

LINKING FISCAL DECENTRALIZATION AND LOCAL FINANCIAL
GOVERNANCE: A CASE OF DISTRICT LEVEL DECENTRALIZATION IN
THE AMHARA REGION, ETHIOPIA

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DECLARATION

I, Meselu Alamnie Mulugeta, hereby declare that this PhD thesis entitled “*Linking Fiscal Decentralization and Local Financial Governance: a Case of District Level Decentralization of the Amhara region, Ethiopia*” is my own work and that I have not previously submitted it, in part or in its entirety, at any university for a degree or examination. All sources that I have quoted have been indicated and acknowledged.

Signed: _____ Date: _____



ABSTRACT

The prime aim of this thesis is to examine the link between fiscal decentralization and local financial governance in fiscally empowered *woreda* administrations (districts) of the Amhara region in Ethiopia. Local financial governance has been one of the reasons and arguably the crucial one that drives many countries to subscribe to fiscal decentralization. The presumption is that public finance mobilization and spending can be implemented in a more efficient, responsive, transparent and accountable manner at the local government level than at the centre. Nonetheless, empirical studies show that the linkage between fiscal decentralization and these local financial governance benefits is not automatic. Several developing countries that have tried to implement fiscal decentralization have failed to realise the promised financial governance gains largely due to design and implementation flaws.

A review of the various theoretical perspectives suggest that local financial governance is not a factor of just devolution of fiscal power but also other intervening forces such as financial management system, citizen voicing mechanisms and the social and political context. It is within the framework of this theoretical argument that this study sought to investigate how the mixed and incomplete efforts of the district level fiscal decentralization program in the Amhara region has impacted on financial governance of *woreda* administrations. The study assesses the efficacy and role of various initiatives of the district level decentralization program of the Amhara region, such as the fiscal empowerment of *woredas*; financial management system reforms; citizen voicing mechanisms and political party structures and system in influencing *woreda* financial governance.

To this end, the investigation process largely took the form of an interpretative approach employing a combination of various methods of gathering the required qualitative and quantitative data from respondents and documents in the selected four case *woredas* or districts.

Findings on the assessment of the intergovernmental relations to measure the adequacy of devolution of fiscal power indicate that, despite the constitutional provision that affords the *woredas* the power to mobilize and spend public finance for the provision of various local public services, several design and implementation shortcomings have constrained *woreda* administrations from exercising such power effectively. As a result, the district level fiscal decentralization framework of the Amhara region appears to have features of decentralization by de-concentration rather than by devolution.

Despite the extensive financial management reforms that have been undertaken, the research findings indicate that the financial management system in *woreda* administrations faces a range of challenges triggered largely by important design and implementation shortcomings. It is observed that the 'getting the basics right first' reforms in various financial management processes of *woreda* administrations are not only incomplete but also found to be inconsistent with each other and therefore could not serve their purpose. Furthermore, there has not been any other change in the last two decades since the initial implementation of these reforms despite such serious shortcomings. Most importantly, *woreda* administrations could not properly implement the techniques, methods, procedures and rules that constituted the reform process due to serious implementation problems such as the lack of manpower competency and problems associated with the lack of administrative accountability.

The results of the study's assessment regarding the practice of social accountability show that currently there is no arrangement for citizens to participate in public financial decisions and controls. In general, people have little interest in participating in the meetings organised by *woreda* government. Formal and informal community based organizations suffer from important capacity constraints, and the lack of strong civil society organizations to support these community based organizations makes such problems more difficult to resolve. However, local communities did indicate that they would be interested in participating in financial and budgeting processes if a number of conditions were satisfied. These included the availability of adequate and relevant information; the introduction of genuine forms of participation in which citizens were empowered; and evidence that popular participation was making a visible impact on financial decisions related to service delivery in their surroundings.

The assessment of the ruling party structure and system suggests that the centralized system of the regional ruling party has created a dominant relationship between party organs at various levels so much so that it has undermined the fiscal discretionary power of *woreda* administrations; blurred relationship between party and *woreda* financial management systems; and undermined direct voicing. Consequently, the genuine devolution of fiscal power, the effective implementation of the decentralised financial management systems, and direct participation of citizens are unlikely to be realised within the current ruling party system and structure.

Moreover, the study shows that the intergovernmental relations, the implementation of financial management reforms and direct involvement of people influence each other. The evidence suggests that the effective implementation of the financial management reforms is not possible without genuine devolution of fiscal power and arrangements for the active involvement of citizens.

Despite these limitations and shortcomings, the research nevertheless reveals that the decentralization process has achieved some positive results, such as the expansion of access to basic services; the economic use of resources for such expansion; the mobilization of resources from local communities; and the streamlining of a number of bureaucratic processes. However, the prevalence of various financial governance challenges such as excessive budget transfers; low budget execution; uneconomical procurement; illicit spending; budget pressure; inadequate revenue collection; poor financial transparency; and compromised accountability in fiscally decentralized *woreda* administrations means the promised local financial governance benefits of fiscal decentralization are remain largely unrealized. The evidences in the study strongly suggest that the shortcomings in the design and implementation of intergovernmental relations, financial management system reforms, and direct voicing mechanisms are responsible in combination with each other for these local financial governance challenges.

Thus, the study concludes that local financial governance is a result of a complex network of interactions of intergovernmental relations, public financial management arrangements and social accountability mechanisms. The success of initiatives to improve local financial governance is dependent on contextual factors such as the capacity of civil society organizations and the ruling party system and structure. Therefore, while recommending further efforts of genuine devolution of power, in particular through the continuation of the financial management reform processes towards full-fledged reforms, the study contends that opening enough space for the proliferation of civil society organizations and alternative political parties will be the main priority.

KEYWORDS OR PHRASES

Ethiopia

Amhara Region

Woreda Administrations

District Level Decentralization

Fiscal Decentralization

Local Financial Governance

Intergovernmental Relations

Financial Management Reforms

Social Accountability

Political Party System and Structure



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ABBREVIATIONS

ACSI	Amhara Credit and Saving Institute
ADA	Amhara Development Association
ADLI	Agricultural Development Led Industrialization
ANDM	Amhara National Democratic Movement
ANRS	Amhara National Regional State
ARAG	Amhara Regional Auditor-General
AWA	Amhara Women's Association
BoCB	Bureau of Capacity Building
BoFED	Bureau of Finance and Economic Development
CBDS	Capacity Building for Decentralized Service Delivery project
CDF	Community Development Fund
CRC	Community Report Card
CSO	Civil Society Organizations
DLDP	District Level Decentralization
DSA	Decentralization Support Activities
EPRDF	Ethiopian People's Revolutionary Democratic Front
FGD	Focus Group Discussion
FTA	Financial Transparency and Accountability program
GAAP	Generally Accepted Accounting Principles
GTZ	German Technical Cooperation
INTOSAI	International Organization of Supreme Audit Institutions
LIG	Local Investment Grant
MCB	Ministry of Capacity Building
MDGs	Millennium Development Goals
NEB	National Election Board
NGO	Non Governmental Organizations
PBS	Protection of Basic Services
PDRE	Peoples' Democratic Republic of Ethiopia
PPB	Participatory Planning and Budgeting
PSCBP	Public Sector Capacity Building Program
SNNPR	Souther Ethiopia Nations, Nationalities and Peoples Region

TPLF	Tigray People’s Liberation Front
TVET	Technical and Vocational Education and Training
UNDP	United Nations Development Program
WASH	Water, and Sanitation and Health Program
WOFED	Woreda Office of Finance and Economic Development



CHAPTER ONE: INTRODUCTION AND BACKGROUND

1.1 BACKGROUND OF THE STUDY

Ethiopia has had a long tradition of centralist government structures. However, the situation changed, at least in theory, when the current government¹ assumed power in 1991, proclaiming a decentralized form of government in its 1995 constitution and making the country a federal democratic republic. The constitution called for the establishment of a government structure that has four tiers: federal, regional, *woreda* (district) and *kebele*². The first wave of decentralization was centered on creating and empowering regional governments. Accordingly, regional states were empowered, among other things, to issue regional constitutions and other laws, and plan and execute social and economic development programs (Tegegn, 1998; Yigremew, 2001). The federal constitution does not state the powers and functions to be devolved to *woreda* governments. Instead, it puts an obligation on regional governments to establish *woreda* administrations and to provide them with adequate powers. In practice, however, regional governments had often been reluctant to devolve power, thus denying *woredas* the opportunity to exercise such devolved powers (Worku, 2005; Tegegn and Kassahun, 2007).

However, realizing the importance of devolving power to *woreda* governments as the only means to promote genuine forms of democratic decentralization and to bring government closer to the people, the Amhara Regional Government along with three other larger regional governments³ (including Oromia; Southern Nations, Nationalities and People's Region; and Tigray) has put in place a series of measures to push decision making authority and public service delivery to the *woreda* level. This is known as the second wave of decentralization (Worku, 2005).

¹ The Ethiopian People Revolutionary Democratic Front (EPRDF) came to power in 1991 overthrowing the communist *Derge* regime after 17 years of guerrilla fighting. After a number of elections the EPRDF is still in power.

² *Kebeles* are formed in a geographical area which is inhabited by 5,000 or more people. So far *kebeles* do not have their own functions and budget. Rather they work as delegated branches of their *woreda* administration

³ The Ethiopian Federal Government has 9 regional states and 2 city administrations

Proclamation No.59/2001 of the revised constitution of the Amhara Region provides for district level decentralization. Accordingly, although *woreda* administrations are recognized as hierarchically subordinate to the regional government in a number of respects, they also now have the power to prepare and decide on economic development and social service plans within their own territorial area. This proclamation not only separates the three organs of government at *woreda* level (*Woreda* Council, *Woreda* Executive and Judiciary) but also clearly defines their respective responsibility as well as authority. This *woreda* level decentralization is not limited to the political and administrative dimensions of decentralization, but also includes fiscal decentralization which provides *woreda* administrations with the power and responsibility to raise, allocate and spend public resources according to the needs of the local community (Amhara National Regional State (ANRS), 2001; Worku, 2005; Muhammed, 2007).

The district level fiscal decentralization framework of the region has shifted the responsibility and power of providing services to *woreda* administrations in areas such as agriculture, rural water supply, rural road, primary education and health, natural resource and rural energy to *woreda* administrations. To undertake such functions *woredas* are also empowered to collect and utilize local taxes and levies (including rental income tax, rural land use fees, agricultural income tax and licenses, and fees and charges rendered by *woreda* offices) when approved by the regional government (Worku, 2005; Garcia & Rajkumar, 2008).

As part of this effort, the government of Amhara National Regional State (ANRS)⁴ started allocating grants directly to *woreda* governments by using the block grant formula. The first block grant formula (the replica of the federal government) took in to account population size, the development disparity index⁵, and own revenue performance to allocate the grant to *woredas*. This became operational in 2002. To improve the problems of some *woredas* that suffered from budget deficits, the formula

⁴Refers to the official name of the region.

⁵ Computing the development disparity index was a complex process that took into account five factors including health index (made up of six components such as number of clinics, number of doctors, number of nurses, number of health assistants, number of hospital beds, and mortality rate of children under five); road length per KM square; electric power measured as KWH per thousand people; telephone lines per thousand people; and percentage of people with safe drinking water.

was revised⁶ in 2005 (Mohammed, 2007). Finally, the complexity of the formula and the difficulty of getting data forced the region to switch to a unit cost approach. A unit cost approach is a needs based approach which can help to provide well-developed *woredas* with the needed high recurrent fund and *woredas* with low level of public services with the needed high investment fund (Garcia & Rajkumar, 2008).

However, many scholars have expressed concerns about the capacity of woreda administrations to utilize and spend public finance in an effective, efficient, transparent and accountable manner for the socio-economic improvement of their constituents. Hence, this research sought to provide an in-depth analysis of the local financial governance situation of fiscally empowered *woreda* administrations in the Amhara region to unpack the possible gaps in the financial management and accountability systems. Local financial governance here refers to the fiscal aspect of local governance whereby local public finance is spent in an efficient, effective, responsive and accountable manner with greater citizen participation. It is not just a technical process that takes place in the office of the concerned local government executives, but it is a political and social process in which not only bureaucrats and their employees but also electoral bodies, higher level authorities, civil society and constituents are involved. It is a process in which outcomes are affected not only by formal behaviors but also by informal behaviors and interactions of those stakeholders (Yilmaz et al. 2008). Therefore, this study is an inter-disciplinary study which employs concepts and theories of governance that are often used in public finance, political science, sociology and public administration in examining the financial management systems and practices of fiscally decentralized *woreda* administrations. The study will not address all the debates on the concepts of decentralization in general. Rather it attempts to probe the key implementation challenges related to fiscal decentralization in developing countries with specific reference to local financial governance.

⁶ To take into account population size, own revenue performance, development disparity index and recurrent expenditure need with weights of 50%, 20%, 15% and 15% respectively

1.2 PROBLEM STATEMENT

Central control of government spending and taxation has often been blamed for many of the financial governance problems experienced by developing countries. The argument is since central government is distant from citizens and does not possess detailed information about localities, financial decisions made at the centre cannot address diverse preferences and priorities of several local areas in a nation. The World Bank (2000) argues that under such circumstances citizens have little say in central government decisions and cannot effectively hold public officials accountable for the consequence of such decisions. Therefore, fiscal decentralization is often seen as a panacea for addressing such challenges. The view that fiscal decentralization is an effective tool for improving effective and efficient utilization of public finance in line with the desire of the people has been widely accepted. The presumption is that local public officials are closer to the people and have better information than their counterparts in the central government about the desire of people. Thus they are not just able to match their constituents' preferences and mobilize local resources but also to use local knowledge to utilize public resource more effectively and efficiently (Oates 1999; Oates 2005; Garzarelli 2004). Moreover, it is argued that fiscal decentralization positively reinforces financial governance by bringing government closer to the people and by providing people the chance to genuinely participate in public finance decisions that affect their daily lives (Crook and Manor 1998; Blair 2000). The 1995 federal constitution of Ethiopia as well as the Amhara regional constitutions' endorsement for the decentralized government system implies that financial governance is one of the reasons for their decentralization program (FDRE, 1995; Zikre Hig, 2001).

Nonetheless, the assumption that fiscal decentralization leads to local financial governance is not without critics. A review of fiscal decentralization efforts indicates that local governments in many developing countries continue to suffer from weak financial management and accountability systems that include high indebtedness, wastages and misuse of public fund, irregularities and malpractice in procurement, inappropriate allocation of resources, inefficient revenue systems, and consequently weak delivery of public services. The rush to decentralize taxation and spending power

has not often been matched by efforts to improve financial governance at the local level (Baltic and Yilma 2007; Fgeldstad 2001; Ott and Bajo 2001).

This means further efforts are required in order for fiscal decentralization to deliver its promised benefits. While fiscal decentralization provides the means, it does not guarantee sound financial governance. Nor does it guarantee in particular that the money collected and spent by local government would be directed towards addressing the desires of the people (Schaefer and Yilmaz 2008). There is no reason to believe that local governments always act in a more socially desirable manner than their central government counterparts do when they decide on the collection, allocation and spending of government finance (Shah 2006). Hence, fiscal decentralization needs to be accompanied by efforts to improve the manner in which decisions on the collection and spending of public finance are made, and to make local officials accountable for such decisions. Financial governance at local levels requires designing and practicing effective financial management and accountability system in addition to decentralizing collecting and spending responsibilities. Having a system that makes local governments accountable to higher level government and an administrative system that ensures public finance is protected from misuse, wastage, abuse, and embezzlement by officials and bureaucrats is important. But it is also equally important to find ways that guarantee that local authorities are responsive to local needs and accountable to their constituents for their decisions and their consequence (Schaefer and Yilmaz, 2008).

In view of this fact, the question in the case of district level fiscal decentralization in the Amhara region is whether the necessary arrangements have been put in place for *woreda* governments to capture the promised benefits of decentralization, or whether they will continue to suffer from the consequence of weak financial governance. Several studies have indicated that the Amhara regional government has been aware of the challenges and dangers inherent in the decentralization of powers and responsibilities to lower levels of government, and has introduced a number of reforms designed to address them. Through its Decentralization Support Activities Project, the regional government, for example, has introduced reforms in the areas of planning, budgeting, disbursement, procurement, accounting, and cash management and auditing, in line with the ‘getting the basics right first’ approach. Worth mentioning is the introduction of new

charts of accounts, new budget classifications, double entry book keeping system, modified cash accounting system, open bid and bulk procurement methods, single pool finance systems and sample based post-audit systems in *woreda* finance systems (Muhammed, 2007; Peterson, 2011).

A number of in-service training programs have also been offered to *woreda* administration officials and staff members, as well as employees deployed from regional and zonal offices to *woreda* administration offices. Furthermore, guidelines and manuals have been prepared and distributed to guide their works (Muhammed 2007; Worku 2005). Moreover, the then Ministry of Capacity Building through its District Level Decentralization Program (DLDP)⁷ has been coordinating and supporting the reforms across all regions to minimize the possible challenges of implementing fiscal decentralization (Worku 2005). Some of the roles played by the ministry in the district level decentralization process include the drafting of legal and policy frameworks; designing the governance structure of *woredas*, preparing manuals for reforms; formulating block grant transfer formula; and scaling up of decentralization implementation achievements from one region to another (Ministry of Capacity Building 2007).

While the adequacy, appropriateness and sustainability of such reforms is yet to be studied, other essential elements of local financial governance advocated in the international literature appear to be seriously lacking. For example, the district level decentralization reform process does not have any legal instrument that clearly specifies the functional competencies devolved to *woreda* administrations. The legal framework proposed by DLDP has not been ratified by regional government council as legally binding. Although the constitution requires public officials to be transparent and accountable, to date there is no adequate arrangement or legal framework to enforce it. Elements of democratic governance, such as multiparty election systems and check and balance systems which are generally regarded as a fertile grounds for financial governance are weak at *woreda* level and do not properly function as local accountability instruments in Ethiopia in general (Dickovic and Tegegn 2010; Meheret

⁷DLDP is a program under the broad Public Sectors Capacity Building Program (PSCBP) supported primarily by the World Bank established for coordinating all decentralization implementation processes in the country

2007; Vaugan and Tronvoll 2003; Yilmaz and Vonugopal, 2008). Direct voicing by citizens is literally nonexistent in local financial decision making process due to weak civil society and media even at national level (Dessaiegn, 2002; Pausewang, et.al, 2002; Dickovic and Tegegn, 2010). Moreover, the ruling party that has ruled the country for more than two decades maintains tight control through a highly centralized party structure which is often believed to be inconsistent with the essence of decentralization (Paulos, 2007).

To date there have been few studies to assess how such mixed and yet incomplete efforts have impacted on local financial governance. Little work has been undertaken in the Amhara region or the country as a whole to empirically examine how these different initiatives and forces have intermingled to influence *woreda* financial governance. In particular, there have been few studies of the impact of the political environment on the extent and effectiveness of the devolution of fiscal powers and the effective functioning of financial management systems in the *woreda* administrations. The majority of the studies on district level decentralization of Ethiopia have focused on the adequate devolution of fiscal power and the subsequent intergovernmental fiscal relations between regional governments and their respective *woreda* administrations. But this has not been sufficient to fully understand the challenges of decentralization, in particular because the intended socioeconomic changes for the people will not occur just by devolution of resources and powers to *woreda* administrations without ensuring that there are systems to ensure that resources are directed to provide an effective and efficient public service. This thesis attempts to fill this gap through a more comprehensive empirical investigation and analysis of all the relevant factors involved in the district level fiscal decentralization process in the Amhara region.

1.3 OBJECTIVES OF THE STUDY

The general objective of this study is to investigate the link between fiscal decentralization and local financial governance as well as intervening factors in fiscally decentralized *woreda* administrations of the Amhara region. Thus, the specific objectives of the study are:

- To explain the degree of fiscal decentralization and the resulting nature of fiscal relationship between the regional government and *woreda* administrations, and the impact on *woreda* financial governance
- To examine the local financial governance consequences of the financial management and political reforms put in place in *woreda* administrations as part of the decentralization processes in the Amhara region.
- To assess the arrangements those have been put in place to involve local citizens and civil society, as well as the impact of these on *woreda* administrations financial governance.
- To unpack how political factors, in particular the intra-party relation of the ruling party, have influenced the devolution of fiscal power, the working of *woreda* financial systems, and the involvement of citizens and civil society, together with the consequences for *woreda* financial governance.

1.4 RESEARCH QUESTIONS

There are two key research questions that this empirical study of the Amhara region seeks to address. These are:

- Have fiscal decentralization and financial management reforms of the Amhara region worked to promote or hinder sound and effective financial governance in *woreda* administrations, particularly in the absence of other needed reforms that are currently lacking?
- How factors such as the intergovernmental relations system, the public arrangements of governance, the social arrangements of governance, and intra-party relations of the ruling party influenced and shaped the financial governance situation of fiscally decentralized *woredas* in the Amhara region?

