nigeria, federal republic of Germany, Canadian federation, and federative republic of Brazil to draw valuable lessons. The study also compares and contrasts this with existing theoretical frame work on expenditure division as prescribed by contemporary theories in public financial management. In addition, in detailing the functions assigned to federal, regional and local levels, the study investigate existence of contradiction, functional over lapping, and inconsistencies in current functions, laws, regulations, directives, and guidelines. Analyze the trends, performance and composition of local expenditure over the past eight years(1998- 2005) through calculating different performance indicators such as annual expenditure growth rates and compare it against revenue growth rate; recurrent expenditure per total expenditure; capital expenditure per total expenditure; total expenditure per total revenue; annual salary expenditure per total expenditure; and aggregate local expenditure per total regional expenditure and compare with aggregate local revenue per total regional revenues.

Expenditure Decentralization in Ethiopia

- **Introduction**

This section discusses expenditure decentralization in Ethiopia in general and specifically discusses about problems and constraint of legal frame works for expenditure division in Ethiopia; trends, performance, and constraints of local expenditure in Oromia region and comparative evaluation of expenditure decentralization in Ethiopia with theoretical frame works and international experiences.

- **Expenditure Decentralization in Ethiopia**

Expenditure decentralization is the legal division of different functions, responsibilities, and tasks among federal, regional and local governments within federation and the section deals with legal frame works for expenditure decentralization in Ethiopia;

trends and performance of local expenditure in Oromia region and comparative evaluation of expenditure decentralization in Ethiopia with theoretical frame works and international experiences which would be presented in respective sequence as follow.

- **Legal Frame Works for Expenditure Decentralization in Ethiopia:** Existence of appropriate legal frame work is crucial to assign expenditure responsibilities to each level of government. The legal frame works that assign the functional or expenditure responsibilities for federal, regional and local governments are stipulated in federal and regional government constitutions. The FDRE constitution of 1995 established the bases for expenditure division for federal and regional governments. The constitution identifies exclusive power and functions for both federal and regions and residual power is given for the states. Article 51 of the constitution lists the exclusive power and function of the federal government which includes defence, formulation and implementation of policies, strategies and plan for over all socio-economic development of the country, setting national policies and standards for health, education, science and technology, protection and preservation of cultural heritages, formulation and execution of financial, monetary, banking and foreign policies, establish and administer national security forces and police, regulate land and natural resources, historical sites and objects, regulate and administer transportation of air, sea and major roads that link two or more states, postal and telecommunication services, determine and administer utilization of rivers and lakes that connect two or more states or crosses national boundary, interstates commerce regulation, declaration and lifting of national state of emergency, regulate and administer issues related with nationality and immigration, and patent invention and protection of copyrights.

Article 52 of the FDRE constitution also defines the exclusive and residual power and expenditure responsibilities of the regional states and this involves making regional constitution and other laws, establish new administrative jurisdictions such as zones, rural and urban local governments and kebeles within the regions, formulation and implementation of socio-economic development policies, strategies and plans of the regions, regulation and administration of regional civil services and their condition of work under the umbrella of national standards, administration of land and natural resources according to federal laws, establish and administer regional police, maintenance of peace and security within the states and all power and functions not given expressly to the federal government alone, or concurrently to the federal government and the states are reserved for the states. In general, article 94 of the 1995 FDRE constitution dictate, the federal government and the regional states shall respectively bear all financial expenditures necessary to carry out all responsibilities and functions assigned to them. This Means, the federal and regional governments are responsible to bear all financial expenditure in production, provision, financing and setting policies, standards and regulating all functions and tasks which are given to them.

Following similar fashion, the regional constitution provides expenditure assignment to regional and local governments. Article 47, 49, and 55 of 1994 revised constitution of Oromiya regional government lists the functions and expenditure responsibilities of the regions in similar manner as indicated in FDRE constitution except more elaboration given on revenue sources given to the states. Article 79 and 85 of this constitution provides expenditure responsibilities given to rural local governments/districts in the region. Accordingly, rural local governments or districts are responsible for preparation and approval of socio-economic and administrative plans and programs in the districts; monitor timely accomplishment of basic agricultural activities; oversee protection, preservation and maintenance of natural resources undertaking in the districts; implement regional policies, programs, laws, directives, and plans within the locality; draw up annual budget and implement the same; maintain local peace and security through local police and security forces and mobilize local population for development activities(article 47, 49, 55, 79, and 85 of revised oromiya region constitution No 46/2001).