1.5 THEORETICAL FRAMEWORK

There are four important perspectives that can help to explain the relationship between fiscal decentralization and local financial governance. These are presented in more detail in Chapter 2 of this thesis). One approach is the fiscal federalism model which advocates fiscal decentralization based on a linear link between devolution of fiscal

power to local governments and local financial governance (Shah, 2006; Oates, 2004). Another approach is public choice theory which argues against such linear linkage assumption and suggests that interventions such as elections and checks and balance systems can have an important impact on the outcome of the decentralization process (Dollery and Wallis, 2001). A third approach is New Institutional Economics theories which emphasize the importance of institutions and suggest that in addition to formal institutions such as election rules and separation of power the inclusion of informal institutions that allow direct involvement of people in the local government financial allocation and utilization decisions (Shelanski and Klein, 1995; Shah, 2006; Putnam 1993; Dollery and Wallis, 2001). A fourth approach is New Public Financial Management (NPFM) which proposes ways of improving efficiency and financial transparency within local government bureaucracy (Pretorius and Pretorius, 2009).

Although highlighting different elements involved in the decentralization process, these four approaches are not necessarily mutually incompatible or in conflict with each other. This suggests that financial governance at the local government level can be best understood by using a combination of such approaches. This is true especially in developing countries where the relevance and efficacy of conventional approaches appear not to be effective. Therefore, the theoretical framework employed in this study brings the various approaches suggested by those theories together in an effort to develop an integrated financial governance approach.

The diagnostic framework developed by Yilmaz et al (2008) for assessing local governance in decentralized countries adopts a similar approach and will be drawn upon to guide the theoretical framework for this thesis. As the Yilmaz et al framework was formulated to assess local governance in general, modification will be made in this study to make it specifically useful for analyzing local financial governance. It is also important to note that the Yilmaz et al framework provides a useful but incomplete assessment of the local governance situation based on formal policies, structures and institutions at country level. A more detailed and sophisticated understanding will also require a detailed and critical investigation of additional factors such as the impact of formal and informal structures, behaviors and power interactions which may be specific to a country, region or local context.

Thus, the theoretical framework for evaluating local financial governance study starts by examining the theoretical propositions on the devolution of power and the resulting intergovernmental relations as well as its impact on financial management and accountability of local governments. Generally, when responsibility and power to decide on raising and spending public resources are devolved to levels of government closer to the people, the more information is available to government about the preference and needs of people (Oates, 1972). The more clearly such devolved powers are stated, the lesser central government is likely to interfere in local government affairs and make unilateral decisions. Consequently, local officials are more likely to take full responsibility for their decision on the allocation and use of resources. The clearer that intergovernmental relations become, the more likely it is that citizens will become more aware of whom is responsible for which public service provision, and will be more likely to take action to hold their local officials accountable (Usui, 2007; Bahl, 1999; Shah 1998).

At the same time, the more free and fair local elections are, the less likely politicians and officials will be to indulge in opportunistic behaviour, resulting in financial and budget decision which are more reflective of citizens' interest (Crook and Manor, 1998; Blair, 2000). Furthermore, the more clearer the separation and balance of power and capacity between legislative and executive bodies of local government become, the more likely it will be that financial resource allocations will be made efficiently and responsively in line with citizen preferences (Lankina, 2008). In addition, the impact of various arrangements such as the right of people to recall representatives for re-election, reserving seats for minority groups in the local council and allowing non-partisan candidate to run for election should also be examined. The more such arrangements are exercised, the less the tendency will be for local councillors to be captured by elite groups and vested interests (Packel, 2008).

Direct citizen participation and involvement of civil societies in financial activities as well as the impact on financial governance will be examined in detail in this thesis. It is argued that the more civil society organizations exist, the more social capital of citizens will be developed, leading potentially to stronger forms of accountability and the more

responsive and efficient allocation and use of resources ((Yilmaz, et.al; 2008 Putnam, 1993).

Nevertheless, all these efforts will not be able to guarantee sound local financial governance without appropriate financial management and accountability systems within local government. This means the reforms in planning, budgeting, accounting, controlling, reporting and auditing systems undertaken in the local government must be assessed in terms of their capacity to help managers in the bureaucracy to spend public money in an economic and prudent manner, as well as to provide adequate financial information to local government councillors and officials, as well as civil society and community organizations (PEFA, 2008).

Hence, the framework suggests that the more the financial management reforms allow meaningful linkage between preferred policies and medium term expenditure plans; between planned activities and budget; and between financial performance and physical performance, the more likely spending will be responsive to the need of the citizens. Furthermore, financial information reported to citizens, local council and civil society will be more understandable, reliable and complete, thus facilitating improved financial management and accountability at the local government level (PEFA, 2008; Pretorius and Pretorius,2005).

Furthermore, the more local political parties are independent from central political party, the less likely it will be that client-patron relationships will exist, and that the fiscal autonomy of local governments will not be rhetorical. At the same time, the more likely it will also be that local government officials (both elected and appointed) will take full responsibility for and be disciplined in their financial decisions, and are likely to be more accountable to their citizens than to their central political party masters (Packel, 2008)

1.6 SIGNIFICANCE OF THE STUDY

The lack of adequate local financial management and accountability systems is one of the implementation weaknesses of fiscal decentralization in many developing countries. District level decentralization in the Amhara Region commenced a decade ago. Despite

the fact that this period provides an adequate time span to discern achievements and limitations of the reforms, to date little has been done to study the impact of financial management reforms in fiscally decentralized *woreda* administrations. It is hoped, therefore, that the findings of this study provide information that can help different actors in the decentralization process in Ethiopia and Amhara Region to understand achievements and setbacks, and determine what additional interventions are needed. The study is of particular relevance to international development partners that are supporting the district level decentralization process in Ethiopia.

Recent studies conducted by the World Bank (2008) in ten decentralized developing countries have employed the World Bank diagnostic framework to examine the link between discretionary power and accountability using mainly national data and legislations. Their findings show that in none of these countries have decentralization reforms conformed to the prescribed framework and the promised benefits have not been realized. However, the reason for these failures has not been fully answered. A detailed case study like this one that uses local data may help to fill this knowledge gap.

In addition, in developing countries most fiscal decentralization designs and implementation processes are criticized for simply imitating the experience of developed countries instead of innovating their own. The finding of this research will help to address this issue by indicating accountability and financial management systems and practices of the implementation of fiscal decentralization appropriate to the context of developing countries. Furthermore, the findings of this study could provide clear and comprehensive insights about the intricacies that exist between different forces involved in local financial governance based on empirical evidence, thereby contributing to current theoretical debates surrounding fiscal decentralization.

1.7 SCOPE OF THE STUDY

This thesis is designed primarily to assess the link between fiscal decentralization and local financial governance. Fiscal decentralization and various public and social arrangements of financial governance are at the centre of the study. But it has to be noted also that, in addition to fiscal decentralization, administrative and political

decentralization will also be discussed, as the issue of fiscal decentralization is in many ways inseparable from that of administrative and political decentralization.

Moreover, this study covers both the expenditure and revenue sides of *woreda* public finance; although not all issues related to revenue collection will be addressed. The problem of adequate revenue generating, particularly in the developing world, is a wider issue than those covered by this thesis.

Subsequent to the implementation of various financial management reforms, *woredas* also have also undergone another reform known as Business Process Reengineering (BPR) through which *woredas* have reorganized their organizational structure, working units, work techniques, operational processes, and roles of staff members aiming at leveraging efficiency and generating cost saving. Such reforms will also be referred to in this thesis, though not in extensive detail.

The study also focuses on some elements of service delivery performances of *woreda* administrations to specifically analyse budget allocation responsiveness and utilization. However, this does not mean that the study will cover the whole issues of service delivery in *woreda* administrations. Neither the scope of this study nor the collected data would allow a full coverage of the service delivery performance issue. Hence, it has to be noted that the purpose and coverage of service delivery issues of *woreda* administrations by this study does not go beyond showing the allocation responsiveness and utilization of public finance

1.8 ORGANIZATION OF THE THESIS

This thesis is organized in nine chapters.

Chapter One provides introductory background information for the study that includes the rationale of the study, the statement of the problem; objectives of the study; research questions; the theoretical framework of the study; the significance of the study; and the scope & limitations of the study.

Chapter Two (“Review of Literature”) is devoted to a critical review of the theoretical and conceptual literature with regard to decentralization, as well as to the establishment

of a theoretical framework for the study. In particular, a critical analysis is provided of the strengths and weaknesses of different local financial governance approaches, as well as the implications for the design and implementation of successful fiscal decentralization programs.

Chapter Three (“Decentralization in Ethiopia”) presents background information about the country and decentralization process, including a historical, political and socio-economic profile of the country. The nature of the country’s federal government system and overall governance system is also presented. Furthermore, the nature of district level decentralization that has been introduced across all the regions and its local governance implication is provided in this chapter.

Chapter Four (“Research Methodology”) provides a detailed explanation of the research design, sources of data, types of data, data collection instruments, reflections of field research and presentation of data and data analysis techniques.

Chapter Five (“Intergovernmental Fiscal Relationship and *Woreda* Financial Governance”) focuses on analysing the impacts of fiscal decentralization design and practice on local financial governance practices of district administrations. Hence, in this chapter, functional competencies, autonomy, financial resources devolved to district governments are evaluated. The complications or inconveniences that the current fiscal decentralization present on financial management processes such as planning, budgeting, budget implementation, reporting, evaluation and auditing are analysed. It also analyses the impact of decentralization on the autonomy of *woreda* administrations, as well as the extent of public involvement in financial management process.

Chapter Six (“Budgeting Reforms and *Woreda* Administrations Financial Governance”) addresses the link between public arrangements of budgeting in the *woreda* financial management process and the financial governance of *woreda* administrations. The budgeting reforms introduced as part of the district level decentralization initiative in the areas of *woreda* socio-economic planning, budget formulation, budget estimation, budget calendar, budget classifications and codes, budget appropriations and allocations and the impact on *woredas* financial governance are presented in this chapter.

Chapter Seven (“Reforms in Budget Implementation, Controlling and External Scrutiny and Local Financial Governance”) is a continuation of the issues discussed in Chapter 6, and covers reforms in the areas of revenue assessment and collection, procurement, cash management, accounting and auditing. It also focuses on the impact of the political environment on the efficiency, effectiveness and popular accountability of the financial governance systems introduced. A particular focus will be on the capacity of such financial management and political reforms to preserve financial discipline and safeguard public finances from wastage, corruption and other forms of abuse.

Chapter Eight (“Determinants of Local Financial Governance beyond State Realm”) addresses factors outside the domain and immediate control of *woreda* administrations that can nevertheless impact on the success of the effort to improve *woreda* financial governance. The chapter consists of two broad parts. The first part is about the assessment of social accountability practices and their impact on the financial governance of *woreda* administrations. It presents an assessment of the practice of different social accountability arrangements and their impact on local financial governance. First it assesses if the existing gaps in the public arrangements of financial management demand social accountability methods. Examination of existing social accountability practices and the impact on local financial government is presented. The challenges and opportunities of using both formal and traditional associations for strengthening the financial accountability of *woreda* administrations are also discussed.

The second part is about the impact of the regional ruling party system and structures on intergovernmental relations, the working of financial management systems and the effectiveness of initiatives to directly involve citizens in financial matters. A particular focus is on the impact of the link between intra political party relations and the local financial autonomy of *woreda* administrations. An assessment is also presented of how intra party relations of the ruling party obstruct or facilitates the role of various traditional and formal community associations to work as an alternative means of ensuring financial accountability in *woreda* administrations.

Chapter Nine (“Summary, Conclusion and Recommendations”) brings together both the theoretical literature and empirical findings to synthesize, summarize, draw conclusions

and make recommendations with respect to the fiscal decentralization process in the Amhara region.



CHAPTER TWO: REVIEW OF RELATED LITERATURE

2.1 INTRODUCTION

This chapter is designed to provide a conceptual and theoretical back ground for the study and consists of two broad parts. The first addresses the conceptual clarification of fiscal decentralization and local financial governance. The second discusses different perspectives regarding the link between fiscal decentralization and local financial governance.

2.2 FISCAL DECENTRALISATION AND LOCAL FINANCIAL GOVERNANCE

2.2.1 Defining Decentralization

The last two decades have witnessed an unprecedented move in the developing world towards transferring power and resources from central government to sub-national and local governments (OECD, 2004; World Bank 2005). Many developing countries have embarked upon decentralization for its supposed potential in promoting economic growth and good governance by improving the levels of public participation, accountability, administrative and allocative efficiency, and responsiveness to local needs (Litvack et al, 1998). Decentralization has therefore occupied an important position within the development discourse. Decentralization has been given different meaning in different countries. But, generally, it can be conceived as the transfer of powers and responsibilities for decision making, planning, management and resource allocation from the central government to administrative units, sub-national and local governments, semi-autonomous public authorities and parastatal organizations (Rondinelli et al, 1983; Litvack et. al, 1998). Recently, the meaning of decentralization has been extended by some authors to include privatization and transfer of power to civil society organizations (Oyugi, 2000).

The nature and scope of decentralization may vary from country to country depending on the objectives driving the reform. At one extreme, some countries have limited the

reforms to the least extensive form of decentralization, known as de-concentration, whereby selective administrative functions with very limited decision powers are passed down to geographically dispersed branches of central government ministries. Others have opted for delegated forms of decentralization through the transfer of specific authorities and decision making powers to indirectly central government controlled organizations, such as parastatals and semi-autonomous agencies. This power can be taken back by the central government at any time. Conversely, many countries have come to realize that strengthening local government through the devolution of discretionary power to elected forms of representative local government is an important element of advancing economic growth and governance at local level. This is decentralization by devolution whereby local governments are provided with clear discretionary power to decide independently over resources and to design and execute development plans and programs within broad national policy guidelines (Cheema and Rondinelli, 1983; Litvack et. al, 1998). Devolution involves a number of dimensions, such as political, administrative or fiscal decentralization. This study will focus primarily on the latter dimension, namely fiscal decentralization, although it is recognized that for effective forms of fiscal decentralization to be established they will need to be accompanied by appropriate forms of political and administrative decentralization.

2.2.2 Fiscal Decentralization

Fiscal decentralization in many ways constitutes the core of decentralization and is considered by some scholars as the true measure of local autonomy (Bahl, 2000; Smoke, 2001). For instance, Conforti et al. (cited in Dererese, 2003) argue that local governments often lose their enthusiasm and interest in decentralization if they are not given command over some degree of resources and are frustrated if their role is limited to execute policies that are decided elsewhere. Litvack et al (1998) also point out that it is fiscal decentralization that can link local financing and fiscal power to the service provision responsibilities and functions of local government so that local politicians can bear the costs of their decision and deliver on their promises.

Fiscal decentralization is justified by its economic and governance gains. Economic efficiency and equity gains can be achieved in fiscally decentralized countries through

allocation efficiency due to informational advantages at the local level and a closer match between public services and the preferences of people (Shah, 1998; Tiebout, 1956; Oates, 1972; McClure, 1995). Public administration scholars, such as Wolman (1995; cited in Kee, 2002) point out that fiscal decentralization, by bringing decision making closer to the people, can promote improved governance and democracy through the greater participation of citizens in government expenditure and revenue decisions as well as transparent, accountable and responsible forms of local government.

Fiscal decentralization is an integral subset of decentralization defining how and in what ways expenditures and revenues are organized between and across different levels of government (Smoke, 2001). It can also lead to the empowerment of communities by involving them in financial decision making and holding local government officials to account (Bahl, 2005).

Fiscal decentralization involves the effective devolution of four key functions or powers to lower levels of government. These are the assignment of expenditure responsibility; revenue assignment (taxing powers); intergovernmental fiscal transfers; and responsibility for local government borrowing (Smoke, 2001; Bahl, 1999).

Fiscal decentralization is not without dangers or critics. Among the many cautionary notes, it is important to mention Prud'homme's (1994) "dangers of decentralization" and Tanzi's (2001) "pitfalls of decentralization". Such critics have highlighted a number of conditions of developing countries which might lead to the failure of fiscal decentralization. They summarize these conditions as insufficient information and political power on the part of the people to influence local officials, the tendency for local officials to be more corruptible than national officials, and weaker bureaucratic and financial management system at local government levels compared to the national government level. Prud'homme (1995) further points out a number of additional possible dangers of fiscal decentralization. These include the worsening of inter-local and inter-regional fiscal inequality, destructive inter-local competition to attract investors, and the limits placed on the ability of central government to influence national policy at the local level. The reports of recent empirical studies on fiscal decentralization, in the same way, contain many cases where decentralization has not led to efficient allocation and spending of public resources and greater accountability.

McLure (1995) asserts that some of the criticisms arise from wrong assumptions concerning the ‘pure decentralization of fiscal federalism’. Pure decentralization is a ‘straw man’ that hardly ever exists in reality in any country. Instead, fiscal decentralization almost inevitably involves striking the right balance between decentralization and centralization according to the reality and needs of the country (McLure, 1995; Shah, 2006; Sharma, 2005). On the other hand, the cautionary notes highlighted above have led scholars to focus more attention on the design and possible implementation failures of fiscal decentralization processes in developing countries. McLure (1995:221) himself concedes the limitations in the implementation and designing of fiscal decentralization stating “*decentralization, done badly, can cause problems*”. Smoke (2001) argues similarly that disappointing results in fiscal decentralization reforms are not the result of inherent characteristics of fiscal decentralization. Instead they typically result from failures in design and implementation of the reform process due to weakness in or the absence of the necessary institutional arrangements, such as an appropriate legal framework, effective political and administrative institutions, and civil society involvement (Litvack et al., 1998). One of these design and implementation problems, which will be probed specifically by this study, concerns the local financial governance gap that developing countries can well face when they devolve fiscal power to their local governments.

2.3 MEANING AND DEFINITION OF CONCEPTS IN FINANCIAL GOVERNANCE

2.3.1 Local Governance

It is important to clarify the meaning of local governance in general, before taking a look at its specific version that is financial governance. Local governance is defined differently by different authors. For instance, Stoker (1998) defines local governance in terms of the interaction and interdependence between various actors at the local level, and the role of government in guiding and regulating these relationships. According to Stoker, local governance is the complex and autonomous network of interaction, guided by set of institutions, between interdependent actors, such as government, private sector, civil society, in which government takes the leadership in guiding and steering this partnership in the most innovative way to tackle social and economic problems.

Likewise, Leach and Percy-Smith (2001) place emphasis on the role of government and other actors in service provision process at the local level. Andrews (2006) refers to effective government and defines it in terms of the desired outcome expected from governance: responsive, efficient and effective provision of public service. Popular participation of the people, accountability and the means by which public officials and politicians come to power are also considered in other writings. Shah (2006:2) refers to governance as:

The norms, traditions and institutions by which power and authority in a country is exercised—including the institutions of participation and accountability in governance and mechanisms of citizens' voice and exit and norms and networks of civic engagement; the constitutional-legal framework and the nature of accountability relationships among citizens and governments; the process by which governments are selected, monitored, held accountable and renewed or replaced; and the legitimacy, credibility and efficacy of the institutions that govern political, economic, cultural and social interactions among citizens themselves and their governments.

Governance is often used interchangeably with accountability (Mulgan, 2000). For example O'Connell (2005) seems to use accountability as akin to governance by stating that accountability is present when public services have a high quality, at a low cost and are performed in a courteous manner. Koppell (2005) also associates accountability with governance by broadening the meaning of accountability to include other elements of governance, such as transparency, liability, controllability, responsibility, responsiveness. However, other authors such as Bovens (2007:450) tries to show the distinction between governance and accountability by narrowing down the meaning of accountability as "a relationship between an actor and a forum, in which the actor has an obligation to explain and to justify his or her conduct, the forum can pose questions and pass judgement, and the actor may face consequences". One can say, therefore, that governance is a broader concept in which accountability is just one element, albeit a very important one.

Andrews (2008) argues that the use of one best way of governance that works effectively in some developing countries may be inappropriate in others. Governance, according to him is largely associated with the processes through which local government officials come to power and exercise it responsibly, as well as the role of other local institutions, civil society and citizen in strengthening accountability.

However the role of the private sector and civil society institutions in service provision processes is not highlighted as much in developing countries when compared to their more developed counterparts, due to the relatively limited capacity of such institutions at the local level.

2.3.2 Local Financial Governance

Applying the concept of local governance specific to local public finance, local financial governance in this thesis is used to refer to the fiscal aspect of local governance whereby local public finance is raised and spent in an efficient, effective, responsive and accountable manner with greater citizen participation (World Bank, 2008). It is not just a technical process that takes place in the office of the concerned local government executives, but it is a political and social process in which not only bureaucrats and their employees but also electoral bodies, higher level authorities, civil society and constituents are involved. It is a process in which its outcomes are affected by formal and informal behaviors as well as the interactions of those stakeholders.

Thus, this study probes the local financial governance gap in *woreda* administrations of the Amhara region. The gap in local financial governance in fiscally decentralized local governments is witnessed when the central government's financial management standards, procedures and rules are weak or not enforceable; when the financial management tools in the local government fail or are not effectively implemented to ensure collection and spending of public finance is towards the attainment of local government policy objectives; when the legislative body fails to countercheck the financial decision of the executive; and when citizens are unable to ensure that the financial decisions of local government are reflective of their collective interest. This results in a situation where, amongst other things:

- The use of public finance does not comply with central or local government financial management standards, procedures and rules;
- The use of public finance reflects individual, group or political interests at the expense of public interest;
- Public services are not adequately, timely and sustainably financed;
- Inadequate revenue is collected from limited sections of society;

- Collection and use of finance is not effectively accounted for and reported; and
- The use public finance is wasteful and uneconomical.

In short, the existing public and social arrangements in the locality are incapable of helping the local government to mobilize adequate resources and prevent misallocation, wastage and corruption of devolved public resources.

Hence, the examination of the presence and extent of the gap in local financial governance involves analysis of not only the financial management process that takes place internally in local government administrations but also of the accountability relationship that exists between the different actors that are involved directly or indirectly in the local financial management process. That is to say the study on local financial governance should look into not only the financial management tools used in the local government administration but also the financial accountability mechanisms used in the interaction between different actors such as higher level government bodies, local executives, local legislators and citizens. Therefore, despite the difficulty of making clear demarcation, as financial management tools also serve accountability, local financial governance arrangements can be categorized into local financial management and local financial accountability.

2.3.3 Local Government Financial Management

Local government financial management can be conceived as a process that takes place in the local government administration involving several activities, including budgeting, accounting, revenue raising, cash management, debt management, internal controlling, reporting and auditing, to ensure that local government funds are collected, allocated and disbursed in an effective, responsive, efficient, transparent and accountable manner (Schaeffer, 2003).

2.3.3.1 Budgeting

Budgets represent the core element of any integrated local government financial system. Local governments plan, implement and evaluate local government policies through their budget (Gianakis and Mc Cuem, 1999).

Writers have defined the word budgeting differently. Schaeffer (2003) defines budgeting as the quantification of activity plans or strategic plans in monetary terms. Bland et al, (1997) define it as a projection of future revenues and expenditures. Jones (2007) focuses on the budget as a request by the executive of a government for authority from the legislature to impose taxes and spend them. Thus, in the context of local governments, budgets may be seen as a one year financial plan proposed and approved by local executive and legislative authorities respectively that includes planned expenditures and revenues derived from medium term expenditure plans and needed for undertaking planned activities of the same fiscal year to accomplish local policy.

Budgeting is the principal instrument by which government translates into action the policies and programs set out in its development plans, and it plays a pivotal role in the financial management of the economy (Schaefer, 2005). At a minimum, a budget is used to control financial transactions. However, Pandey (1979) explains that besides controlling financial transactions, a budget should also be used as a management and planning tool. Budgets are needed to plan and control the receipts and expenditures of monies to provide allocated services to the people. Traditionally, there are two types of budgets: recurrent budget and capital budget.

The recurrent budget is concerned with the regular operation of services, including salaries, pension contributions, the purchase of short life equipment, the costs of routine repair and maintenance, and the servicing of long-term debt (principal and interest). On the revenue side, revenues, including own source taxes and fees are credited to the recurrent budget whereas the capital budget is largely concerned with the creation of long term assets (such as roads, pipes, schools, water treatment plants). The only revenues credited to the capital budget are loans or grants specifically targeted for the developments of capital projects or receipts from the sale of capital assets (for example land, buildings). However, there are some unclear areas between capital and recurrent expenditure. Debt service is sometimes shown as capital expenditure as opposed to recurrent operating expenses. Debt service should be included in the recurrent budget if it is a charge against a recurrent tax or grant revenues. Vehicles and equipment with medium-term useful life can appear in either the capital or operating budget (Schaeffer, 2003).

There are different budgeting approaches used to allocate public finance: line-item budgeting, performance budgeting and program budgeting. Each of these differs in the way in which funds are allocated for expenditures, and in the orientation of the budget: control, management efficiency or planning. Line-item budgeting is the easiest to prepare and is a traditional type of budgeting that lists how much the local government will spend on every item that it uses. Cost categories include personal services, operating expenses and capital out lay which are often further detailed in object codes. Its primary orientation is that of input or expenditure control. It shows how much money is appropriated to specific cost categories but does not tell how much is spent to provide service (Schaeffer, 2003).

Performance budgeting and program budgeting are new paradigms suggested by the New Public Management or NPM (Hood, 1991). Performance budgeting allocates money to various programs within an organization but also details the performance targets on which the budget is predicated. Executives and managers are given more autonomy over how they manage their budgets, but have to agree performance targets for which they are accountable for achieving with the resources provided. The performance target is identified by the use of performance measures. In addition to controlling costs its primary orientation is that of improving the internal management of the program. It can provide information in assessing the quantity, quality, and productivity of the budget.

Furthermore programme budgeting, in order to align budgets with public needs and policies, allocates money to major program areas, focusing on the expected results of services and activities to be carried out. The emphasis is on the attainment of long term local level community goals. Medium-term expenditure planning is a tool used to link policy and the annual budget. In this case revenues and expenditures are linked to multi-year community goals and objectives. The anticipated results and output of the investments are identified in program budget. The distinction between the two is while performance budget emphasizes management efficiency, program budget emphasizes the benefits that the local community gains from government expenditures (PEFA, 2008; Schaefer, 2003).

In addition, the process of preparing budgets may take one of two methods: incremental budgeting or zero-based budgeting. Incremental budgeting is the traditional budgeting method where by the budget is prepared by taking the current period's budget or actual performance as a base, with incremental amounts are then being added for the new budget period. This incremental amount will include adjustment for things such as inflation, volume of tasks or planned increase in revenues. It has been argued that a process which concentrates on an increment is preferable to one that attempts to review the whole budget because it moderates conflict, reduces search costs, stabilizes budgetary roles and expectations, and reduces the amount of time that officials must invest in budgeting, thus increasing the likelihood that important political values will be taken into account. However, there had been a criticism that incremental method offers little explanation as to how decisions are made or how the increment is divided (Schick, 1983).

With a zero-based budgeting, however the budgeting process starts from a base of zero, with no reference being made to the prior period's budget. All of the budget heads, therefore, literally start with a balance of zero, unlike incremental budgeting that starts with at least a balance equal to last year's budget or spend. Every department function is then reevaluated comprehensively with all expenditures requiring approval. Zero-based budgeting tries to achieve an optimal allocation of resources to the programs of the organization where they are most needed. Managers are required to justify every activity in their department. Theoretically, no unjustified activities are allocated resources. Therefore, Zero-based budgeting involves three steps. It starts with from the identification of all possible activities to meet the objectives of the organization; followed by ranking alternative activities on a cost/benefit basis; and lastly allocating resources to activities according to their order of priority up to the spending level.

2.3.3.2 Accounting and Cash Management

Traditionally, accounting has been seen as relatively straight forward- document the cash come in and record the cash going out. Nonetheless, accounting involves the systematic gathering, recording and reporting of complex financial transactions in a meaningful and consistent manner. This helps various stakeholders as well as local

government decision makers to measure progress towards service targets and missions goals established in the budget, estimate resources required to accomplish these services; cost each of public services and effectively allocate public resource across competing goals and objectives (PEFA, 2008; Jones, 2007; Schaefer, 2003).

Several accounting methods are recognized by the International Federation of Accountants: cash, modified cash, modified accrual and accrual (Schaefer, 2003; Jones, 2007). The simplest of all accounting procedures is cash accounting in which revenues and transfers are not recorded in accounts until cash is received, and expenditures and transfer are recorded only when cash is disbursed. But this system is not recommended by GAAP (Generally Accepted Accounting Principles), primarily because it fails to adequately control local government transactions as it does not record liabilities or future obligations and receivables or future benefits (Jones, 2007). Cash basis accounting can be modified to recognize short term receivables and commitments which will be received or due in the same period. But its limitation is that it ignores long term receivables or commitments that extend to the next year (Schaeffer, 2003).

However, in order to get a complete and clear picture concerning local government accounts, the costs of services and resources used for a particular service target, revenues and expenditures of local government must be recorded not at a point in the time the cash is received or the disbursement made, but in the period in which benefit of the transaction occurs. As such accrual accounting records transactions according to the benefit period, instead of the period in which cash moves (Jones, 2007). A problem in many developing countries, however, is that the anticipated revenues may not in actual fact be collected. For instance, tax payers may dispute the amount owed, and the terms of grants and other transfer payments may be changed after the local government has already budgeted and spent the money. Hence, local government may adopt modified accrual accounting in which expenses are accrued but income from taxes, fees and other resources are recorded only when collected. The objective is to protect against possible cash deficiency that may occur when the recorded revenue is not actually available for disbursement (Jones, 2007).

A related issue is cash management. Today the purpose of cash management is not limited to buying bills and collecting taxes, fees, fines, and other revenues, but has been

expanded to include other responsibilities such as availing the required amount of cash at the required time, mobilizing idle fund in banking accounts and minimizing the cost of borrowing. Such activities are carried out through careful cash flow projections so that shortfalls and surpluses can be determined with their possible remedies. Of course, the options available for cash managers vary depending on the legal framework in which the local government operates and its ability to generate its own resources (Larson, 2007).

After all these activities, what matters for accountability is how it is reported to stakeholders: executives, councilors, civil society and citizens. To be useful, financial information reported to them must be relevant, comparable, reliable and understandable. Relevant information meets the needs of users. Information is relevant if it is substantial and provided in time to influence decisions the user must make. Financial information should be comparable across reporting periods and between different organization units. Reliable information must be accurate, complete, unbiased and free from errors or mistakes. People who prepare internal financial reports must keep in mind the capability of councilors, civil society and citizens in particular (PEFA, 2008).

2.3.3.2 Auditing

Local government auditing, like traditional corporate auditing, is intended to reduce asymmetry of information and to reinforce trust between the principal and agent. In other words, audit findings and opinions help constituents and local councillors (principals) to have confidence on the financial information presented by the local executive body (the agent) in the process of performance review or evaluation. In this sense, the audit can be considered a signal of any wrongdoing by agent to the principal in the principal-agent relationship (Yandell, 1988). By definition an audit is an examination of systems, procedures, programs and financial data (Kishnadwala et. al., 1998). Auditing involves the responsibilities of analyzing the financial position of the local government, including financial trends; the quality of receipts and expenditures; evaluating the performance of the government on various financial managements and accounting issues; the observance of financial activities in line with rules and regulations; and the identification of wasteful expenditures, inefficiencies and delays (Baltaci and Yilmaz, 2007). However, in many countries the audit functions have been

expanded to include investigating the government agency's performance against the resource used, in order to judge if it has succeeded in achieving its service targets, objectives and missions with respect to budget implemented. This is to say that not only compliance auditing but also performance auditing is needed to tackle the information asymmetry problem.

Local governments typically make use of both internal and external auditing. Internal auditing is instituted within a particular government organization but should not be confused with internal controlling activities. Internal controls are the systems put in place to ensure sound financial management and service delivery. They emphasize the establishment of systems which contain rules, regulations, procedures and routines. These are intended to make sure that adequate levels of funding are available for public service; that all transactions comply with legal frameworks; and that spending is consistent with stated policies, organizational objectives, and performance criteria. The purpose of auditing, on the other hand, is to check the appropriate working of those systems (Hughes, 2007). The feature that most distinguishes audit from internal control is that the audit operates independently from the entity's administration and internal control structure (Baltaci and Yilmaz, 2007).

In general, there are two standards of the International Organization of Supreme Audit Institutions (INTOSAI) proposed for all organizations to adopt: independence and professional skills. Independence is essential to auditing to ensure that its investigation and report not be biased by a relationship it might have. Besides, auditing is a profession that requires a wide range of technical skills. Audit function should be assigned to a skilled local accounting auditing practitioner (A.B.C, 2007).

2.3.4 Local Financial Accountability

The financial management activities discussed so far focus on the financial processes that take place within the internal organization of government agencies. But as mentioned earlier, financial governance is about much more than such technical processes. It also includes the accountability relationship between different actors outside of the organization process. Accountability relationships in local government, in general, can be conceived as the exercise of countervailing power by one actor to

balance the arbitrary action of the empowered actor (Agrawal and Ribot, 1999). Although authors have defined accountability differently (for example, Agrawal and Ribot, 1999; Mulgan, 2000; Mashaw, 2006; Bovens, 2007), most definitions share some important elements. Firstly, accountability exists only when there is a power relationship between actors. These actors in the local government context are the three organs of local government (local councils, executives and courts), constituents and civil society organizations. Secondly, accountability places an obligation on the empowered actor to provide information and explanation for their actions and their result. Thirdly, it provides the power to apply sanctions on the empowered actors when their action is deemed unsatisfactory. Hence, local financial accountability can be conceived as the arrangement whereby local governments can be held accountable by their constituents, as well as from above (by higher levels of government), for their decision on the raising, allocation and disbursement of local finance.

Financial accountability arrangements can take a number of forms, including legislative budget scrutiny and social accountability arrangements. In democratic and devolved forms of local governance, the local government council as the highest political body in the locality plays a vital role of holding the local administration management accountable for the allocation and utilization of local public finance in line with the socioeconomic needs of the people. This is done through its process of regular approval of budget plans, as well as through the monitoring and evaluation of budget performance (PEFA, 2008).

In addition, there are also social accountability arrangements which allow the direct engagement of citizens in the financial management process. In the developing world, the formal local government financial management systems have often not proved strong enough to provide timely and reliable information for people and ensure accountability. Thus social accountability approaches have emerged in response to these weaknesses of public financial accountability systems. Such mechanisms allow civil society and ordinary citizen to be involved throughout the financial management process starting from planning and budgeting to budget execution and auditing.

Recent experiences have revealed that social financial accountability can enhance accountability through making local government financial information accessible to the

public; allowing strong public involvement in budgetary process through participatory budgeting practices; and initiating independent budget analysis and participatory expenditure tracking program that monitor budget execution (World Bank, 2008).

Participatory budgeting is an innovative mechanism which aims to involve citizens in the decision-making process of public budgeting. It allows citizens to voice their priorities and is instrumental in making the allocation of public resources more inclusive and equitable.

Independent budget review and analysis is another process in which a wide range of stakeholders research, unpack, monitor and disseminate information about public expenditure and investments, to assess whether allocations match the governments announced social commitments. This may involve analyzing the impact and implications of budget allocations, demystifying the technical content of the budget, raising awareness about budget-related issues and undertaking public education campaigns to improve budget literacy.

Public expenditure tracking is another process which involves citizen groups tracking how the government actually spends funds, with the aim of identifying leakages and/or bottlenecks in the flow of financial resources or inputs. Typically, these groups employ the actual users or beneficiaries of government services (assisted by Civil Society Organizations) to collect and publicly disseminate data on inputs and expenditures. This approach often involves the triangulation of information received from disbursement records of finance ministries, accounts submitted by line agencies and information obtained from independent enquiry (using, for example, tools like expenditure tracking surveys or social audits). Information is disseminated through the use of media, publications and public meetings.

Social auditing or accountability approaches are not an alternative but rather a complementary arrangement to formal forms of external auditing that requires close forms of partnership between the external audit agency and civil society organizations involved in social auditing processes.

2.4 THEORIES ON THE LINK BETWEEN FISCAL DECENTRALIZATION AND LOCAL FINANCIAL GOVERNANCE

This section reviews various perspectives on fiscal decentralization and discusses their implication for the link between fiscal decentralization and local financial governance. Large bodies of theories explain the causality relationship between fiscal decentralization and local financial governance. Perspectives range from conventional fiscal federalism theories, to public choice theories, new institutional economic theories (NIE) and public organizational theories such as New Public Management (NPM). Whilst earlier and conventional approaches relied primarily on economic theories, more recent approaches have highlighted the important role played by political and institutional factors in understanding the ways in which the devolution of fiscal power can advance or hinder local financial governance.

2.4.1 The Fiscal Federalism Model

The fiscal federalism model of fiscal decentralization is much influenced by traditional public finance theories, such as the prominent works of Kenneth Arrow (1977), Richard Musgrave (1959) and Paul Samuelson (1954, 1955) which focus on addressing the failure of the market to deliver public goods in a socially efficient manner (Garzarelli, 2004). The non-rivalry and non-excludability character of public goods leaves the market system unable to deliver them in a Pareto-efficient manner (Dollery and Wallis, 2001). In order to tackle this problem, it will therefore be necessary for government to play an active and positive role particularly in macroeconomic stabilization, income distribution and allocation of public goods.

Therefore, the fiscal federalism model assigns the roles of macro-economic stabilization and redistribution to the national government while a significant role in allocating resources is given to subnational governments (Musgrave and Musgrave 1980). The role of macro-economic stabilization through the instruments of fiscal policy and monetary policy is assigned to the central government because (i) sub-national authorities have very few or no incentives to undertake economic stabilization policies, and (ii) lower levels of government often lack the necessary capacity and instruments to carry out such policies. The income distribution role is also given to central government

as it is in a position to redistribute resources from the wealthier to poorer local regions. If a particular jurisdiction adopts policies to redistribute income by imposing high taxes on the wealthy residents and businesses and giving high benefits to the poor, the rich would tend to move out and enter areas where taxes are less while poor individuals will move in from areas that tend to offer lower benefits.

However, fiscal federalism assigns the role of resource allocation to local governments (fiscal decentralization). Being closer to people, local authorities can more readily identify local people's needs, and hence supply the appropriate levels and mix of public services. Fiscal decentralization also provides detailed guiding principles on how powers and responsibilities should be devolved through effective systems of intergovernmental relations (Shah, 2006; Smoke, 2001).

The nexus between fiscal decentralization and local financial governance is widely accepted in the theories of fiscal federalism. It assumes an automatic linkage between the devolution of fiscal power and responsibility and local financial governance. The issue of information asymmetry is at the center of the argument in fiscal federalism theories. The argument is that local governments are closer to their constituencies. They have knowledge of local preferences that the center cannot easily access to. It is hard for a central government to know the diverse preferences of numerous jurisdictions that constitute the country as a whole (Oates, 2004; Shah, 2006). Oates (1972:54) puts this clearly in his decentralization theorem:

in the absence of cost-savings from the centralized provision of a local public good and of inter jurisdictional externalities, the level of welfare will always be at least as high (and typically higher) if Pareto-efficient levels of consumption are provided in each jurisdiction than if any single, uniform level of consumption is maintained across all jurisdictions.

In short, local governments have informational advantage over their counterparts at the center about the desires and priorities of local people (Shah, 2006; Garzarelli, 2004; Oates, 2005).

Therefore, the implication of the fiscal federalism argument for local financial governance is that as local governments are closer to the people and have informational advantage over central government they can make a more efficient allocation and spending of public finance according to the preference of the citizen and production

function of the locality. This is based on the presumption that if politicians in local governments know inter-jurisdictional heterogeneity, they are more likely to act in the public interest to deliver public services in line with such diverse preferences.

The general assumption of fiscal federalism is that government agencies at different levels are custodians of public interest who seek to maximize the social welfare of citizens. But it is this public interest assumption that exposes this perspective to severe criticism by recently emerging theories. They reveal that there exist possibilities that governing agencies may indulge in opportunistic behaviours that seriously question the public interest presumption. For example the critique by Campos and Hellman (2005) of the 2004 World Development Report indicates that the linear relationship between decentralization and local governance is an ‘untested assumption’ and mentions factors such as local capture, clientelism, capacity constraints and intergovernmental frictions as factors that may limit positive gains of governance through decentralization.

The fiscal federalism model places considerable emphasis on determining appropriate intergovernmental relationships between the different spheres of government. Therefore, the following section of the thesis presents a discussion about the intergovernmental relations and their impact on local financial governance.

2.4.1.1 Intergovernmental Fiscal Relations and Local Financial Governance

One of the issues that needs due care in fiscal decentralization reform is designing financial relationships between different tiers or spheres of government. The main concern is about deciding on the extent of expenditure and revenue power and responsibilities to be devolved to the next tier of government. Generally, if intergovernmental relationships regarding the assignment of expenditures, revenues, grants and borrowing in the fiscal decentralization framework are not designed carefully with adequate consideration to the context of different regions and localities, the consequences of fiscal decentralization may well be different to those intended (Usui, 2007; Smoke, 2001; Shah, 1998).

In order to strengthen accountability and ensure prudent financial management, the financial relationship between levels of government should be specified by clear rules. Blurred relationships undermine accountability. Expenditure responsibilities at each

level of government should be defined as clearly as possible to improve accountability and avoid duplication. In many countries, however, expenditure responsibilities are often not clearly defined. Local responsibilities must be defined by function, not by sector. Vague expenditure responsibilities leave people unsure of who is responsible for what, and weaken local accountability (Usui, 2007; Smoke, 2001).

If national governments assign expenditures and functions without providing adequate revenues, this can also undermine local accountability. Local governments can blame poor services on the shortage of funds. At the same time, it may also help to make the control of local spending difficult because local governments can easily justify overspending and press for more grants and loans. Citizens who pay taxes directly to the local government are more likely to hold local politicians and bureaucrats accountable. Thus, even if revenue potential might be limited, local government should have their own tax base and the right to adjust rates in line with the needs and demands of local citizens. Voters will hold their elected officials more accountable if their local government has the autonomy to levy the tax, a tax which should be large enough to impose a noticeable burden on the residents and one which cannot be easily exported to residents outside the jurisdiction.