Proclamation No 65/2003 of Oromia national regional state establishes the bases for legal frame works for expenditure sharing to urban local governments in the region. According to articles 8, 9, and 14 of this proclamation, urban local governments are responsible for environmental services which includes construction and management of urban roads, sewage and drainage lines, parks and recreation areas, waste disposal, prevention and control of pollution; social services which involves health, education, ambulance services, housing, public notary and vital statistics, abattoir services, cemetery and market services; cultural services that includes promotion of sports, theaters, establishments of public libraries and museums; provision of public utilities such as water, electricity, telephone, and public transport services; protective services that includes public security, judicial services, fire control, food and drug inspection; prepare, revise, update and implement city plan and undertake all regulatory, investment and income generating activities within its jurisdiction.

As indicated in theoretical frame works of this paper, one of the essential pre-requisite for the existence of successful expenditure division is presence of formal and clear sharing of functions and responsibilities to each level of government. Formal and clear assignment of expenditure responsibilities is very important to eliminate ambiguity, confusion, and duplication of tasks; it is also essential to assign proportional level of revenue sources to each level of government and to ensure accountability for assigned tasks which improve performance monitoring and evaluation. A legal frame works which decentralize expenditure responsibilities should clearly delineate responsible level of government in production, provision, financing and setting policies and standards for each assigned functions. As clearly mentioned above, the constitution of federal and regional government and other regional related law are the sole existing legal frame work that governs expenditure decentralization in Ethiopia.

Thus, expenditure decentralization to federal, regional and local government in Ethiopia is more or less formal and have legal base but it lacks the required clarity and details and there is also some variation between constitutional stipulation and its practical

application. For example, constitutionally, the federal government is only responsible to set policy and standards for education and regional governments are responsible for provision and administration of the same. However, currently, all three levels of governments are participating in provision and administration of different levels of education. Federal government is providing and takes administrative responsibility for university level education in contrary to constitutional stipulation. The other important area is drinking water supply. The responsibility for provision and administration of drinking water supply is not explicitly provided in federal or regional constitution. But, through residual power, this responsibility is belongs to the states. Urban locality is also given legal responsibility to provide drinking water supply in its area. However, such function is exercised by federal, regional and local governments based on the levels of capital expenditure requirement for water projects and such division should be clearly set. Provision and administration of electricity and telecommunication is exercising by federal governments alone while urban local governments are also legally given these functions too without delineating the responsibilities for each. This shows, legal frame works for expenditure decentralization lacks clarity and details and there is also deviation of practical application from constitutional stipulation in some cases.

The serious problem lays on division of responsibilities between regional and local governments. Revised Oromia region constitution of 1994 which allocate expenditure functions between region and local government does not clearly lists and details the responsibilities between the two. The assigned duties and tasks are set in general terms. In this constitution and other regional related laws, it is not clearly indicated and detailed the level of government which bear recurrent and capital expenditure for each level of education such as kindergarten, primary education, secondary education, preparatory education, and colleges education; different levels of health services such as health extension packages, construction, maintenance and administration of health posts, clinics, health centers and different levels of hospitals; production, provision and financing of rural water supply; construction and maintenance of different sizes of rural roads; salary expenditure for local civil servants; provision and administration of agricultural extension packages and the specific share and role of regional and local governments in capital expenditure undertakings in the local governments and similar other division of functions and responsibilities. However, some local and regional officials in office/bureau of finance and economic development said rural local governments/districts are responsible for primary education(1-8), basic health care, agricultural extension programs, veterinary clinics, land use administration, construction and maintenance of hand dung water wells, and local roads while regional governments is responsible for provision and administration of secondary and college education, district and referral hospitals, regional and zonal roads, maintenance of small scale irrigation systems and small scale water supply projects, agricultural planning whereas the responsibilities for justices, environment, vocational and preparatory education is shared with federal government. As long as this is not supported with appropriate legal frame works in the form of regulation or directive, it does not guarantee presence of clear and precise division of responsibility.