On what basis should regional and local governments tax? In general, four required considerations are identified in assigning taxing powers to local governments. The first relates to economic efficiency and dictates that taxes on mobile factors and tradable goods that have a bearing to a common market should not be assigned to local governments as they are untraceable to a particular local government. The second relates to national equity considerations, and argues that progressive redistributive taxes should be assigned to the centre to enable central governments to play a redistributive role and to prevent local governments from using the tax regime to attract high-income people and organizations from other regions. Administrative feasibility is the third consideration, which suggests that taxes should be assigned according to the ability or capacity of local governments to collect taxes in an efficient and effective way, thereby minimizing the opportunities for tax evasion and other forms of corrupt activities and maladministration.

The fourth consideration relates to revenue adequacy and suggests that revenue means should correspond as closely as possible with expenditure needs (Bahl, 1999; Shah, 2006). However, if revenues exceed expenditures, local revenue collection efforts may decline. To deal with this problem, expenditure assignments should come first, followed by revenue assignments (the finance follows function principle). It is also important to assign economically efficient revenues based on the nature of expenditures assigned to local governments. For example, services that may be priced (public utilities, buses) should be largely financed by user charges. General services with a local area benefit zone (roads, parks) should be financed with local taxes. And goods characterized by significant externalities should be financed from region-wide taxes and intergovernmental transfers (Usui, 2007; Bahl, 1999; Shah, 1998).

If local government revenue is dominated by central government grants, this can easily erode accountability. This is because citizens will hold their elected officials more accountable if local public services are financed to a significant extent from locally imposed taxes, as opposed to the case where financing is primarily by central government transfers. However, the own revenue of local governments in developing countries is rarely adequate to cover their expenditures. Such gaps are invariably covered by national government grants. Two important decisions need to be made in the distribution of grants: the size of the grant and how it is to be distributed between eligible local governments. Most countries use one or a combination of three approaches to determine the size of the total amount of grant to be transferred to local governments in a given year: a specified share of national (or state) government tax revenues; an ad hoc decision (such as an annual appropriation voted by legislative body of the centre); or reimbursement of approved expenditures. Allocations of the grant among local governments are also made in one or a combination of four ways: (i) by returning a share to the jurisdictions from which the taxes were collected; (ii) by formula; (iii) on an *ad hoc* basis; or (iv) by reimbursing costs.

However, grants allocated to local governments are often released to local treasuries with significant delays. The under-funding and delayed disbursement of grants undermines local accountability and makes effective local planning, budgeting, and fiscal management difficult. Thus, it is important to set up an accurate and timely

disbursement system. Having a simple and transparent formula can also ensure accountability to the citizen since local governments and their citizen are aware of the amount to be transferred from the center (Usui, 2007, Smoke, 2001; Shah, 1998).

The revenue collected by levying tax might not be sufficient to finance long term investments in particular, thus local governments also need the autonomy to borrow for the financing of their investments. The argument is that long-lived assets which need large funds should be financed by raising debt, so as to ensure equitable burden sharing across generations rather than putting the burden just on the current generation. That is to say such large investments cannot be financed by current revenues (Shah, 2006). Thus, local governments should be provided with limited power to borrow but also with careful monitoring from the center. If they are not limited by constraints, this may well lead to over borrowing, with adverse consequences not only for the long-term financial situation of local government but also for the macro-economic stability of the nation. A hard budget constraint motivates responsible behavior by local governments and eliminates bailout conditions (Usui, 2007; Bahl, 1999). Hard budget constraints refer to an arrangement that requires local governments to make their budget decision in such a way that the expenditures come into balance with the revenue, and liabilities can never be transferred to central government.

Bahl (1999) describes practices such as deficit grants to cover revenue shortfalls; bailouts on delinquent debt; and direct central government coverage of year-end shortfalls on certain items of expenditure as enemies of hard budget constraints. Generally, in order to constraint irresponsible borrowing practices, strong central ability is needed. This is also required to monitor and control the imposition of a uniform system of financial accounts, audit rules, disclosure requirements for borrowing, and determination of when to relax spending mandates, and how to adjust grant distribution formulae. There is also the need for technical assistance to local governments, in several areas. Smaller and rural local governments in particular require assistance in areas such as accounting, treasury, tax administration, data processing and project evaluation.

In general, such considerations in the design of fiscal decentralization, as well as the regulatory frameworks for intergovernmental fiscal relations, can help (albeit not sufficiently by themselves) to avoid irresponsible allocation and spending; as well as to

enhance downward accountability. But they are too mechanical to explain many of the intricacies and problems that exist in the political and administrative interactions between different tiers of government. For example, several central governments in developing countries prefer to hold a paternalistic approach rather than being strict to their rules in their fiscal relations with local governments. Of course, the reasons for the bailout of delinquent debt or grants to cover deficits by central government may be compelling. The central government is expected to play its role of providing insurance if local governments face such problems caused by factors beyond their control rather than bad financial investment decision. However, central government officials may opt for soft budget constraints either to ensure loyalty or their dominance over local government. Commonly, political party structures and relationship between the central political party and local ones, as well as path dependency, are factors which determine centre versus local fiscal relationships (Oates, 2005).

2.4.2 Public Choice Theories

Public choice theory concerns the infusion of economics and political science that uses economic methodology to explain the political behaviour of government officials in a political market. It is about explaining the theory of state, voting behaviour, voting rules, party politics and bureaucrats using economics techniques. Unlike the fiscal federalism model, it tries to address primarily government failures in the provision of public goods. The argument suggests that the fact that local politicians and bureaucrats are individuals with their own individual interest. In situations where there is conflict between public interest and their individual interest, they are likely to privilege their own interests rather than the public interest. Therefore, it proposes market like solutions where the behaviour of politicians can be redirected towards public interest by situating them under pressure of political competition (Boyne, 1997).

Public choice theory suggests that decentralization reform processes should be accompanied by competition in the political market powered by exit and voice mechanisms. It requires local governments to act as an industry in which citizens are buyers of local services and politicians are sellers in an exchange for citizens' vote and tax. Local government officials and politicians compete for their office as well as for tax. Citizens can choose among different combination of public services through

‘choice by vote and feet’ principle. Therefore, representative local government accountability to citizens is maintained through transparent and accountable election systems, the separation of power between legislative, executive and judicial bodies, and a genuinely competitive political party system. In this situation, constituents can force their representatives to provide efficient public service.

Public choice theory advocates for fiscal decentralization due to its ability to foster competition through exit mechanisms. The argument is that a:

...fragmented government system provides citizens with information concerning taxes and services in neighbouring areas thereby raising the competitive pressure on decision makers. This presents citizen with the option to vote with their feet, i.e. to move to another jurisdiction if they believe that costs of moving are lower than the costs of staying (Tiebout, 1956).

This means that local governments that set taxes too high and produce public goods inefficiently risk the exit of many of their constituents. Moreover, it allows information visible to citizens about the relative cost of different services provided by different tiers of government. They can therefore make separate judgments on the performance of different tiers of government and allocate their political support and tax payments accordingly.

Public choice also is not free from limitations to promote local financial governance (Dollery, and Wallis, 2001). Periodical elections occur only in an interval of four or five years in most countries, making them crude accountability mechanisms. But decisions on the allocation and use of budget and resources are made between elections often behind closed doors with no or minimal chance for citizens to voice their needs and priorities. Empirical studies also show a mixed impact of local election on financial governance. In states where land and labour markets do not function well, and responsibilities of local governments are not subject to competition, the private sector is often extremely weak (Hills Jr, 2009). Democracy is often at an infant stage; violence, money and corruption dominate both local and national elections; and local government financial administrative machinery is too weak to ensure financial transparency. Under such circumstances, the assumption that people can move easily between jurisdictions or make their voices heard through political process is unrealistic (Olowu, 2003).

But the major limitation of elections as a perfect accountability mechanism is their inherently indirect voicing characteristics. Even under “perfect” conditions of free and fair elections and a stable democratic national context, local elections often fail to ensure that elected representatives will exercise power on behalf of all segments of the communities. Structural bias by elected officials against marginalized and non-elite groups when they are captured by the elite group is not uncommon. Elected officials may be influenced by their political party or may collude with the executive as well as bureaucracy. Hence New Institutional Economics and New Public Management models have been developed to explain these issues and provide institutional and administrative designs to tackle those problems.

2.4.3 New Institutional Economics

New Institutional Economics (NIE) represents a collection of ideas, including rent seeking and collusions, agency theory, transaction cost economics, and game theory aimed at bringing institutional characteristics back to the core of economic analysis. This theory is different from conventional economic analysis in that it tries to address the failures of market mechanism by identifying the institutional characteristics required to gauge economic efficiency in governance (Dollery and Wallis, 2001).

It begins by explaining that in the real world, individuals possess an inherently limited capacity to process information and accordingly are subject to ‘bounded rationality’ in the sense that their calculations include only immediate and readily accessible information. Bounded rationality necessarily implies that the complexities of actual economic exchange cannot be fully captured by hierarchical or market mechanism. This is to say that bounded rationality prevents the construction of complete contracts between agents and principals. Scope therefore exists for opportunistic behaviour by economic agents, who can conceal their preferences and actions from contractual partners. Indeed, it is precisely because of real world phenomena, like bounded rationality and incomplete contracts, that economic activities have to be conducted in an environment characterized by asymmetric information and costly transactions, and it is this feature which lends crucial importance to institutions (Shelanski and Klein, 1995; Shah, 2006; Dollery and Wallis, 2001).

Hence NIE can play an important part in explaining the link between fiscal decentralization and local financial governance. It can explain why the market mechanism in the political arena doesn't work to ensure that the local agency (local politicians or officials) promote common benefits rather than their own individual interests. It addresses why elections and other formal arrangements serve as imperfect mechanism of accountability. It also provides institutional designs for intergovernmental and citizen-local government relations where the intended financial governance gains of fiscal decentralization cannot be diverted by powerful and informed bodies in the relationship (Oates, 2004).

Accordingly, various levels of governments are agents created to serve the interest of citizen. Citizens are principals who delegate the responsibility to oversee the performance of their local government (agents). The institutional design in the local government must ensure that these agents serve the public interest while minimizing transaction costs for the principals. However, the existing institutional frameworks do not permit such optimization, because the principals have bounded rationality. That is to say they make the best choice on the basis of the information but are ill informed about government operations. Enlarging the sphere of their knowledge entails high transaction cost which the principals would not like to incur. These costs include participation and monitoring costs, legislative costs, executive costs, and executive decision-making costs associated with unstable political situations. However, agents are better informed about government operation than principals, but they have an incentive to withhold information and to indulge in opportunistic behaviour or self-interest seeking activities (Shelanski and Klein, 1995; Shah, 2006; Dollery and Wallis, 2001).

Hence, there are several formal institutional arrangements to mitigate the information asymmetry and high transaction costs in the political transaction between citizens and electoral body, so that complete contracts between citizen and politician can be constructed and enforced. Among others, these include allowing independent candidates to run in local elections, reserving seats for women and other vulnerable groups, allowing for the recall of elected officials from public office, strengthening countervailing institutions and limiting the length of the term these elected officials.

However, as the interaction between citizens and politician is characterized by uncertainties and future events are unpredictable, it is very difficult to establish a contract which can fully address all these uncertainties and future events. Whatever the formal institutional arrangements used, these are not likely to be sufficient conditions to strengthen local government accountability. The problem is associated with the indirect voicing characteristics of election. There should exist a direct voicing mechanism that allows people to have complete information and a say in the decisions of local government on the allocation and use of resources in general and financial resources in particular.

Therefore, New Institutional Economics suggests that financial accountability in local government can be strengthened through the use of a proper combination of the above-mentioned formal accountability mechanisms with informal institutions that are established based on social capital such as trust, cooperation and reciprocity in the society to increase the availability of financial information with minimal transaction cost and help mobilize citizens to hold local politicians accountable (Putnam, 1993). These informal arrangements are often known as social accountability mechanisms. Such financial accountability mechanisms include, amongst other things, participatory planning, budgeting and monitoring; participatory expenditure tracking; social auditing, and citizen access to information and their feedback for services (Yilmaz, et.al, 2008).

This entails the active involvement of civil society. Civil society organizations can strengthen accountability by bridging the power and information asymmetry between local government and citizens. They aggregate preferences and represent community needs, mediate community participation in government decisions to allocate and use resources, increase awareness of people on their rights and responsibilities, provide clear and understandable information about government performance to citizens and enforce political accountability of the institutions of government through the mobilization of citizens. They provide social organizations for citizens that generate their own norms of behaviour and responsibility organically, and over time may develop stores of trust and credibility that enhance capacity (Putnam 1993, 2000).

Local governments also can depend on the relationships with civil society to elicit information necessary to the policy making process, judging the efficacy of previous

interventions, and plan for the future (Bardhan 1996). Politicians also depend on these relationships to gauge public satisfaction with their performance between elections. But this in turn requires commitment from the side of government in creating an enabling legal, political and institutional environment that allows and stimulates direct voicing of citizens and active involvement of civil society organizations.

2.4.4 New Public Management Model

The theories discussed so far are concerned mainly about improving accountability relationship between citizens and politicians. However, having strong mechanisms of accountability between local citizens and local officials will not by itself guarantee the efficient and effective use of local government finance. This is to say that no matter how effective the mechanisms used to strengthen the accountability of local government officials to constituents are, it cannot be effective unless the financial management systems in local government are strong enough to ensure effective hierarchical accountability and make complete information available to citizens about the financial performance of the government. Opinions and debates by the citizen, civil society and electoral body on how the budget is utilized can be made only if reliable, understandable and timely financial information is provided by the internal financial system. Furthermore, local executives can effectively discharge their responsibility of spending public resource efficiently and effectively entrusted by local citizens if they have sound financial management system in their local government organizations. Financial management and accountability systems in local government organisations strengthen local financial governance by helping local executives to manage and control the use of public finance as well as by making reliable financial information available to the public

Therefore, another issue of discussion in local financial governance is about theories or models that deal with improving internal financial management and accountability in the local government organization. The New Public Management (NPM) model provides a paradigm that advocates private management practices for public offices aiming at improving administrative efficiency in the government office through changes in management system, practices and structures. Emanating, at least in part, from the neo-liberal ideology that gained growing currency under the influence of Margaret

Thatcher in the UK and Ronald Reagan in the USA, NPM ideas and public sector reform programmes have increasingly spread to other countries in both the developed and developing worlds. In the developing world, this process has often been supported and encouraged by the influence of multi-lateral (in particular the World Bank, IMF and UNDP) and bilateral agencies and donors.

The theoretical foundations of NPM have been informed to some extent by both public choice theory and new institutional theories. Public choice theory provokes reforms in the public sector arguing that public servants and politicians do not attempt to improve efficiency and minimize cost in the Weberian bureaucracy as there is no incentive for them to do so (Buchanan; 1986). Therefore, they should be subjected to healthy competition. Moreover, the two theories of new institutional approaches: Agency cost theory and Transaction cost theory, argue that there should be complete and easily enforceable contracts (Williamson, 1990) between politicians and bureaucrats as well as between managers and employees.

The aim of NPM is primarily to replace the old rule, procedure and input control based style of public administration by a new one that emphasises outputs; measurable standards of performance; visible and 'free to manage' management; efficiency and economic use of resources; contractual relationships with management and employees based on expected outputs (Hood, 1991). NPM is not just a new way of managing public services, but also introduced different financial management tools and techniques. Before discussing the implications of NPM for financial management techniques, it is important to note the changes that NPM suggests to improve government administrative system efficiency.

The very purpose of NPM models is to improve public service efficiency by removing or at least mitigating the 'nonmarket attributes' of government organizations. Wolf (1989) has identified four nonmarket attributes in the public sector. These include the difficulty of monitoring and evaluating the outputs of public service; ambiguous relationship between input and output of services; non-contestable characteristics of public service; and non-contestable and irreplaceable management.

Dollery and Wallis (2001) argue that NPM suggests that the difficulties associated with defining, evaluating and monitoring the range of outputs provided by a local authority can be addressed by breaking up the bureaucratic structure into manageable smaller units. If the organization is divided into separate smaller units, it is not difficult to determine clearly defined objectives and output targets for each unit. These single, manageable and traceable objectives, in turn, help to match resources to defined tasks and to shift from controlling inputs to monitoring outputs. This restructuring, then, enables local governments to assign clear output based responsibility to manage single units and gives managers greater discretion to decide on alternative allocation and utilization of inputs to cut wastages and overstaffing. But such restructuring has to be accompanied by output based accounting and reporting.

The New Public Management model also suggests that the subcontracting of public services or the separation of purchasing from the provision of public services are key approaches that can help to mitigate the non-contestable characteristic of public services. The aim is to increase efficiency through the introduction of competition in the public service provision process.

To deal with uncertain and ambiguous relationship between input, output and outcome in public service process, NPM focuses on clarifying the distinction between input, output and outcome. This can help managers to exercise discretion in looking for alternative combinations of inputs to achieve defined goals, while simultaneously having a clear understanding about what outputs are expected from agencies to achieve the desired social outcomes. In this way the failures and successes in the provision of public services can be traced whether it is from the problem associated with the policy itself or its implementation.

Finally, the non-contestable management problem is addressed by establishing a clear relationship between organizational performance and management expertise. One way in which this can be accomplished is by placing local government managers on fixed-term contracts with specified outcomes to be achieved, and making the renewal of such contracts subject to the successful achievement of such outcomes.

Despite its emphasis on efficiency and accountability, NPM is often criticised for being insulated from the ordinary citizen as well as civil society. It does not include an arrangement that allows citizens to exercise collective accountability over bureaucrats.

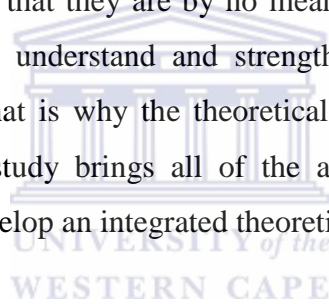
What then are the implications of NPM for local financial governance? The financial management reforms associated with the introduction of the NPM model are often referred to as New Public Financial Management (NPFM). New Public Financial Management is an integral part of the broader NPM reform in the public sector. Guthrie *et al* (2005) identify five key dimensions of NPFM. These include (i) changes to financial reporting systems (cash to accrual); (ii) the devolution of budgets to work units and programs; (iii) market based costing and pricing systems; (iv) integration of financial and physical performance measurement approaches; and (v) performance based (internal and external) auditing. But some authors argue that these techniques and approaches are too complex and sophisticated for many local governments in the developing world, where the necessary capacity and expertise is often lacking. Instead they recommend a “getting the basics right first” approach for developing countries. This approach is regarded as a transition towards NPFM approach. But it doesn’t suggest specifically which aspects of financial management are regarded as basic. A possible solution, recommended by the World Bank (1998), is to make reforms in the areas where performances are found to be problematic. Finally, it is important to note that there are authors such as Andrews (2006) who are sceptical of the “getting the basics right first” approach arguing that such an approach might hinder deeper public financial management reforms.

2.5 SUMMARY

The discussions about the concept of both fiscal decentralization and local financial governance in this chapter suggest that the focus of the studies in the fiscal decentralization of developing countries should be on implementation problems rather than on the concept itself. It suggests that the criticisms on the concept of fiscal decentralization point to weaknesses of absolute decentralization which does not happen in reality in any country. In addition, an attempt was made to unpack the meaning of local financial governance by applying the concept of local governance specific to public finance. Consequently, it was suggested that the study on local

financial governance should analyze not only the process and output but also the interaction of various stakeholders in local public financial affairs. It also suggested that the study should analyze not only the internal administrative tools in local financial management process such as budgeting, accounting, procurement, accounting, cash management, reporting and auditing but also the accountability relationship amongst stakeholders such as local executive, legislative, citizens and civil society, and political parties.

In addition to conceptual clarifications, the chapter also focused on insights concerning the link between fiscal decentralization and local financial governance provided by four major theoretical approaches (Fiscal Federalism, Public Choice theory and NIE and NPM). Although such theoretical approaches are based in a number of ways on different assumption about fiscal decentralization and its impact on local financial governance, it is suggested that they are by no means mutually exclusive. In fact it is argued they could help to understand and strengthen local financial governance if applied in combination. That is why the theoretical framework (presented in chapter one) to be used for this study brings all of the approaches suggested by the four perspectives together to develop an integrated theoretical framework.



CHAPTER THREE: DECENTRALIZATION IN ETHIOPIA

3.1 INTRODUCTION

This chapter presents background information concerning the decentralization process in Ethiopia with particular reference to district level decentralization and local governance. An adequate discussion about district level fiscal decentralization and *woreda* administrations financial governance of the Amhara region cannot be provided without contextualizing it within the historical development and current operation of the general decentralization process and governance situation of the country. Before embarking on such background detail, the first part of the Chapter is devoted to a brief presentation of Ethiopia's political, socio-economic, demographic and historical profile.

3.2 COUNTRY BACKGROUND

Ethiopia is the oldest independent country in Africa and one of the most ancient in the world. The country is the second most populous nation in Africa and has a diverse mix of ethnic, cultural and linguistic backgrounds. Despite its ancient civilization and long independence, the country's record in socio-economic development, democracy, peace and stability remains unimpressive. The following sections provide a brief presentation of the country's background.

3.2.1 Demographic Background

Ethiopia is the third largest country in Africa in terms of area, and the largest land locked country in the world in terms of population size. The 2007 national census (CSA 2007) shows that its population size was 73,918,505 with an annual growth rate of 2.7%. Ethiopia is a country of high cultural and ethnic diversity consisting of more than 80 ethnic groups that vary in population size from 289 to about 25 million persons. Oromo (34.4%), Amhara (27%), Somalie (6.2%) and Tigrie (6.1%) are the largest ethnic groups in the country. Ethiopia is one of the least urbanized countries in Africa, as the majority of the population (83.9%) resides in the rural areas. The country is a home to diverse religions, with Orthodox (43.5%), Islam (33.94%) and Protestant

(18.5%) being the principal religions. A large section of the population (45%) is below the age of 15.

Ethiopia is situated in the horn of Africa between 3 and 5 degrees north latitude and 33 and 48 degrees east longitude. The total area of the country is about 1.1 million sq. km. Ethiopia shares borders with Sudan and Somalia in the West and East respectively. Kenya is its southern neighbor. Eritrea borders Ethiopia in the North and North East, and it also shares a border with Djibouti in the East. The topographic features range from the highest peak, Ras Dashen, (4,550 meters above sea level) in the north east to the Afar Depression at 110 meters below sea level in the east. The climate also varies considerably. The central highlands where most Ethiopians live enjoy a temperate climate, though with seasonal variations. The low lands, however, are much hotter. Throughout most of the country the dry season prevails from October until May, while the wet season runs from June until the end of September. The largest city is the federal capital: Addis Ababa. The country has, however, several principal towns such as Bahirdar, Hawassa, Mekelle, Nazreth, Jimma, Dire Dewa, Harrar and Dessie.

3.2.2 Socio-Economic Background

Ethiopia's economy is predominantly subsistence and based on rain fed agricultural. Agriculture production accounts for half of the country's GDP and 60% of its exports, and an estimated 85% of the population gains their livelihood directly or indirectly from agriculture. Industry is at infant stage, contributing only 11% of GDP and 5% of formal employment. The mining sector is quite small and Ethiopia is not well endowed with energy sources aside from the potential for hydroelectric power.

Ethiopia is one of the world highly underdevelopment countries. The country ranked 174th out of 187 countries on the UN's Human Development Index in 2011, with average per capita income (US\$400) equivalent to one-third of the sub-Saharan average (US\$1225). Mismanagement of the economy on the part of successive governments and the three decades of civil war have greatly contributed to the present poor state of the country. Despite the high potential for agriculture development, only 15% of the arable land has so far been developed. The small proportion of land cultivated by small scale

farmers is characterized by low productivity due to the backward technology and often subject to recurrent drought. The low private sector capacity in the country halts industrial sector progress. Industrial production is far below what is needed to promote employment creation, and is heavily dependent on imported semi-processed goods, raw materials and spare-parts. Consequently, Ethiopia's per capita income is amongst the lowest in the world and poverty is widespread. The country is also among those with the least access to education, health and water supply.

In recent years, however, the country has shown an impressive development in terms of both social and economic dimensions. The economy has been growing rapidly with an average growth rate of 11 percent (MoFED, 2010) since 2003/2004. Consequently the number of people living under poverty dropped from 29 million to 25 million between 2004 and 2011. Through massive donors support, the government has been able to devote increasing levels of public finance to the social and health sectors. Between 1996 and 2006 this has helped to lead, amongst other things, to an increase in per capita visits to health facilities from 0.3 to 0.4%; in child immunization rates from 46% to 60%; in access to sanitation from 13% to 30.6%; and in access to safe drinking water rose from 19.1% to 35.9%. The infant mortality rate dropped from 124 to 67 between 1990 and 2009 (MoFED, 2010). In 2010 87.9 percent of children were enrolled in primary schools, the result of an impressive 9 percent annual growth in enrolment since 1993 ((MoFED, 2010). As a result, the illiteracy rate has dropped from 60% in 1990 to 36% in 2009/10.

Ethiopia has shifted from a state run economy to mixed economy in the period since 1991. Agricultural Development Led Industrialization (ADLI) is the long term development strategy which has been put in place by the EPRDF led government since 1994. The objective is to bring development through the improvement of agricultural productivity which in turn would bring about a structural transformation of the economy in which the current overwhelming dominance of agriculture sector would be replaced by industry and service sectors. To this end, the government has implemented two development programs so far and introduced a new one in 2010/11.

The first is the Sustainable Development and Poverty Reduction Program (SDPRP) implemented in the period of 2002/03-2004/05 and its successor is the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) covering the period 2005/06-2009/10 designed in line with the requirements of meeting the United Nations Millennium Development Goals (MDG). The new Growth and Transformation Plan (GTP) has been implemented since 2010/2011. Decentralization and public sector capacity building were among the building blocks of these development programs, clearly stated in the first two development programs in particular.

Despite the recent impressive economic growth, the nation's development process is challenged by macroeconomic imbalances that include high inflation and low foreign exchange reserves. Moreover, because more than 85% of the population resides in rural areas and works mainly in agriculture, the economy remains susceptible to climate shocks. There still exists a huge gap in health, education and rural water supply to meet the targets set by Millennium Development Goals (MDG) (MoFED, 2010).

3.2.3 Political Background

The country follows a parliamentary government system in which the House of People's Representatives (parliament) is the highest authority of the Federal Government. Its members are elected by the people for a term of five years. The federal state has a bicameral parliamentary system in which in addition to the House of People's Representatives, there is also the House of the Federation in which each of the nations, nationalities and peoples has at least one representative elected from regional state council members (FDRE, 1995).

Constitutionally, the country follows a multiparty system with national democratic elections held every five years. Elections are organized by a National Election Board whose members are appointed by the Prime Minister with the approval of the House of People's Representatives. The political party or a coalition of political parties which can form the majority in the House of People's Representatives forms the Government (FDRE, 1995).

The Prime Minister being the Chief Executive Officer and the Commander-in-Chief of the national armed forces is elected by the House of People's Representatives and forms the Government by appointing cabinet members/ministers and the president of the judiciary body upon approval of the House of People's Representatives. The federal state is headed by a constitutional president whose role is essentially ceremonial and is elected by a joint meeting of the House of Peoples Representatives and the House of Federation (FDRE, 1995).

The country has embarked on ethnic federalism in which the federal state comprises the federal government and autonomous ethnic regional states. Currently, there are nine autonomous regional states, based on the geographic settlement of majority ethnic groups, as well as two city administrations. At present, Tigray, Afar, Amhara, Oromia, Somale, Southern Nations, Nationalities and Peoples (SNNP), Benishangul-Gumuz, Gambella and Harrari national regional states; and Addis Ababa and Dire Dawa city administrations comprise the Federal Democratic Republic of Ethiopia (FDRE). There are also 671 rural local governments or districts (known as *woreda* administrations with an average population of about 100,000, 99 urban city administrations (equivalent to districts but in urban areas), as well as 863 municipalities or towns within the jurisdiction of *woredas*. There are more than 1,500 community centers, known as *kebeles*, with an estimated average population size of 10,000. These figures may change as continuous subdivisions do exist (Berhanu, 2009).

3.2.4 Historical Background

The early history of state and state formation in ancient Ethiopia⁸ dates back to at least three thousand years. According to the popular legend, the Ethiopian kingdom was founded in 10 B.C when the Queen of Ethiopia (Queen Sheba) paid a visit to the king of Israel (King Solomon) and came back to Ethiopia conceiving a baby who later became the King of Ethiopia. This legend has in fact served as a powerful source of legitimization by subsequent Ethiopian monarchs. Most of the emperors who came in to power in the history of country (except those during the period of Zagwe Dynasty)

⁸ The then Abyssinia which is the northern highland of the new Ethiopia

claim to be descended from King Solomon. The monopoly of power by the Solomonic root continued until the reign of Emperor Haile Selassie I came to its end in 1974.

Nevertheless, the formation of a modern state in Ethiopia came about during the reign of Haile Selassie I. Haile Selassie was crowned Emperor of Ethiopia in 1930 following the death of the Empress. He reigned until 1974 except for a brief period of interruption when Italians occupied the country from 1936 to 1941 during Second World War. During his reign, he introduced a more modern state by creating a structured and central bureaucracy, a judicial system with codified laws, and a constitution (Bahiru, 2002).

Despite such reforms, the Emperor's inability or unwillingness to respond to the economic and political needs of the people ultimately led to the downfall of the regime in 1974. Following popular protests, demonstrations and strikes by students, intellectuals, military units and labor unions, power was seized by a group of junior military officers naming themselves the *Derg*.⁹ The *Derg* abolished the Monarchy and Parliament, suspended the Constitution, and ruled by decree until 1987 when a new Constitution was adopted. This formally established a single party system. It also brought about a number of administrative structural changes, including the division of the country into 29 administrative regions (Bahiru, 2002).

Inspired by a rigid Marxist-Leninist ideology, the *Derg*'s rule was a turbulent and brutal one, marked by internal power struggles and popular resistance. Many ethnic groups and political organizations were discontent when the *Derg* took over the power claiming that the *Derge* was not legitimate body to rule. Consequently several groups including secessionists launched guerilla campaigns against the *Derg*. In response, tens of thousands of Ethiopians were arrested, tortured, and summarily executed. This provoked massive resistance from the people and criticism from international community. Financial and material support from the regime's former backers, the Soviet Union, dwindled. Therefore, several ethnic based and secessionist fighting groups took the opportunity to consolidate their forces and defeated the *Derg* in 1991.

⁹ Amharic name for committee which was formed by junior military officers from Armed Forces, Police and Territorial Army

The Ethiopian People's Revolutionary Movement Front (EPRDF¹⁰) replaced the *Derg* and moved Ethiopia towards a new constitution and democratic elections. Eritrea, which was one of the provinces of Ethiopia, became an independent country. Since 1991, and following a number of elections, the EPRDF has remained as the ruling party at the national level (Meheret, 2002; and Minassie, 1996).

3.3 FEDERALISM IN ETHIOPIA

The practice of federalism in Ethiopia, though not in its current or modern form, dates back to the imperial regime. Early Ethiopian emperors were not able to have centralized government due to the difficult topography of the country coupled with the absence of advanced communication means. Instead, regional and local lords, princes, even kings who had been exercising autonomous power were not subject to close control by the emperor, providing they recognized and pledged overall loyalty to the Emperor (Bahiru, 2002). But this trend changed with the coming into power of Haile Selassie I who consolidated and centralized power to the central government.

Generally, the reigns of Haile Selassie I and its successor the *Derg* were marked by their strong centralized political and administrative system in the history of Ethiopian modern government. But this does not mean there were no efforts at decentralization. Indeed, the first move towards institutional decentralization in Ethiopia was when the Haile Selassie I Government submitted to the then parliament, the *Awraja*,¹¹ Local Self-Administration Order in 1966. The draft bill proposed to grant administrative autonomy to 50 *awraja* governments drawn from the majority of the country's 14 provinces. Since the bill was faced with strong resistance from parliament, the program was implemented in only 17 selected *awrajas* on an experimental basis. But the policy could be considered a typical

¹⁰ The Ethiopian People Revolutionary Democratic Front (EPRDF) is an alliance of four ethnic based movements, including the Amhara National Democratic Movement (ANDM), Oromo People's Democratic Organisation (OPDO), Southern Ethiopian Peoples' Democratic Movement (SEPDM), and the Tigray People's Liberation Front (TPLF). Each of these is now ruling their respective regional states. But many believe that the TPLF has a dominant role in EPRDF as it is the pioneer of ethnic movement and behind the formation of EPRDF. Militant Tigrayan students, who fought the *Derg* through an ethnically based movement, established the Tigray People's Liberation Front (TPLF) in 1975. Based amongst the peasantry, the TPLF maintained an armed struggle for 14 years, and took control of the Tigray region in 1989.

¹¹ *Awraja* is an administrative level between province and district (typically containing four to five separate districts) that was used during the regimes of both Haile Selassie I and the *Derge*.

administrative measure aimed at easing bureaucratic congestion at the centre rather than a serious decentralization experiment to bring about effective self-government. Because the imperial parliament failed to pass the local government finance bill, the authority of the *awraja* government to raise revenue and utilize it for development was limited. Moreover, a chief administrator for each *awraja* was appointed by the central government. Given these major shortcomings, the policy did not have much impact on decentralization and did little to promote genuine local self-government in Ethiopia (Kassahun and Tegegn, 2004; Miheret, 2007; Tegegn, 1985).

The *Derg* had more penetrating central government than its predecessor. Along with the abolishment of feudal system under the slogan of ‘land to the tiller’ and the introduction of radical socialist policies in the mid-1970s, the government used mass organizations, such as peasant and urban dwellers associations, to mobilize local people, at least in the early days of military rule. But it subsequently changed them into state bureaucratic accessories geared towards implementing central directives (Miheret, 2002).

The *Derg* instituted an authoritarian single party state based on Leninist principle of ‘democratic centralism’ that did not lend itself to participatory governance and development. The system pursued a policy of forced collectivization and coercive resettlement of the drought-hit rural peasantry. But towards the end of its reign, in the early 1980s, the regime was forced, mainly due to the intensification of ethnic/civil wars in the country and increasing resistance, to consider some form of decentralization. This resulted in the second constitution in the history of the country, which was promulgated in 1984. This established the Peoples’ Democratic Republic of Ethiopia (PDRE), and granted autonomy to a number of provinces which had been characterised by strong ethnic and nationalist movements. As a result, Tigray, Afar and the Ogaden became autonomous administrate regions. Eritrea was given a special autonomous status. Even though this was adopted as a matter of expediency to deal with the problems of ethnic insurgency and political instability, it did not save the *Derg* from being toppled by ethnic based fighting groups in 1991. Rather, this was a clear demonstration of the fact that decentralization was not a policy to which the *Derge* was fully committed (Meheret, 2002).

Federalism in Ethiopia in its present form is the result of the coming in to power of the TPLF¹²/EPRDF in 1991. When the then ethnic based guerilla fighters of the TPLF/EPRDF took control of power and replaced the *Derg*, their slogan was the right of nations, nationalities and people for self-government. This coupled with the proliferation of several ethnic movements in different corners of the country gave rise to ethnic based decentralization. Hence, the transitional charter drafted and approved by TPLF/EPRDF not only announced TPLF/EPRDF's led five year transitional government but also puts decentralized government system and ethnic federalism at its forefront. As a result it established four tiers of government including the federal state, regional states, *woreda* and *kebele* administrations (Transitional Government of Ethiopia (TGE), 1992; Yigremew, 2001; Paulos, 2007; Miheret 2007).

At the end of five years term of transitional period, the 1995 Constitution was introduced. This made the country a federal democracy, reaffirming ethnic federalism and recognizing the right to self-government and even secession of ethnic group from the federal state. To that effect it provided that a government institution would be established for each nation, nationality and people of the country (FDRE, 1995).

3.4 REGIONAL LEVEL DECENTRALIZATION IN ETHIOPIA

Following the introduction of the 1995 Constitution, the decentralization process in Ethiopian has taken place in two waves. The first wave was from the center to regions and the second was from regions to *woredas*. Hence it started with the formation of autonomous ethnic regional states along with the transfer of power and functions. Nine regional states based on the settlement pattern of the major ethnic groups and two federal controlled city administrations were established. In this decentralization process stability and national reconstruction through ethnic federalism were the prime issues under consideration. Each region has 'semi-sovereign' status as it has its constitution,

¹²Militant Tigrayan students, who fought the *Derg* through an ethnically based movement, established the TPLF in 1975. Based in the peasantry, the TPLF maintained an armed struggle for 14 years, gaining control of the Tigray region in 1989. Since then, with a dominant role within the EPRDF, it is ruling the Tigray regional state.

flag and a regional language to be used in schools, courts and public administration. Regional states establish their own government institutions such as legislative, executive and judiciary bodies. The regional state council is the legislative body and the highest organ of each state authority. Consistent with the provisions of the constitution, the state council has the power to draft, adopt and amend the state constitution (Meheret, 2007; Paulos, 2007). The regional cabinet under a regional president is the executive body in each region. Administrative functions are executed by regional bureaus, structured on a sector basis headed by members of the regional cabinet (Worku, 2005).

The constitution makes a distinction between federal and regional functions. National defence, foreign policy, currency, inter-regional and international trade, high-way construction, civil aviation and citizenship are major functions which belong to the central government, whereas regional governments are made responsible for executing economic and social development policies, strategies and plans of the region; levying and collecting taxes and duties; and establishing and administering a regional police force and maintaining public order. The constitution (Article 52:1) further stipulates that “all powers not given expressly to the Federal Government alone or concurrently to the Federal Government and the States are reserved to the States” (FDRE, 1995). To this end they have taken the responsibility for formulating and implementing their respective socio-economic development policies, strategies and plans; establishing state administrations that best advance self-government; and independently bearing the responsibility for all financial expenditures necessary to carry out their responsibilities (Meheret, 2002).

Regional governments also have significant fiscal authority, both in expenditure responsibility and revenue collection powers. The revenue authority of regions is defined in terms of regional and shared revenue, with shared revenues used jointly by the federal and regional government. The fiscal gap between own revenue and needed expenditure is covered by fiscal transfers from the federal government. To this end, a block grant formula has been introduced that takes account of regional variations has

been introduced and is modified on a regular basis (Paulos, 2007; Dickovick and Tegegne, 2010; Eshetu, 1994).

The intermediate tier of government between regional and district level is the Zonal administration. Generally, Zonal administrations are not recognized by the constitution and do not have autonomous administrative functions and powers. They are essentially a branch of the regional governments established to coordinate the works of *woreda* administrations and provide them with technical assistance. To this end, they have been provided with certain powers and functions from the regional government by way of de-concentration rather than devolution. There are, however, a number of autonomous zonal administrations known as Nationality Zonal Administrations established by minority ethnic groups. Since regional governments are established based on settlement pattern of major ethnic groups, the self-government right of minority ethnic groups in the regions is respected by letting them establish their own nationality zonal administrations. These administrations have their own elected representative council, executive and judicial organ. They are the highest political organ of these minority ethnic groups (FDRE, 1995).

3.5 DISTRICT LEVEL DECENTRALIZATION IN ETHIOPIA

The 1995 federal constitution recognizes only the federal government and regional state governments but does not specifically mention *woreda* governments. However, an earlier proclamation makes reference to the *woredas* and assigns functions and duties to them. This was Proclamation No. 7/92 which was introduced before the final constitution was promulgated. Accordingly, an obligation is, therefore, imposed on the regional states to establish *woreda* administrations and to provide them with adequate powers. Crafting the structure of the *woreda* administrations and the exact powers and functions to be devolved to them were left for the regions to determine. But regional governments were often found to be unwilling to do so in practice. A study conducted in the second half of 1990s indicated that *woreda* governments had very limited administrative and fiscal power to respond to the needs of their citizens (Garcia and Rajkumar, 2008).

Therefore, a second wave of decentralization was introduced in 2002/2003 by the federal government. This granted self-administering power to *woredas* beginning with four of the largest regions (Amhara, Oromiya, SNNPR, and Tigray), which together account for 87% of Ethiopia's population (Garcia and Rajkumar, 2008; Dickovick and Tegegn, 2010). Similar processes were rolled out in the remaining regions of the country two years later.

Woreda (district) decentralization in the second wave, unlike in the first, was motivated less by questions of ethnic identity and more by the motivation to extend governing authority down to local levels. As contrasted with the stability and governability aims of the regional decentralization, the stated aims of *woreda* decentralization included improved service delivery, deeper and more participatory governance, and the promotion of economic development (Dickovick and Tegegn, 2010).

At present, *woreda* administrations, the lowest level of elected and full time government structure are considered to be the key local units of government established in all regional states in a geographical area containing approximately 100,000 people. Below *woredas*, communities further organize themselves in smaller electoral units known as *kebeles*. Kebele administrations are formed in geographical areas containing approximately 5,000 people. So far *kebeles* do not have their own function and budget. Rather they undertake work as delegated by their *woreda* administration (Tegegn, 2007; Worku, 2005).

Woreda administrations refer largely to local administrations in rural areas. But there are also local administrations for urban areas known to have the same status as *woredas*. In the initial stages of decentralization to *woredas*, most urban administrations did not exist as separate administrative entities. They were a part of larger *woredas* that incorporated the urban areas (towns) as well as surrounding rural areas. In 2004, however, large towns were separated from their parent *woredas* and given the status of urban administrations with separate administrative boundaries and with *woreda* status. They are often subject to different rules than the rural *woredas*. For instance, Proclamation no. 42/2000 of the Amhara region which is according to Garcia and

Rajkumar (2008) similar to that of other major regions provides that urban administrations perform municipal functions in addition to state functions. State functions include health, education, and agricultural services. Municipal functions include the preparation, approval and implementation of development plans; assessment and collection of allowable municipal revenues; provision of internal roads and bridges; provision of markets, slaughter houses, terminals, public gardens, recreational areas, and other public facilities; regulation of cleanliness and provision of solid waste, water, sewerage, and drainage services; management of urban land and provision of urban land services; and delivery of miscellaneous services, including fire protection, libraries, public toilets, street lighting, nursery schools, and ambulance services (ANRS, 2000).