Lack of clarity and details on expenditure decentralization at local government may leads to ambiguity, confusion and duplication of tasks and may also result in lack of accountability which weakens performance monitoring and evaluation. Even if expenditure shared to urban local governments have legal base, the issue of clarity and accurate delineation is also there. In general, legal frame works for expenditure decentralization in Ethiopia lacks appropriate clarity and details; has no legal bases in some areas; duplicated and overlapping in some area and there is deviation of practical application from constitutional provision in few cases. To conclude, there is lack of adequate legal frame works for expenditure decentralization in Ethiopia local governments and specifically in rural locality which delineate responsible level of government in production, provision, administration and financing for each assigned functions. Therefore, no one can dare to say there is successful expenditure decentralization at Ethiopia local governments.

- **Expenditure Decentralization in Ethiopia:** Expenditure decentralization is the proportion or percentage share of the federal, regional and local governments out of general government expenditure or national expenditure of the country during certain time periods.

Table 1: Expenditure Decentralization in Ethiopia in Millions of Birr

Years	Aggregate National Expenditure	Federal Expenditure	Aggregate States Expenditure	Aggregate Local Expenditure
1998	29656	57.24%	20.53%	22.24%
1999	34073	57.04%	20.62%	22.34%
2000	45138	51.31%	23.37%	25.32%
2001	50094	49.87%	24.06%	26.06%
2002	66857	58.43%	19.96%	21.62%
Average	45163.6	54.78%	21.71%	23.52%

Source: Researcher Computation from MOFED data

The above table which shows the percentage share of national expenditure among three tiers of governments in Ethiopia is a clear image of the state of expenditure decentralization in the country for the years 1998-2002 EC. Within these periods, the federal government share in national expenditure was 54.78% and all states, two city administrations and all local government together cover 45.22% of national expenditure during the same periods. The average share of states in national expenditure is only 21.71% whereas the average share for local governments is about 23.52% which is a 1.81% higher than the share of the states. This discussion shows two things. Primarily, above half of national expenditure is covered by federal government and secondly, the states further pushed most of its expenditure to local governments in the country. Based on information obtained from secondary data on revenue decentralization, federal government has 54.78% share of national expenditure while its national revenue share is 81.44% and the states and local governments together share 45.22% in national expenditure where as its national revenue share is only 18.56%. More over legal frame works for expenditure decentralization assigns about 23.52% of national expenditure to Ethiopia local governments without any revenue assignment to rural locality and very limited and unproductive revenue sources to urban locality in the nation.

In comparing with some selected countries such as Germany, Nigeria and Brazil, Ethiopia has performed well in expenditure decentralization whereas Canada's expenditure decentralization is much better than Ethiopia. In Germany, the federal, states and local government are respectively bears 59.2%, 24.1% and 16.75% while in Brazil; the federal, states, and local government cover 65.8%, 24.5% and 9.6% of national expenditure respectively. The Nigerian federal, states and local governments respectively bears 72.22%, 20.86% and 6.93% of national expenditure whereas the Canadian federal, states and local governments respectively shares 41.8%, 42.5% and 15.7% of national expenditure. From this discussion, the crucial point which deserves attention is the state of expenditure decentralization at Ethiopia local governments. Ethiopia has pushed much of its expenditure to local governments better than those afore mentioned countries while revenue decentralization is not proportionate with it.

- **Trends and Performance of Local Expenditure in Oromia Region**

This section discusses the share of expenditure between the state and local governments; trends and expenditure growth rates; the share of recurrent and capital expenditure in state and local government expenditure; the percentage of salary expenditure in aggregate state and local government expenditure and the proportion of expenditure for administrative and general, economic and social sectors from aggregate states and local governments of Oromia region from 1998-2005 E.C.

Table 2: Trends and Share of State and Local Government Expenditure in '000' Birr (1998-2005 E.C)

Particular /year	1998	1999	2000	2001	2002	2003	2004	2005	Average
Aggregate	3043486.8	3815609.9	5479734.57	7161118.5	8346556.4	10523084.8	16565147.	21187988.2	9515340.8
State	1227169.9	1563971.7	2228245.5	3003746.5	3336322.5	3862739.14	8597715.2	11445719.6	4408203.7
%	40.32%	41%	40.66%	41.95%	39.97%	36.71%	51.9%	54.02%	43%
Local	1816316.8	2251638.3	3251489.07	4157372	5010235.8	6660345.7	7967431.7	9742268.5	5107137.2
%	59.68%	59%	59.34%	58.05%	60.03%	63.29%	48.1%	45.98%	57%