It should be noted also that there are smaller municipalities/towns under the jurisdiction of the *woredas* which carry out municipal functions in small towns of rural *woredas*. They do not have *woreda* status and do not carry out state functions. They typically do not receive transfers from the regional or other governments, relying on own sources of revenue. It is expected that an increasing number of municipalities will seek to become urban administrations with *woreda* status in the future (Garcia and Rajkumar, 2008).

Hence, the function and power of *woreda* administrations emanate essentially from the constitution of the respective regions. Even though each regional state has the power to design its own decentralization framework, practically, there has not been much difference between regional governments in the devolution of such power. The definition of powers and responsibilities to *woreda* governments is still evolving and all regions are still involved in the process of formulating precise legal frameworks for district level decentralization. At the moment, therefore, there is one framework developed by the federal government followed in all regions. Accordingly, the devolution of power to *woreda* administrations involves political, administrative and fiscal aspects as discussed below.

3.5.1 Political Decentralization

The system of political power devolution at *woreda* level is made possible through the establishment of the necessary institutions. Legislative, judicial, and executive branches

of government are created at *woreda* level. Members of *Woreda* Councils, the legislative body of *woreda*, are directly elected by the citizens from each *kebele* in the *woreda*. The *Woreda* Councils are accountable downward to the electorate but also upward to regional government. These councils select their Executive Cabinets. *Woreda* Councils are assemblies that meet once every three months. The council has the authority of approving the *woreda*'s budget, and of reviewing the work progress of the different sectors and executive members. The judicial system is represented by the *woreda* first instance court and the executive branch is represented by the *Woreda* Administrative Council or Cabinet (Yilmaz and Venugopal, 2008; Dickovick and Tegegn, 2010).

3.5.2 Administrative Decentralization

Dickovick and Tegegne (2010) assess the extent of administrative decentralization in terms of the extent of power *woreda* governments provided to develop their plans and budget, initiate regulatory legislation, undertake procurement, run the civil service and undertake employment policies.

Therefore, currently *woreda* governments are formulating and implementing their own development plans and budgets without interference from the regional government. However, such plans have to be consistent with regional policy frameworks. The Finance and Economic Development offices of *woredas* have the responsibility to prepare *woreda* plans and budgets based on sectoral plans and budgets at *woreda* level (Kassahun and Tegegne, 2004). Thus, this preparation involves the prioritizing of sector plans according to the available resources as well as ensuring consistency with regional policy (Dickovick and Tegegne, 2010).

The report of Yilmaz and Venugopal (2008) that closely reviewed the level of administrative decentralization also reveals that *woreda* governments can regulate land use, co-operatives and community activities, while municipal local government can regulate markets, sanitary services, and other municipal services. They have the autonomy to enforce regulation by sanctioning and punishing citizens in elected social courts and *woreda* courts. Moreover, *woreda* governments have discretionary power

over tendering and administrations of small projects, usually less than 100,000 birr. For larger projects, however, the *woredas* defer to *zonal* and regional governments. Civil servants such as teachers, sector office employees, health workers, and development agents are hired by *woreda* governments. Though the actual human resource policies and practices vary from region to region, in Amhara and Oromia, *woredas* play a central role in recruiting and hiring civil servants. But in Afar, the *woredas* send their manpower needs to the regional government. However, the right to determine civil service salary scales is not left to *woreda* governments but are determined by the regional governments. In practice, similar salary scale applies in all *woredas* across the country (Berhanu, 2009).

3.5.3 Fiscal Decentralization

The primary issue that needs to be addressed in the design of fiscal decentralization is the definition of functions and responsibilities devolved to *woreda* governments. The definition of functions to *woreda* governments in Ethiopia is evolving. There is not a legal framework in all regions that clearly defines the functions devolved to *woreda* governments. But the trend across regions is toward decentralizing basic service delivery functions to the *woredas* while assigning higher order functions to regional governments. National policies and standards as well as tertiary services remain the responsibility of federal government (Worku, 2005 and Garcia and Rajkumar, 2008).

Therefore, establishing and administering basic education services, including primary schools (Grades 1–8), the first cycle of secondary school (Grades 9–10), and adult education belongs to *woreda* governments. Their responsibilities include supervising these schools; printing and distributing primary school textbooks; and establishing and administering primary boarding schools. But the responsibility of printing and distributing books for secondary schools, formulating regional education policy and strategy, and preparing the curriculum for primary schools goes to regional governments (Worku, 2005; Garcia and Rajkumar, 2008).

With respect to health, the *woredas* are responsible for coordinating primary preventive and curative health care and implementing health extension; constructing and

administering health stations and health posts; administering clinics; and preventing and controlling HIV/AIDS and malaria. Their responsibilities include the hiring of health staff assigned to health stations, health posts, and clinics. Moreover, in the area of water supply, the *woredas* are tasked with providing support to communities to administer water schemes; develop springs; build hand-dug wells; handle minor and moderate maintenance of water schemes; and promote indigenous irrigation schemes (Garcia and Rajkumar, 2008).

Woredas also have the responsibility for maintaining lower-grade rural roads, as well as direct agricultural development activities which include extension packages; the planning and implementation of small scale and indigenous irrigation projects; and the administration and protection of natural resources such as land use and other natural resource belong to *woreda* governments (Worku, 2005; Garcia and Rajkumar, 2008).

According to Dickovick and Tegegne (2010:11) district level fiscal decentralization in Ethiopia is “substantial by African standards, if one takes into account intergovernmental transfers”. With the decentralization to local governments in 2002, a transparent formula based general purpose grant that gives autonomy to local governments was introduced in four regions: Amhara, Oromia, SNNPR, and Tigray. This has replaced the incremental budget allocation method. Initially after 2002, to make block grant allocations from regions to *woredas*, regions adopted the “three-parameter” formula used at the time for Federal block grant allocations to the regions, sometimes with some minor modifications. In this formula, block grants were allocated to each *woreda* on the basis of population, development level, and revenue collection effort (Dickovick and Tegegn, 2010; Garcia and Rajkumar, 2008).

While some regions have continued to use the “three-parameter” formula for making block grant allocations to rural *woredas*, others have experimented with different approaches. One advantage of Ethiopia’s decentralized system is that regions are allowed to choose their own approach for making block grant allocations, as long as this is done in a reliable, transparent and formula-based manner. In the year 2003/2004, the Southern Ethiopia Nations, Nationalities and Peoples Region (SNNPR) pioneered the

“unit cost” approach for making block grant transfers to *woredas* replacing the ‘three parameter’ formula. The “unit cost” approach is primarily a “needs-based” approach which was later followed by other regions and is currently under consideration for the Federal block allocations to the regions. The unit cost approach allocates recurrent funding (which accounts for the bulk of total funding) to *woredas* in a “needs-based” manner, with higher per capita recurrent allocations generally going to *woredas* with higher per capita public service provision levels (Garcia and Rajkumar, 2008).

The authority and responsibility of *woreda* administration with respect to the source of revenue, unlike the case in expenditure, is circumscribed (Dickovick and Tegegn, 2010; Meheret, 2007). *Woreda* governments do not have the power to decide on the rate and base of taxes. Their responsibility and authority is limited to collecting and using taxes and passing a designated portion of it to regional government. Regional governments have the primary saying in determining both the tax rates and bases. Indeed the typical feature of Ethiopian district level decentralization is the mismatch between expenditure responsibilities and the authority to raise own revenue to discharge those responsibilities. As explained by Meheret (2007) (cited in Dickovick and Tegegn, 2010:12) “expenditures are so decentralized while revenue collection is centralized.” Besides, *woreda* governments do not have the power to borrow funds for carrying out development project activities.

The limits to the fiscal autonomy of Ethiopia’s local governments begin with the limited tax base facing *woredas*, especially in rural areas. But it is exacerbated by the low levels of private sector economic activity in some areas. This leads to a heavy reliance on intergovernmental fiscal transfers. In the 1990s, after the establishment of decentralization, *woreda* governments collected an average of only 16–17% of total government revenue, with the region raising the remaining 83–84% (Keller and Smith, 2005: 273). A study in eight *woredas* found out that on average more than 90% of *woreda* budgets were made up of grants received from regional governments (Meheret, 2007). This in turn gives the regional government leverage over subnational expenditures. A study conducted by Tegegne (2009) indicated that *woredas* rely heavily

on regional governments, with the level of dependence on transfers from regions rising to over 80–90%.

In spite of the fact that *woreda* governments are provided with considerable expenditure power and responsibilities, in practice their discretionary power is very limited due to the structure of expenditures at *woreda* level. Evidence indicates that substantial amounts of budgets transferred are generally used for recurrent expenditure, with nearly 91% of *woreda* budgets earmarked for administrative and operational expenditures (Meheret, 2007). This leaves little room for discretionary capital budgeting at the *woreda* level. Most capital activities at the *woreda* level are financed from donors and aid agencies or from specific purpose grants from the region on which local officials do not have much say but are subject to regional government guidelines (CIDA, 2005).

3.6 THE LOCAL GOVERNANCE ENVIRONMENT IN DECENTRALIZED WOREDAS

The Ethiopian constitution has set up an adequate legal basis for sound and democratic governance at all level of government. The constitution (Article 12) places an obligation on public institutions and their officials at any level to be transparent and accountable to citizens (FDRE, 1995). In fact, one of the reasons for the extensive decentralization process in the country is to improve governance. The stated aim of district level decentralization that empowers *woredas* is also to improve local accountability and transparency. However, there are mixed views on the practical impact of district level decentralization in Ethiopia. Several writers assert that the EPRDF led government is not seriously interested in the stated goals but has designed district level decentralization mainly to consolidate its power by penetrating down to the *woredas* and *kebele* level (Aalen and Tronvoll, 2008; Yilmaz and Vonugopal, 2008). Nevertheless, the assessment of the local governance situation in *woreda* governments in terms of political accountability, administrative accountability, financial accountability and social accountability arrangements, as presented in the following sections helps to reveal the real effort that the government has put to improve local

governance, as well as the real intention behind district level decentralization in Ethiopia.

3.6.1 Political Accountability

In Ethiopian district level decentralization (consistent with the provisions of Article 8 of the Ethiopian constitution), elections are vital instruments of accountability that allow people to express their preferences and, to this end, secret ballot voting occurs at the *woreda* level once every five years. Nevertheless there are quite a lot of concerns regarding the quality of election system. The first is related to the independence of the National Election Board (NEB). As has been mentioned earlier, members of the NEB (which is responsible for organizing elections including *woreda* elections in the country) are nominated by the prime minister and approved by the ruling party dominated parliament (FDRE, 1995). This leaves the independence of NEB questionable (Pausewang, Tronvoll and Aalen, 2002). The other most visible problem is that opposition political parties, as is common in most transitional democratic countries, do not have the capacity to present large numbers of candidates required at the *woreda* (50 to 60 candidates depending on the size of the *woreda*). This has been to the benefit of the ruling party which has the capacity to nominate the required number of candidates (Aalen and Tronvoll, 2008). Besides, since the electoral system is a 'first past the post' rather than proportional representation system, the winning party takes all the council seats allocated through the election, meaning that opposition parties have a slim chance of winning seats on the *woreda* council (Yilmaz and Venugopal, 2008).

Perhaps the most worrisome problem in using election as a reliable accountability instrument in Ethiopia is the massive gap between the *de jure* constitutional provision and the *de facto* exercise of the election system. The past elections in Ethiopia not only at national and regional level but also at *woreda* and *kebele* level have tended to be single horse races dominated to a greater extent by the ruling party (Adem, 2008). The EPRDF and affiliate parties¹³ have therefore dominated the Woreda Council elections.

¹³ EPRDF has formed five affiliate parties including the Afar National Democratic Movement (ANDM), Somali People's Democratic Party (SPDP), Harari National League (HNL), Benshangul-Gumuz Peoples' Democratic Unity Front (BGPDUF), and Gambella Peoples' Democratic Party (GPDP)

In the 2008 *woreda* elections, for instance, EPRDF and affiliated parties took almost all of the seats of *Woreda* Council, running essentially without opposition (Dickovick and Tegegn, 2010). Political competitiveness is therefore highly constrained at the local level. There is no a 'level playing field' for political competition as the boundary between the ruling party and the bureaucracy is blurred where executives and officials in the bureaucracy are party loyalists. This gives the ruling party a chance to make use of both the administrative apparatus and resources for political purpose (Meheret, 2007). In addition, as Vaughan and Tronvoll (2003) indicate, opposition parties who intended to participate in local election often find their offices closed, their potential candidates harassed or arrested, and their supporters warned against voting for them. This is also confirmed by Human Rights Watch (2008:1) field research on the 2008 local election. This situation gives rise to patron client relationship between political party leaders at the centre and members at local level. This is to say that local council members, executives and officials tend to be more loyal to party leaders than to the populace, which undermines downward accountability (Paulos, 2007). The patron client relationship is best observed when *Woreda* Council elections are won by opposition parties as seen in the case of Shako Majangir *woreda*. The opposition party, Sakko Majangir Democratic Unity party (the first ever opposition party in the history of the country to win local election), won the 2000 local council election. But this council experienced extreme budget shortages throughout its tenure due to the fact that the ruling party at the regional state level cut the budget significantly (Edjeta, 2008, cited in Yilmaz and Venugopal, 2008).

Horizontal accountability mechanisms such as local council oversight are also used to ensure accountability of the officials to the people. To this end *Woreda* Councils in Ethiopia have different standing committees to oversee sector activities though their effectiveness varies from one region to another. For instance, in Amhara, Oromia and Tigray, *woreda* councils often have four standing committees, such as Budget and Finance Committee; Social Affairs Committee; Security Affairs Committee; and Women's Affairs Committee, while *woredas* in other regions sometimes have no committee. Members of these committees sometimes lead the discussions in the quarterly meetings of the councils. The quarterly discussion is based on a monthly

financial and physical reports presented from sectors. Besides, the budget for the fiscal year presented for approval and consolidated *woreda* accounts are presented at the end of the year to the *Woreda* Council (World Bank, 2001).

Despite such arrangements, council oversight does not live up to its expectation due to several factors. In addition to the factors related to local election problems mentioned above, the oversight function of the *Woreda* Council is often compromised due to conflict of interest, as most cabinet members in the *woredas* are also members of the council and are unable to objectively oversee their cabinets. This is also the reason why discussions and decisions in *Woreda* Council tend to be dominated and influenced by a few executive-council members who are better skilled and informed about how the government system operates than other council members (Yilmaz and Vonugopal, 2008). The overseeing role of councillors is also impeded due to capacity problem especially in technical areas, such as planning, budgeting and financial management. Apart from capacity constraints, the fact that councillors at *woreda* level are not full time salaried officials, they tend to be less interested in overseeing the activities of line managers. Therefore, the councillors' approval and overseeing role, in general, is often not much more than a 'rubber stamp' (Yilmaz and Venugopal, 2008).

It should be noted that the councils are accountable not only to the people by whom they are elected but also to the regional executive committee through the *zonal* executive committee. Such dual accountability has its own problems in that it might relegate accountability to electors to secondary status (Meheret, 2007). Local accountability at local level is subdued also by the structure of ruling party that tends to foster central control, clientelism, and top-down governance in which decentralized units perform more as a passage for centrally imposed policies and directions to flow to lower level than for upward communication of local demands (Aalen and Tronvoll, 2008; Chanie, 2007; Kidane, 2001). The political incentives for the ruling party towards decentralization thus may be partly in the interest of improved service provision but not necessarily in the interest of more bottom-up accountability.

3.6.2 Administrative Accountability

At the *woreda* level, besides representative accountability, there is administrative/service delivery accountability (CIDA, 2005). This refers to accountability within *woreda* sector offices which are headed by appointed professional civil servants. There have been several reforms carried out by the government with the support of World Bank through various programs. These include the five-year Capacity Building for Decentralized Service Delivery project (CBDS) which was put into place for designing and implementing civil service reform and restructuring and empowering local government to ensure transparency and accountability of civil servants to the citizen as well as hierarchically to respective officials (Gutema, 2005). So far, there have been few studies to evaluate the effectiveness and impact of such programmes. However, the evidences suggest that the impact has not been very great, largely because of persistent problems associated in particular to the issue of the political-administrative interface. As Miheret (2007) has indicated, there is often a blurring of the distinction between the elected and appointed personnel, resulting in a great deal of administrative as well as political influence and power residing in the hands of the ruling party.

Another factor that seriously inhibits local accountability is the capacity constraints that exist at the local level. In the Ethiopian decentralization process, capacity issues at local level are addressed through two components, in rural areas through the District Level Decentralization Program and in urban areas through the Urban Management Program. The National Ministry of Capacity Building is the responsible federal government agency for running the capacity building programs of the country. Hence, besides various reforms introduced, efforts are made to train employees of *woreda* administrations and deploy human resource as well as office facilities, equipment, furniture and vehicles from regional and *zonal* administrations to *woreda* offices. But the evidence reveals a mixed result for such efforts. As part of this effort, a huge number of employees from zones and regional states' offices have been selected and transferred to *woredas*, in most cases in remote areas. However, in many cases the evidence suggests that those transferred were often short of capacity themselves and poorly motivated, especially as few monetary or other incentives were provided to those transferred (except for two months allowance for displacement). Some transferred

officials have now returned to the zonal or regional offices. Vehicles and equipment transferred to *woredas* were often not also functioning (Berhanu, 2009).

3.6.3 Financial Accountability

Capacity building efforts have also been made in the areas of accounting, budgeting, reporting and information system to improve the financial governance situation of *woreda* governments. As a result, *woreda* financial management has changed effectively from single-entry book and cash-basis accounting into double-entry book keeping and modified-cash basis accounting system. New accounts and budgeting system were introduced, including computer based financial management information systems in a small number of *woredas*; and new reporting formats and budget calendars were also introduced. The objective was to help *woreda* governments properly discharge their new financial responsibilities devolved from regional governments by improving their existing systems in which planned revenues and expenditures did not match actual revenues and expenditures collected. Previously, budget planning was ad hoc and not linked to policy objectives; revenues and expenditures forecast were incremental and thus not rooted in actual information and policy objectives; and, owing to poor planning and weak accounting and monitoring practices, accounts payable tended to accumulate (USAID, 2006). Despite Peterson's (2011) claim that the financial management reform has been successfully implemented in the country, there is currently a dearth of studies to effectively back up this claim.

Woreda governments rely heavily on transfers from regional government, especially for recurrent budget purposes. This leaves very little funds for capital budgets. If additional funds are provided by the central government or foreign donors, these are often earmarked for specific purposes, leaving little control or discretion for the *woreda* governments on the utilisation of such funds. This heavy reliance on transfer and donor assistance also undermines downward accountability to the people (Miheret, 2007). This is because citizens have little incentive to hold their local officials accountable as they know activities are financed by central or regional government grants rather than by the taxes and revenues collected from them.

Generally, empirical evidences indicate that the downward accountabilities of *woreda* government officials to constituents is seriously lacking. For instance, a recent citizen report card survey conducted in seven regions in 21 rural *woredas* shows that 87 % of the households have no information on *woreda* level government budget, 83 % of the households have no information on the strategic plans of the local governments, 85 % have no information about the agenda of their local governments, and 84 % are not informed of the decision made by *Woreda* Council (Ministry of Capacity Building and Ministry of Works and Urban Development, 2008).

3.6.4 Social Accountability

Because formal accountability instruments designed in the government system are not effective, social accountability arrangements are often believed to fill the gap. But, in Ethiopia, social accountability is not a well-developed area in the district level decentralization schemes. Ethiopian decentralization makes no reference to civil society and there is no provision for members of civil society to represent their constituencies in local councils, or the regional and national parliaments (Tegegne and Kassahun, 2004).

In the first place, the involvement and contribution of civil society in strengthening local accountability in Ethiopia continues to be a weak link. This may be partly due to the existence of the relatively small number of NGOs in Ethiopia. There are currently only 500-700 NGOs, which compares very unfavourably to countries such as Uganda (where there are 4,136) or Kenya, where there are 2,962 in Kenya (Yilmaz and Venugopal, 2008). Furthermore, NGOs in Ethiopia are engaged substantively in relief and development activities rather than in governance issues (Dessalegn, 2002). Those that do engage in policy advocacy also tend to opt for safer issues, such as promoting the rights of children; and campaigning against cultural practices harmful to women (Dessalegn, 2002). Community based organizations also mobilize and involve people but largely to improve service delivery and mobilize resources for development activities, such as health, education and water management (Kassahun and Tegegne, 2004). This is partly due to the government's hostile nature towards NGOs that take up policy advocacy and governance (Dessalegn, 2002).

Civil society organizations in Ethiopia are generally weak financially as well as in terms of managerial or institutional capacity and experience (Dessalegn, 2002). Those that are stronger tend to be affiliated to either the government or the ruling political party (for instance, REST in Tigray, ADA in Amhara, and ODA in Oromia), and do not therefore function as an effective social accountability mechanism (Yilmaz and Venugopal, 2008).