Source: Researcher computation from Oromia BOFED date

The above table point out two essential features of state and local expenditure for past eight years. The first crucial point is the share of state and local government in aggregate regional expenditure. During this period, the average share of aggregate regional expenditure between state and local government is 43% and 57% respectively. This clearly indicate, nearly 60% of aggregate regional expenditure is decentralized to local government in Oromia region which provides over all image of the state of expenditure decentralization between the state and local government in Ethiopia. Oromia regional government state further pushed most of its expenditure towards local governments such as urban and district localities in the regions and unless this is supported with adequate own source revenues or appropriate fiscal transfer, mismatch between assigned revenue and expenditure could occur and this would be more elaborated in next section under revenue decentralization in Ethiopia. The second essential point is the magnitude and level of change in aggregate, state and local expenditure during the period under consideration. The aggregate regional expenditure is escalated from over 3.04 billion birr in 1998 E.C to 21.19 billion birr in 2005 E.C which showed an average annual

growth rate of 28.45%. From this, the regional sector bureaus expenditure alone increased from 1.23 billion birr in 1998 E.C to 11.45 billion birr in 2005 E.C which constitute 35.9% of an average annual growth rate. Similarly, aggregate expenditure for local governments has grown from 1.82 billion birr in 1998 E.C to over 9.74 billion birr in 2005 E.C and this showed an average annual growth rate of 23.95%. The essential point which deserves attention is the rate of expenditure growth for the state and local governments. The rate of expenditure growth for these tiers of government is crucial and it at least requires proportionate or more level of own source revenue growth rate during the same periods for healthy existence and sustainability of state and local government.

The proportion of recurrent and capital expenditure is another important indicator of expenditure performance at local government levels. The level of regional capital expenditure is increased from over 1.20 billion birr in 1998 E.C to over 3.34 billion birr in 2002 E.C whereas the amount for local governments has increased from 1.82 billion birr in 1998 E.C to over 5.01 billion birr in 2002 E.C. The share of capital expenditure for regional and local governments is 40.18% and 59.82% respectively. Higher level of capital expenditure at local level is appropriate and fair for adequate capital formation at local level but in comparing with the level and aggregate expenditure at regional level, it seems not proportionate.

The recurrent expenditure at regional level rose from over 913.58 million birr in 1998 E.C to over 1.73 billion birr in 2002 E.C while recurrent expenditure for local government has escalated from over 1.73 billion birr in 1998 E.C to over 4.40 billion birr in 2002 E.C. The proportion of recurrent expenditure for state and local governments is 39.85% and 60.15% respectively. The region allocate an average of 21%, 39.1% and 39.9% for its administrative and general, economic and social sectors while local governments allocate an average of 24.66%, 18.25%, and 57.09% for its administrative and general, economic and social sectors during 1998 -2002 E.C. The share of salary expenditure from aggregate local expenditure is within 68%-80% range. This proportion is very high and expected to increase in the future too and unless suitable mechanism is sought, local government flexibility to increase capital expenditure may be endangered.

- **Expenditure Decentralization in Ethiopia, Theoretical Frame Works and International Experience: A Comparative Evaluation:** This subsection presents broad guidelines for expenditure decentralization as established by theoretical frame works and provides over all comparative evaluation on consistence or inconsistency of Ethiopia experience with this and prevailed international experiences. Fiscal federalism authors such as Oates (1972) gives broad guidance in sharing expenditure responsibilities among different tiers of governments. This author argues "each public service should be provided by the jurisdiction having control over the minimum geographic areas that would internalize benefits and costs of such provision". Two main generalizations can be made from the quoted sentences of Oates. First, division of expenditure responsibilities to each level of government should match with minimum geographic areas covered by each level. This implies, nationwide, region wide and local wide expenditure functions are

best suit to federal, regional and local governments respectively. Second, division of expenditure responsibilities based on minimum geographic coverage facilitates linkage of cost with benefit. This means, each level of governments can cover cost of each services and cost recovery mechanism from service recipients can be made through taxation or user charge on each services provided at each levels. The author further argues, such assignment of expenditure responsibilities in addition to link cost with benefit received, improves efficiency, accountability, easy manageability, and local autonomy specially for local governments through matching local services with local needs, preferences, and priority.

Thus, based on this broad guidance, federal government should be given exclusively expenditure responsibilities for stabilization function which includes fiscal and monetary policy including banking and currency and all those services whose benefits are nationwide such as defence, international trade, foreign affairs, interstate commerce, immigration and those services which requires huge administrative and compliance cost and redistribution functions which may be exercised through specific grants or joint provision with sub national governments. Those services which vary with geographic areas and those services whose benefits and costs have spill over effect from regional governments can be joint or provided through federal specific grant. Regional government can be given all those services whose scope and benefits are regional in nature and have spill over effect from local. All the rest services which are local in its scope best suit local governments where the federal and regional governments have its own role in defining minimum service provision standards to ensure uniformity across the nation. The following table provides the summary of expenditure decentralization based on broad guidance of theoretical frame works discussed above.

Table 3: Conceptual Bases for Expenditure Decentralization

Expenditure Category	Responsible for Policy & Standards	Responsible for Provision & Administration	Comments
Defense	F	F	Benefits and costs are national in scope
Foreign affairs	F	F	Benefits and costs are national in scope
International trade	F	F	Benefits and costs are national in scope
Monetary policy, currency & banking	F	F	Benefits and costs are national in scope
Interstates commerce	F	F	Benefits and costs are national in scope
Transfer payment to persons	F	F	Redistribution
Subsidies to business & industry	F	F	Regional development, industrial policy
Immigration	F	F	Benefits and costs are national in scope
Unemployment insurance	F	F	"
Air ways and rail ways	F	F	"
Fiscal policy	F S	F S L	Coordination is possible
Regulation	F	F S L	Internal common market
Natural resources	F	F S L	Promotes common market

Environments	F S L	S L	Benefits and costs may be national, regional or local in scope
Agriculture & industry	F S L	S L	Significant inter jurisdictional spillover
Education	F S L	S L	Transfers in kind
Health	F S L	S L	Transfers in kind
Social welfare	S L	S L	Transfers in kind
Police	S L	S L	Primarily local benefits
Water, sewage& refuse	L	L	Primarily local benefits
Fire protection	L	L	Primarily local benefits
Parks and recreations	F S L	F S L	Primarily local responsibility, but national and provincial governments may establish own parks
High ways			
Interstates	F	S L	Internal common market
Provincial or regional	S	S L	Provincial benefits and costs
Interregional	S	S L	Interregional benefits and costs
Local	L	L	Local benefits and costs
Spending power	F S	F S	Fiscal transfers to advance own objectives

F= federal responsibility; S= states responsibility; and L= local responsibility

Source: An war Shah: The Reform of Intergovernmental Fiscal Relations In Developing & Emerging Market Economies, Policy and Research Series No. 23, World Bank, 1994.

For comparison purpose, it is advisable to remember constitutional division of expenditure in Ethiopia. Such functions as defence, federal police, formulation and execution of national policies and strategies, setting national standards for health, education, science, technology, culture and historical heritages, setting standards, provision and administration of fiscal and monetary policy, banking and finance, foreign police, setting standards for natural resource conservation, land, historical sites and objects, setting standards, provision and administration of air ways, railways, water ways & sea transport & major roads which links two or more states, postal services, telecommunication services, set standards and administer utilization of water on rivers & lakes which link two or more states or cross national boundary, set standards for interstates commerce, set standards & administer international trade, national election, set standards for and administer the issues of nationality, immigration, invention, copy right, and possession of arms and weapons are federal government responsibility.

The states are constitutionally given the following expenditure responsibility in addition to its residual power which includes regional law making, setting standards for and execute regional policies, strategies and plans, administer land and natural resources, legislate and administer regional revenue, prepare and execute regional budget, set standards for and administer regional civil services as per national standards, administer regional police and security forces. In addition to this, national constitution stipulate that both federal and regional governments are respectively responsible to bear all financial expenditures necessary to carry out all responsibilities and functions assigned to them.

As stipulated in regional constitution, rural local governments/districts are constitutionally responsible to prepare and execute local plan and programs, monitor and administer agricultural activities, natural resource conservation and maintenance, collect and

administer taxes and administer local police. Other regional related law provides the following expenditure responsibilities to urban local governments which includes construction and management of urban roads, sewages and drainage lines, parks and recreation areas, prevention and controlling of urban pollution, health, education, ambulance services, public notary and vital statistics services, abattoir, cemetery and market services, provision and administration of sports, theatres, public libraries, museums, urban public transport, water supply, electricity, telephone, urban police, urban judicial services, fire control, and food and drug inspection services.