Advocacy work by NGOs and community organizations has been further weakened by changes in the legal environment governing the role and functions of internationally supported NGOs. This has limited participation in policy and governance advocacy only to local or Ethiopian charities and societies, which are formed under the law of Ethiopia with full Ethiopian membership and control (FDRE, 2009). Foreign-controlled charities and societies are not allowed to engage in such activities. Moreover, Ethiopian resident charities and societies are now not allowed to generate more than 10% of their funds from foreign sources. This has imposed severe financial strain on NGOs, many of whom depended primarily on external rather than internal resources. This change in the law regarding the financing of NGOs is alleged to be a response by the EPRDF to its shrinking electoral dominance in the 2005 national election, as it believed that this partly the result of the activities of externally funded advocacy groups and organizations (Debebe, 2010b).

While there is no legal provision for traditional forms of civil society to be involved in local governance, community assemblies and mass associations which are supposed to be the first point of contact for citizens to voice their demand are tending to serve, in reality, for the ruling party as mechanisms for reinforcement of existing political channels (Pausewang et.al, 2002). Women and youth associations are also generally perceived as an extension of government structure at the local level (Yilmaz and Venugopal, 2008), although there are a few cases, for instance in Amhara and the Tigray region, which reveal that a number of such groups have been more actively involved in independent stands towards government (EC Non-State Actors Study, 2004).

The contribution of the media (both in print and broadcast media) for providing independent information and strengthening local governance is extremely weak in Ethiopia even by African standard. This is due to not only the limited availability of and access to media at the local level due to geographic and economic realities, but also because of restrictions placed on media freedom. Although the constitution and legal framework does not allow for government censorship, considerable self-censorship is imposed on reporters by punishing those whose reports are thought to compromise national security or defame the government. Much of the media in Ethiopia is dominated by the state and the ruling party. There is therefore a very slim chance for it to serve as a mechanism of strengthening accountability not only at local but even at national level.

3.7 SUMMARY

Chapter 3 has shown that decentralization and local governance are relatively recent phenomenon to Ethiopia. It was only after the coming into power of the EPRDF in 1991 that the government and political system changed from central, socialist, and single party system into an ethnic federalist, multiparty and market system. The process of devolving political, administrative and fiscal power in the country took place in two phases: first regional level decentralization and then district level decentralization.

In the district level decentralization, the focus of this thesis, there are several successes in terms of effectively decentralizing significant power and responsibility to *woreda* governments. Besides devolution of political power, *woreda* governments are provided with the power and responsibility of providing basic public services in their jurisdiction. *Woreda* governments decide on the plan, budget and utilization of public resource for the provision of those services. The transparent and formula based block grant provides them with required resource in addition to the tax they collect from their citizens. Efforts, though with variable results, have also been made to build the capacity of *woreda* governments. Notwithstanding such achievements surrounding the progressive features of decentralization, many concerns still remain. Most of these are linked, in one way or another, to local accountability issues. The lack of a clear legal framework for

decentralization and limited revenue raising power are often mentioned as limitations relating to the design of district level decentralization in Ethiopia. Coupled with the reliance of *woreda* governments on transfers from regional governments due to their limited revenue potential, this has tended to promote upward forms of accountability and undermine downward accountability to the people.

Downward accountability is hindered in local governments of Ethiopia mainly due to a gulf between the constitutional provision and the *de facto* exercise. The government's intention to pay lip service to downward accountability becomes crystal clear when it comes to political accountability. Single political party dominance in both the legislative and executive branches, and even in the bureaucracy, coupled with the centralised structure of ruling party, tends to sustain upward partisan accountability over downward accountability. Together with the capacity problems faced by *woredas*, this has adversely affected the introduction of an effective system of checks and balances at the local level.

Although there have been successes in the implementation of various civil service and financial management reforms in such areas as accounting, budgeting reporting and auditing, the impact of these reforms on local accountability has yet to be fully investigated. At the same time, forms of social accountability are almost totally lacking in Ethiopia.

This suggests that the district level fiscal decentralization process in Ethiopia does not conform to the requirements suggested by the theoretical framework discussed earlier in this thesis in order for fiscal decentralization to succeed in delivering its alleged local financial governance benefits. Nonetheless, explaining how these incomplete efforts of district level fiscal decentralization interact and affect local financial governance is not possible without a more thorough analysis of actual cases. Hence, the forthcoming chapters will provide the results of the investigation in the Amhara region district level fiscal decentralization process using empirical data from selected four case *woredas*. Before this, however, the research design and methodology adopted for the research will be discussed in detail in the following chapter.

CHAPTER FOUR: RESEARCH METHODOLOGY

4.1 INTRODUCTION

This chapter presents a detail description of the research paradigm, techniques, methods and processes followed in carrying out the research. It consists of three major sections. The first identifies the research paradigm chosen to guide the investigation. The second outlines the research design adopted for the study. And the third sets out the research methods employed, in relation to such issues as the sampling processes used and the data gathering and analysis methods employed.

4.1 RATIONALE FOR AN INTERPRETIVE PARADIGM

In this empirical research an interpretive approach was followed. There are compelling reasons to use such an approach. Local financial governance is a factor of several forces that interplay in the local government. Thus, understanding and analyzing local financial governance is a complex endeavor that requires not only looking at the local government financial management system but also understanding the views and feelings of different people and actors, as well as the political, economic, and social environment (World Bank, 2008; Schaefer, 2005). In such a situation, a simple study examining cause and effect will not be sufficient. Instead there is a need for a comprehensive study that brings the various forces and variables together and examines their interaction and consequence in the local financial governance sphere.

That is why the aim of this study is to examine not only cause and effect relationships but also the contexts and processes in local financial governance and the intricacies involved in the complex network of relationships between various forces in local financial governance in the four case *woreda* administrations selected for the study. Therefore, this study involves an interpretative approach as it includes a number of cases (units of analysis) while taking several variables into account. This is the opposite of a positivist approach where large sample cases and few variables are needed for objective generalization.

Another reason for following an interpretive analysis has to do with the nature and availability of data. The complex issues addressed in this research (including the extent of devolution of fiscal and functional power, as well as the autonomy of *woreda* administrations, adequacy of financial management practices, direct and indirect engagement of citizens, and interaction of political factors) can never be fully understood or represented in numerical terms. At the same time, as much of the required data could not be found in national or regional government reports and statistics, it was necessary to gather the required data from structured questionnaires and interviews with key stakeholders.

4.2 STUDY DESIGN

In this thesis, a multiple case study approach is followed. Multiple case analyses, as explained by Baxter and Jack (2008), involve a process whereby more than two cases are examined to understand the effects of a particular program in different contexts and to identify factors contributing to differences of such effects between cases. To this end, four case study *woredas* in the Amhara region, namely Mekiet, Bahirdar Zuria, Debremarkos and Shebel Berenta are included in the study. These *woredas* have different socio-economic, demographic and geographic features that influence the implementation of fiscal decentralization as well as financial management reforms. As shown in table 4.1 below, Mekiet *Woreda* is a relatively remote area and yet, as reports from the then Bureau of Capacity Building report show, it is regarded as one of the *woredas* that have implemented the reforms more successfully than the other *woredas*. Shebel Berenta *Woreda* is the remotest *woreda* and has not been as successful as Mekiet in the implementation of the reforms. Bahirdar Zuria *Woreda* is closer to Bahirdar city (the capital of the region), and consists of all the rural villages on the outskirts of the city. Debremrkos town administration, unlike the other *woredas*, is an urban administration and has somewhat different responsibilities and powers in terms of function, revenue resource and autonomy. These differences helped the study to make more meaningful comparisons and draw more meaningful conclusions regarding the

achievements and limitations of the fiscal decentralization process in the Amhara region.

Although the four *woredas* have a number of sectoral offices (as shown in Table 4.2 below), the study focuses largely on the three most important offices, those of education, health and rural water supply respectively. These three offices account for the largest proportion of the budget in all four *woredas*.

4.2.1 Description of Study Areas

4.2.1.1 Amhara Regional Government

This study focuses on district level fiscal decentralization in the Amhara region due to the fact that, as already discussed in the previous chapters, the Amhara regional government is one of the four regional states that pioneered the devolution of fiscal power to *woreda* administrations. The Amhara regional state is one of the larger states that constitute the Ethiopian federal state. It is home for roughly 27 percent of the total population of Ethiopia. With an estimated area of 161,828 square kilometers, the region is organized into 11 administrative zones and 115 *woreda* administrations (see the map on Appendix 13 (BoFED, 2011)). The population of the region, according to the 2007 national census, is 17,205,000, consisting of 8,636,875 men and 8,577,181 women. Approximately 16,925,000 or 88.5% of the population are estimated to be rural inhabitants, while 2,195,000 or 11.5% are urban. The majority of the population (91.2%) of the region belongs to the Amhara ethnic group. Other groups including the Oromo (3%), Agew/Awi (2.7%), Qemant (1.2%), and Agaw/Kamyr (1%) (CSA, 2007). The capital of the regional state is Bahirdar which is 565kms far to the northwest from Addis Ababa, the capital of the federal government. The Amhara region is principally a rural and agricultural region in which 90% of rural dwellers are engaged in small scale agriculture activities (CSA, 1999).

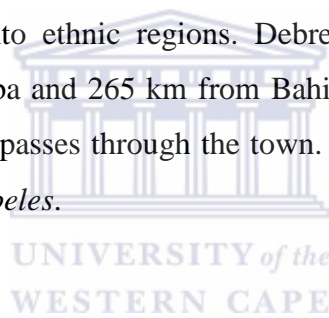
4.2.1.2 Shebel Berenta

Shebel Berenta is the remotest and the most rural *woreda* administration of all the case study *woredas*. It is part of the Eastern Gojjam Administrative Zone (see the map on Appendix 16). Yeduha is a small village like town serving as the seat of the *woreda*

administration. There is only one route in and out of the town that is isolated from the secondary road that connects Addis Ababa and Bahirdar. The *woreda* is also the smallest of all the case study *woredas* in terms of population. It is found in the low land area of Eastern Gojjam and consequently it is one of the most drought prone *woredas* of the Amhara region, due to its low level of rain fall, depletion of natural resources, deforestation and soil erosion. Shebel Berenta *Woreda* consists of 17 rural *kebeles* and one urban *kebele*.

4.2.1.3 Debremarkos

Debremarkos is an urban *woreda* which also serves as the seat of the Eastern Gojjam Administrative *Zone* (see the map on Appendix 16). Debremarkos once served as the capital of Gojjam province before the introduction of the 1995 new constitution that reorganized the country into ethnic regions. Debremarkos town is located 300 km northwest from Addis Ababa and 265 km from Bahirdar. The main road that connects Addis Ababa and Bahirdar passes through the town. Debremarkos town administration incorporates eight urban *kebeles*.



4.2.1.3 Bahirdar Zuria

Bahirdar Zuria *Woreda* is a rural *woreda* consisting of the peripheral rural areas of Bahirdar city. It is part of the Western Gojjam Administrative *Zone* (see the map on Appendix 16). The seat of the *woreda* administration offices is Bahirdar city. It is the second most populous *woreda* next to Mekiet. This is a food secured *woreda* with no history of relief assistance. Bahirdar Zuria *Woreda* administration consists of 40 rural *kebeles*.

4.2.1.4 Mekiet

Mekiet is the largest rural and the second remotest *woreda* of all case study *woredas*. It is found in North Wollo Administrative *Zone* (see the map on Appendix 16). Flakit, a small town 220 km east of Bahirdar is the seat of the *woreda* administration. The main road that connects Bahirdar and Woldiya (seat of the North Wollo Administrative *Zone*)

crosses Flakit town. The *woreda* is one of the most drought prone *woredas* in the Amhara region. Meket *Woreda* consists of forty rural *kebeles* and two urban *kebeles*.

Table 4.1: Description of the study areas

Woreda	Administrative Zones the woreda found	Administrative seat	Number of Kebeles	Population Size	Proportion of people in rural area	Remoteness of woredas		Average annual rain fall
						Distance from Bahirdar	Distance from the main road	
Debremarkos	East Gojjam	Debre markos	9 urban <i>kebeles</i>	62,497	Urban	265km	The main road that connects Addis ababa to Bahirdar crosses the town	1380mm
Shebel Berenta	East Gojjam	Yeduha	17 rural <i>kebeles</i> and one urban <i>kebele</i>	103,988	95.03% rural	345km	70 km from the secondary road (Unpaved or gravel road) that connects Addis Ababa and Bahirdar	One of the most drought prone areas (food insecure)
Bahirdar Zuria	West Gojjam	Bahirdar	40 rural <i>kebeles</i>	182,730	95.94% rural	Rural villages in the outskirts of Bahirdar city	-	820-1250mm
Mekiet	North Wello	Filakit	40 rural <i>kebeles</i> and 2 urban <i>kebeles</i>	226,644	94.92% rural	220 km	The main road that connects Bahirdar to Mekiet crosses the seat of the <i>woreda</i>	One of the most drought prone areas (food insecure)

Source: Case *Woredas* Socio Economic Profile

Table 4.2: the Organization of *woreda* administrations in the Amhara region

Social Sector Offices	Economic Sector Offices	Administrative and General Services Offices
1-Education office	1-Rural Development and Agriculture office	1-Woreda Administrative council office
2-Health office	2- Rural Water Supply Office*	2- Justice office
3-Rural water supply office	3-Trade, Industry and Urban Development Office	3-Administration and Security office
4-Women's Affair Office	4- Micro and Small Scale Enterprises Office	4-Police
5-Youth, Sport and Culture office	5- Co-operatives Coordinating Office	5-Information and Public relations office
	6-Land Use and Environmental Protection Office	6- People mobilization and Administration office
	7- Woreda office of finance and planning	7- Civil Service Office
	8-Disaster Prevention and Food Security Office	8- Militia office
	9-Office for municipality service**	

Source: Case *Woredas* WOFED

*Note that water supply office in urban *woredas* such as Debremarkos urban administration has semi-autonomous status.

**This office is only for Debremarkos urban administration

4.3. RESEARCH METHODS

Data on financial governance gathered from a single source using a single gathering method is not likely to be sufficient for a study of this kind. Understanding and analyzing this complex issue requires bringing different pieces of data together. Furthermore, due to the imminent problems in developing countries, obtaining reliable data from a single source using a single method is not really possible. It is understandable that official documents and financial reports are not likely to be properly filed or prepared, reliable or complete. Respondents may fear to give their views openly when it comes to governance issues; and officials may not be willing to cooperate or to give genuine information and so forth. Therefore, it can be said that the use of different pieces of data from different sources is important not just for validity purpose but also for improving reliability by securing alternative data. Hence, this research was carried out following an eclectic approach, by gathering different pieces of data through various data collection methods from multiple sources and following diverse investigation processes. A detailed explanation of sources of data, types of data and data collection techniques and methods of data analysis employed for the study is presented as follows.

4.3.1 Selection of Respondents, Type of Data and Data Collection Techniques

In order to gather reliable, valid and complete data, it is imperative to follow different primary and secondary data collection methods appropriate to gathering different types of data from diverse sources (Baker, 1999).

4.3.1.1 Primary Data Collection Techniques

In this study, both quantitative and qualitative data were gathered using three primary data collection instruments from diverse sources. These are interview, focus group

discussions and questionnaires. Respondents for the questionnaires, focus group discussions, and interviews were selected using both probability and non-probability (purposive) sampling methods, based on their role, responsibility and involvement (as decision-makers, service providers or beneficiaries) in the financial decentralization processes.

Interviews

Interviews were administered to officials at various levels including the *woreda* and regional level. The main informants include the heads of the education, health and rural water supply offices in the four *woredas*. A detailed interview of two to three hours was conducted with all of these officials. Interviews were also held with the regional BoFED deputy head, *woreda* chief administrators, and *Woreda* Council speakers. An informal interview was also held with the head of the public relations office for the Amhara Regional Auditor-General (ARAG), as well as with the deputy head of the regional Management Institute.

A detailed check list of issues was prepared and used in the interviews to gather in-depth information pertaining to the following:

- The power and functional competencies devolved as well as the fiscal, administrative and political autonomy of *woreda* administrations.
- The nature of relationship and coordination between *woreda* and regional offices and the extent and nature of regional involvement in *woreda* financial affairs.
- The practices of financial management activities such as planning, budgeting, budget implementation and follow up in sector offices.
- The appropriateness of budget appropriation among sector offices and its execution.
- The practice of external auditing in *woreda* administrations.
- The manpower situation in sector offices related to financial management responsibilities.

- The role of *Woreda* Councils in planning as well as budgeting (from appropriation to the evaluation of budget to ensure accountability and effective financial management in *woreda* governments).

Focus Group Discussions

Focus group discussions were used to gather data that are more likely to be revealed through social gatherings and interactions within a group contexts. Two separate focus group discussions (FGDs), comprising seven to eight participants each, were administered in each of the case study *woredas*. The first focus group was composed of community members, including representatives of the elders, youth, women, religious leaders, business community and peasants. Through these focus group discussions, it was possible to gather valuable information about the interaction between citizens and their government officials, the existing possibilities for citizens engagement in the *woreda* financial management decisions, the availability of information about the financial performance of their *woreda* administration, accountability arrangements, the possibilities for engagement of formal and informal associations in government financial management process, and the political context of their *woreda*.

The second type of focus group was held with participants from the *Woreda* Offices of Finance and Economic Development (WOFED) whose responsibilities were directly related to the budgeting and finance activities of the *woredas*. These participants were selected purposely on account of their roles and responsibilities in the financial management processes of their *woreda* administration. They included accountants from government finance disbursement divisions; planning experts and budgeting experts from planning and budget divisions; experts from internal revenue offices; purchasers from procurement and property administration divisions; and auditors from internal audit divisions.

All focus group discussions consisted of seven to eight participants. The discussions were held for a period of about three hours. Such FGDs were crucial for the researcher to be familiar with the financial management system being practiced in the *woreda* administrations. These FGDs helped not only to identify the shortcomings of the

implemented financial management reforms, but most importantly they were instrumental in identifying the gap between the designed financial management system and what is going on in practice in the financial management process of *woreda* administrations. In addition, the FGDs helped in gathering information about the interaction between WOFED and other sectors in the process of budget implementation; the influence of political interests in the financial management process; and the nature of their interaction with *zone* administrations.

All of the FGDs were facilitated by the researcher. Despite their important influence in local financial governance, issues related to elections and the role of the ruling and opposition parties were not raised and discussed, as people did not want to talk about openly about such politically sensitive issues. Even though financial governance in the public sector is inextricably linked with political processes and cannot be insulated from political influences, the facilitator was forced to take utmost care not to raise issues such as these that would likely irritate the participants.

With regard to other (non-political) issues, however, the vast majority of participants in the focus groups were prepared to talk openly. With respect to the focus groups with community representatives, one of the reasons for this was the widely held perception that most of the allocation and spending problems had little to do with the ruling party or with the regional or federal government. Instead they believed that the problems they identified resulted largely from shortcomings related to their *woreda* administration officials. Thus, they believed that they had to use this opportunity to reveal the existing problems in their *woreda* administration. In fact, one of the challenges in FGDs was that some of the participants seemed to regard the FGD as a public meeting organized to hear their complaints. It was observed that they wanted to talk all their complaints even about issues unrelated with this research. An attempt to interrupt such unrelated talks was not easy and even caused disappointment of some of the participants. Therefore, the facilitator had taken due care to balance these situations in the FGDs.

Questionnaires

Getting the views and opinions of individual people of the case *woredas* in the region is also important. The Amhara region is a large region where the selected case *woredas* are located faraway from each other. Thus, the only effective method to help to obtain individual views and perception of a large sample of respondents in such scattered *woredas* was to use questionnaires. In addition, questionnaires were used to support and triangulate the information gathered through the interviews and focus group discussions. As the research involved a number of issues on which people might be unwilling to reflect their feelings openly, questionnaires were therefore used with the intention to give anonymity to respondents. Despite this effort, some respondents were still unwilling to give their feelings and views. As revealed in table 4.3, this resulted in only 309 of the 360 questionnaires distributed being completed and returned. Nevertheless, given the logistical difficulties involved, this was still an acceptable rate of return from which valid findings could be generated.

Two types of questionnaires (open ended and closed) were prepared in the Amharic¹⁴ language. The open ended questionnaires were used for gathering data from individual households and were intended for gathering demographic data and especially for affording the respondents the opportunity to explain their views and opinions (which would not have been possible with a closed questionnaire). Household respondents were selected using a two-stage cluster randomization process. Three sample *kebele* administrations were selected from each of the four *woredas* and then thirty households from each of the sample *kebeles* were selected randomly.

Questionnaires were distributed to and collected from households by assistant enumerators. One teacher and one development agent working in the *kebeles* were recruited for every *kebele* as enumerators and deployed after being trained by the researcher as to how they should go about eliciting data from the households. This is mainly due to the fact that, as shown in table 4.3, many of the respondents were illiterate and could not fill the questionnaires without support from the enumerators. Even those sections of the community who can read and write or have primary

¹⁴ Amharic is the working language in all case *woredas*

education were not able to comprehend the questions without support from enumerators. This was not due so much to the difficulty of the questions but rather to the opaqueness of the government system to the people and their low level of interaction with their *woreda* government. Besides, some of the questions needed to be reinterpreted in other locally understandable languages. This was possible only by the use of these enumerators.