A comparison of expenditure decentralization made by Ethiopia constitution with what is made under theoretical frame works clearly indicates the existence of alignment and deviation between the two. The deviations or inconsistencies are emanated from such areas as fiscal policy, environments, industry and agriculture, education, health, and police.

Theoretical frame works gives federal and regional states to set standards for fiscal policy and also requires the three levels (federal, states, & local) to participate in provision and administration of the same in coordinated manner while the sole responsibility to set standards and administration for fiscal policy is given to federal governments in Ethiopia. Theoretical frame works provides all the three levels of governments to participate in setting standards for environmental conservation and protection since benefit and costs of this function can be born national, regional and local while constitutional division of expenditure in Ethiopia provides these duties to federal government alone and gives regional and local governments to administer, protect and conserve the same. In health, education, agriculture and industry too similar fashion is followed by theoretical frame works by giving responsibility to set standards in this area for three levels of governments in coordinated manners while the responsibility for provision and administration is given to states and local governments. But Ethiopia constitution gives the responsibility to set standards to federal governments while responsibility for provision and administration is given to states and local governments as it is true in theoretical frame works. Conceptually, police services are primarily local responsibility based on benefits received principles while this function is belongs to federal, regional and local governments in Ethiopia in a duplicated manner. In general, there is broad alignment between constitutional and theoretical expenditure decentralization except those inconsistencies.

A comparison among constitutional expenditure decentralization of Ethiopia with other nations like Nigeria, Germany, Brazil, Canada showed general consistence while one point deserve attention. National constitution of these nations provides legal recognition and clear expenditure sharing to all local governments in the countries. However, Ethiopia constitution does not gives explicitly recognition to local governments in the nation but implicitly through regional constitution and other related laws. This may result in variation in expenditure assignment to local governments which limit uniformity among different locality and also may undermine the key place they have in providing quality services to local residents which weaken local accountability.

Conclusion

This paper has examined legal and practical issues of expenditure decentralization in Ethiopia in general and particularly its current performance at sub-national level. It is evident that Ethiopia local governments are given with more widened and varied responsibilities which enforce them to cover nearly one fourth of national aggregate expenditure and nearly two third of regional aggregate expenditure and if properly executed that enable them to serve the most marginalized & largest segment of society with deep rooted socio-economic problems. However, legal framework that assign expenditure at sub-national governments in Ethiopia is limited by inadequate legal frame works that divides expenditure among three levels of government which involves lack of clarity and details in expenditure division that leads to ambiguity, confusion, overlapping and duplication of duties and responsibility which weaken local accountability; variation of constitutional stipulation from practical application in some functional responsibilities; absence of provision for duties and functional responsibilities of local governments in national constitution that impact uniformity in expenditure decentralization at local governments as well as mismatch between revenue and expenditure decentralization. These limitations are systemic and structural and if not properly and immediately addressed, would result in poor local service provision, weak citizen based local accountability and undermine healthy existence and sustainability sub-national governments in the country.

Recommendation

At this moment, it is most crucial to look at ways and means to strengthen Ethiopia local governments to enable them to appropriately carry out their widened and numerous functional responsibilities with which they are legally assigned. If local governments in the nation are to remain fiscally healthy and sustainable, there should be positive political will and administrative commitment on the part of governments to urgently carry out the following recommended policy direction.

Assignment/division of responsibilities should be given formally, clearly and in a detailed manner at states and local governments' level. For legality purposes, the division can be given in national constitution at federal level and devolved to states and local governments to create uniformity and to give due attention in service provision for each locality and this can be made in the form of executive regulation and directives to ease its timely amendment. To achieve clarity and required details, the functions can be listed in the following manner. Clearly list and detail responsible level of government for each level of education such as kindergarten, primary education, secondary education, preparatory education, technical and vocational education & college level education. Also for health, similar fashion shall be followed to delineate responsible level of government in preventive and curative services such as health extension package services, health posts services, clinics services, health centres services, district hospitals services, referral hospitals and other tertiary level health services. In drinking water supply too, detail and delineate the projects at different level based on its capital expenditure requirements and assign it to different level of governments. Similar fashion shall be followed for every function provided by public sectors such as regional, zonal

and local roads and other services. In doing so, make sure that the responsible level of government for recurrent and capital expenditure as well as service provision and administration is appropriately and exhaustively assigned.

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