An attempt was made to ensure representativeness of samples by including respondents from all sections of the community. As shown in table 4.3 below, these included rural and urban dwellers, male and female headed households, literate and illiterate people, and youth and elders. The selection was made from the list of households available in the *kebele* administrations. Thus, the questionnaires were designed to include structured questions intended to gather data regarding the perception of the respondents about issues such as the autonomy of their *woreda* administrations, the effectiveness and responsiveness of allocation and spending, corruption and mismanagement by officials, the availability of information about the use of public finance, the involvement of people in budget decisions, and the possibilities of holding *woreda* officials accountable.

Table 4.3: Demographic characteristics of respondents by *woreda*

Educational background of the respondents by <i>woreda</i>		Woreda the respondents reside								Total	
		BDZ		Mekiet		Shebel		Markos		#	%
		#	%	#	%	#	%	#	%		
Educational background	Illiterate	35	53.8	35	39.3	23	32.4	9	10.7	102	33
	Read and writ	23	35.4	5	5.6	10	14.1	7	8.3	45	14.6
	Primary edu.	3	4.6	10	11.3	4	5.6	4	4.8	21	6.8
	5-8	3	4.7	20	22.5	10	14.1	15	17.8	48	15.5
	9-12	1	1.5	12	13.5	13	18.3	24	28.6	50	16.2
	College	0	0	7	7.8	11	15.5	25	29.8	43	13.9
Sex of respondents by <i>woreda</i>											
		#	%	#	%	#	%	#	%	#	%
Sex of respondents	Female	9	13.8	18	20.2	13	18.3	32	38.1	72	23.3
	Male	56	86.2	71	79.8	58	81.7	52	61.9	237	76.7
Age of respondents by <i>woreda</i>											
		#	%	#	%	#	%	#	%	#	%
Age of respondents	18-25	7	10.7	18	20.3	16	22.5	15	17.9	56	18.1
	26-35	16	24.6	21	23.6	21	29.6	27	32.1	85	27.5
	36-45	16	24.6	12	13.5	15	21.2	25	29.8	68	22

	46-60	21	32.3	27	30.3	14	19.7	10	11.9	72	23.3
	>60	5	7.8	11	12.3	5	7	7	8.3	28	9.1
Marital status of respondents by woreda											
		#	%	#	%	#	%	#	%	#	%
Marital Status of respondents	Single	5	7.8	16	18	15	21.1	18	21.4	54	17.5
	Married	58	89.2	73	82	56	78.9	66	77.6	256	82.8
	Unspecified	2	3	0	0	0	0	0	0	2	.7
Religion of respondents by woreda											
		#	%	#	%	#	%	#	%	#	%
Religion of respondents	Christianity	65	100	85	95.5	71	100	78	92.9	299	96.8
	Muslim	0	0	4	4.5	0	0	6	7.1	10	3.2
Total		65	100	89	100	71	100	84	100	309	100

Source: Field Survey: 2011

The close ended questionnaires were used to gather information from officials in *woreda* service delivery units in the education, health and rural water supply sectors. The questionnaires to be filled by service providers included structured questions to gather information regarding their perception about their beneficiaries' involvement in budget decisions and evaluations; the possibility of mobilizing resources from constituents; the ability of beneficiaries to hold officials accountable; and the adequacy of the provision of finance, materials, facilities and equipment required for quality and sustainable service. The questionnaires also included questions about the respondents' perceptions about the appropriateness and fairness of the allocation and use of public resources; the adequacy of formal and/or administrative accountability arrangements in their institutions and *woreda* administration; and the planning and evaluation practices in their institutions.

4.3.1.2 Secondary Data Collection Methods

Both quantitative and qualitative data were obtained through different secondary data collection methods. Guidelines and manuals prepared by the regional Bureau of Finance and Economic Development (BoFED) for the new planning, budgeting and accounting system were used in order to understand the nature of the financial system reform. Federal and regional government constitutions and the draft legal framework for district level decentralization were reviewed to determine the level of power devolved to *woreda* governments. Financial administration directives, manuals and official

correspondences (inter-office letters and circulars) also were used to provide a general view of the rules and regulations.

Quantitative data was gathered from various official documents such as strategic plans, budget documents, periodic financial and non-financial reports, cash flow plans & reports, action plans (of case study *woredas* and the Amhara regional offices) and audit reports of the Amhara Regional Auditor General Authority (ARAG). Such data was mainly about the extent of expenditure and revenue responsibilities devolved to *woreda* governments; the financial autonomy of *woreda* governments; the financial performance of *woredas*; the link between development plans and budgets; discipline in spending patterns; the match between budget plans and execution; the link between financial and non-financial performance; and the practice of auditing and areas of irregularity, abuse and misuse reported by auditors.

4.3.2 Data Analysis

In this thesis, the qualitative data was analyzed using thematic analysis. The data gathered in the form of written-up field notes and transcriptions of document analysis, focus group discussion and interviews was filtered, abstracted and sorted into various themes related to fiscal decentralization and financial governance. Then, the analysis was made by creating patterns, meanings and relationships of concepts as well as their similarities and differences between cases.

The responses of respondents collected through the questionnaires were changed into quantitative values using SPSS. Descriptive statistical analysis methods such as frequency analysis, crosstabs, ANOVA, and correlation analysis were used to analyze the response of respondents. The results were presented using tables, graphs and diagrams. Besides, quantitative data gathered from official documents were critically analyzed by creating relationships and comparison among the case study *woredas* and across time in order to assess the accountability and financial management practices. Tables, graphs and diagrams were used as well to present the results.

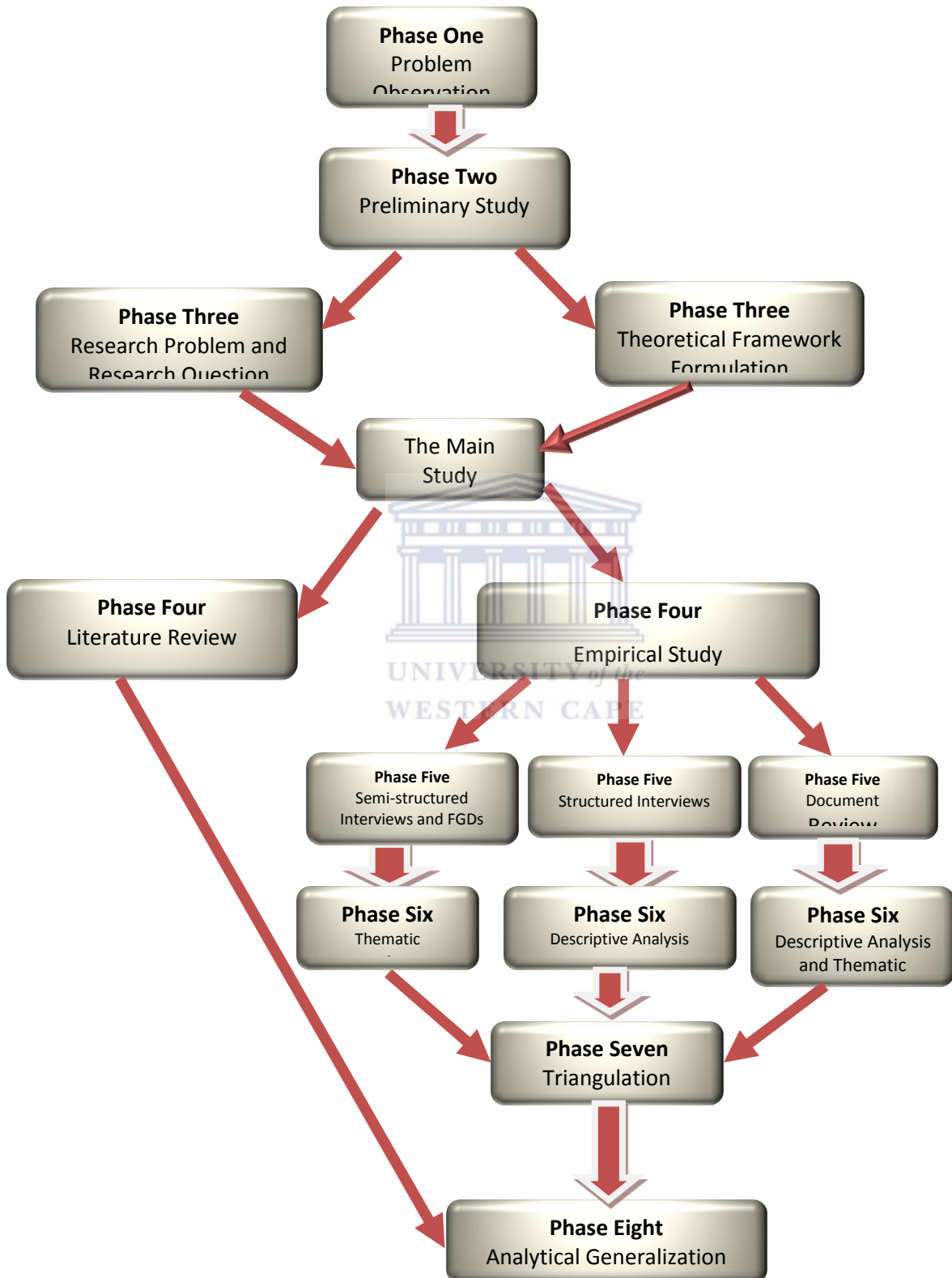
Triangulations of quantitative and qualitative data were made by bringing all the empirical data together, so as to interpret and draw meaning out of the empirical

investigation about the district level decentralization and financial governance of *woreda* administrations in the Amhara region. Finally, the results of empirical data and literature review came together and were compared. Thus, analytical generalizations (not statistical generalization) were able to be made about the compatibility of theories with empirical evidences regarding the link between fiscal decentralization and *woreda* financial governance and the interaction of intervening forces to influence the link in the Amhara region.

Generally, the research process and methods followed in this thesis are depicted by the following diagram.



Figure 4 1: Diagrammatic depiction of the research process and methods



CHAPTER FIVE: INTERGOVERNMENTAL RELATIONS AND THE FINANCIAL GOVERNANCE OF WOREDA ADMINISTRATIONS

5.1 INTRODUCTION

It is to be recalled from chapters one and two that fiscal decentralization is justified for its importance of promoting local financial governance. It is stated that fiscal decentralization, if properly designed and implemented, leads to effective, efficient and accountable local public finance collection and spending. Thus, based on the data gathered from four case study *woredas*, this chapter presents an assessment of the adequacy and appropriateness of the design and implementation of the district level fiscal decentralization of the Amhara region to promote the financial administration of *woreda* administrations. An evaluation of intergovernmental relations between the region and *woreda* administrations is used as a measure of the efficacy of design and implementation of the district level decentralization.

Hence, this chapter consists of two major parts. The first part presents the intergovernmental fiscal relationships between the regional government and *woreda* administrations. This examines if the design and implementation of the district level fiscal decentralization really can lead to the fiscal empowerment of *woreda* administrations. The discussion will also focus on the capacity and willingness of the regional government to support and strengthen the *woreda*'s self-administration capacity, as well as to regulate their financial management practices to ensure regional standards and rules are respected. The second part sheds light about how the devolved functions and financial resources, the subsequent autonomy, and the support and regulation by the regional government have influenced *woreda* financial management practices such as planning, budget preparation and allocation, budget implementation, revenue collection and financial control.

5.2 DISTRICT LEVEL FISCAL DECENTRALIZATION IN THE AMHARA REGION

As noted earlier in this study, the Ethiopian federal governance system has four tiers of government. The federal government is the first tier and the second is comprised of ethnic based regional governments that are politically, administratively, and fiscally devolved and therefore legally capable of self-administration. Zone administrations are just branches of regional government that do not have separate devolved powers. *Woreda* (district) administrations are the last tier of government that are empowered by their respective regional constitutions (under the federal district level decentralization framework) to self-administer. Below *woredas*, there are also community level units called *kebele* administration, but these do not have devolved powers and functions, and are therefore not usually considered as part of the formal government structure.

In the pre-decentralization period *woreda* administrations in the Amhara region were formed to be subordinate administrative units destined to implement the policy, plans and budgets formulated at the regional level. *Woreda* administrations had been working as branches of zone administration and accountable to zone administrations. Their budget was prepared and approved by zone administration. Various sector offices in the *zone* administrations were responsible to oversee guide and allocate budget to their branches at *woreda* administrations.

However this administrative structure came to its end in 2001 when district level decentralization was declared throughout Ethiopia. To comply with the introduction of district level decentralization in the nation, the government of the Amhara National Regional State (ANRS) with the support of the District Level Decentralization Program (DLDP) in the then Ministry of Capacity Building, took important measures to devolve the powers of self-administering political, fiscal and administrative affairs to its *woreda* administrations. These included the revision of the regional constitution. In the revised constitution proclamation No. 59/2001 of ANRS Article 45 (1), the regional government is comprised of *woreda* administrations and *kebele* administrative units. Article 83 made *woreda* administrations self-administering local government units organized on the basis of a tripartite government structure that has legislative, executive

and judiciary branches of government. Furthermore, article 84 states that *woreda* administrations are empowered to formulate, execute and finance socio-economic development plans within their jurisdiction. The lowest government unit in the region is the *kebele* administrations that are, according to article 96, simply implementing administrative units tasked to undertake various community level socio-economic activities as delegated by their *woreda* administrations.

The adequacy of design and implementation of fiscal decentralization, which this study is primarily concerned about, can be assessed to a considerable extent on the basis of the degree and extent of devolution of functional competencies, finance sources and financial management autonomy devolved to *woreda* administrations (Smoke, 2001; Shah, 1998; Bahl, 199). Thus, the following section provides an assessment of the extent of fiscal decentralization design based on a review of the legislation, executive decrees and budget documents of *woreda* administrations.

5.2.1 Functional Competencies

The revised constitution of the Amhara regional government provides that *woreda* administrations are mandated to plan, budget and implement their own economic and social development programs. They also have, as evidenced in Article 84 (1), the duty of implementing the policies and laws of the federal and regional government. Nonetheless, it is the document produced by the District Level Decentralization Program in the then Ministry of Capacity Building that outlines a framework that specifies the functional competencies to be devolved to *woreda* administrations. The framework was adopted by the Amhara regional government to devolve functions to *woreda* administrations though without any additional accompanying legislation. Accordingly, *woreda* administrations are now, as discussed in detail in the last chapter, assigned with functions related to primary education and the first cycle of secondary education, primary preventive and curative health care services, lower grade rural roads, small scale agricultural development activities, land use, natural resource preservations, amongst others.

5.2.2 Finance

Fiscal resources are critical for the effective provision of the mandated services. The Amhara district level fiscal decentralization process provides *woreda* administrations various means by which they can generate revenues.

5.2.2.1 Own Revenue Raising

According to article 86 (2/f), *woreda* administrations in the Amhara region levy and collect certain taxes. They collect rural land use fees, agricultural income taxes, personal income taxes and royalty taxes. They also levy and collect service charges and fees. However, the power to determine the rate of the fees and taxes is retained by the regional government. Furthermore, article 86 (2/g) provides that *woreda* administrations can make use of any other revenue sources within the *woreda* which are not administered by the regional government.

Thus, *woreda* administrations in the Amhara region, using this power, have been able to raise a limited share of the finance they needed from their own source. The data depicted in table 5.1 shows that they raised 232.6, 248.6, 333.2 and 216.4 million birr in 2005/06, 2007/08, 2008/09 and 2009/10 respectively from their own sources. The data reveals an increasing trend of *woreda* administrations' revenue collection. Similarly, in the case study *woredas*, as shown in table 5.2, there has been a steady growth in own revenue over the last five years (2005/06-2009/10) as the increase is nearly twofold in the three rural *woredas* and tenfold in the Debremarkos city administration.

Table 5 1: Budget allocation by regional governments and *woreda* administrations

	2009/10	2008/09	2007/08	2005/06
Woredas/Urban Administrations Budget	1,913,987,530	2,964,230,175	2,395,137,914	1,346,068,109
Block Grant from Regional government	1,617,138,044	2,501,716,853	2,086,355,165	1,249,286,400
<i>Woreda</i> Own Revenue	216,480,890	333,283,147	248,644,835	232,622,655
Donor Fund	80,368,595	129,230,175	6,0137,914	92,388,313

Source: Amhara Regional Government's Budget Data of Various Years

Table 5 2: Total budget allocation and revenue collection by case study *woredas*

<i>Woreda</i>		2009/10	2008/09	2007/08	2006/07	2005/06
Bahirdar	Total budget of the year	42,803,435	38,298,242	24,035,794	17,354,736	16,501,445
	Revenue from the <i>woreda</i>	4,950,000	7,064,420	3,022,585	2,447,514	2,691,527
	Grant from Region	30,264,190	22,670,530	18,650,887	NA	10,659,312
D/Markos	Total budget of the year	78,341,967	60,112,595	22,646,525	16,891,786	13,825,532
	Revenue from the <i>woreda</i>	30,256,883	20,783,559	10,943,258	7,667,925	3,000,000
	Grant from Region	31,914,157	18,605,166	17,275,725	NA	10,825,532
Shebel	Total budget of the year	17,913,916	16,043,953	14,198,353	11,905,515	10,719,428
	Revenue from the <i>woreda</i>	3,534,439	2,844,250	1,842,861	1,314,085	1,599,005
	Grant from Region	13,405,214	13,460,939	11,244,524	NA	6,754,004
Mekiet	Total budget of the year	28,448,799	27,260,312	23,305,646	14,894,931	12,197,436
	Revenue from the <i>woreda</i>	6,302,516	3,056,000	2,647,890	2,521,800	3,067,344
	Grant from Region	19,925,001	21,893,962	19,557,756	NA	8,862,194

Source: Case *Woreda* Administrations' Budget Data of Various Years

Note: NA stands for data not available.

All values are in Ethiopian currency (ETB), 1 Ethiopian birr is equivalent to 0.05 USD as of March 2013.

5.2.2.2 Intergovernmental Transfer

The fact that *woreda* administrations could rarely cover their expenditure from their own source meant they had to obtain transfers from the federal government or regional government. *Woreda* administrations in the Amhara region do not receive intergovernmental grants directly from the federal government. Instead, grants are transferred to them by the regional government. The intergovernmental grant that *woredas* obtain from the regional government also takes the form of a "block grant". They get the grants from the regional government without conditions attached. The data in table 5.2 shows that that the block grant from the regions to the case study *woredas* has increased at the rate of two to threefold over the last five years (2005/06-2009/10). The regional government has used different formulas at different times to determine the amount of block grant to be transferred to its *woreda* administrations. The variables and their respective weight used to determine the grant also kept changing.

The first block grant formula (the replica of that used by the federal government) took into account population size, the development disparity index¹⁵, and own revenue performance to allocate the grant to *woredas*. This became operational in 2002. To solve the problems of some *woredas* which suffered from budget deficits, the formula was revised in 2005 to take into account population size, own revenue collection performance, the development disparity index and recurrent expenditure needs with weights of 50%, 20%, 15% and 15% respectively (Mohammed, 2007). The allocation was made with 70% for recurrent expenditures and 30% for capital expenditures. Finally, the complexity of the formula and difficulty of getting the data forced the region to switch to the current block grant formula: a unit cost approach (Garcia & Rajkumar, 2008).

The current block grant formula was formulated in 2007 with the primary purpose of meeting the expenditure needs of *woreda* administrations. A unit cost formula is a needs based approach which can help to provide well-developed *woredas* with the needed high recurrent funds, and low level of public service *woredas* with the required high investment funds. Therefore, the allocation of weights is given separately to both recurrent and capital budget needs. Recurrent expenditure needs are determined based on the unit cost needed to provide services to beneficiaries. A unit cost of service for every type of service is determined by computing the average salary per beneficiary of the service plus the unit operational cost per beneficiary paid for last year.

For example $BGHS = TUC \times \text{Number of patients targeted for the budget year}$

Where, BGHS refers to Block Grant for Health Service

TUC refers to Total Unit Cost which is the summation of salary unit costs which represent the ratio of average health workers' salary unit cost to patient-health worker ratio and operational unit costs.

The same applies to determination of the recurrent block grant for other services such as water supply, education and agriculture. However, the estimation of the recurrent

¹⁵ Computing the development disparity index was a complex process that took in to account five factors including health index (made up of six components such as number of clinics, number of doctors, number of nurses, number of health assistants, number of hospital beds, and the under-five mortality rate); road length per KM square; electric power measured as KWH per thousand people; telephone lines per thousand people; and percentage of people with safe drinking water

budget for administrative and general services is made simply based on past expenditure trends and the administrative structure of the *woreda*. This might influence budget execution positively as *woreda* administration would exert their effort to use their entire allocated budget so as to receive an increased grant in the upcoming year. But this could be at the expense of effective economic use of the budget as *woreda* administrations might utilize the budget unwisely and wastefully just to ensure that all of it was spent.

The formula used to determine the block grant for capital budgets is also intended to fill the existing infrastructure gaps between *woredas* for basic services such as water supply, education, health, and agriculture and rural development. Therefore, an infrastructure deficit index is computed based on percentage gap of each of the service indicators from the standard. Each of the indicators is allocated with weights as shown in table 5.3. Therefore the share of each *woreda* from the capital budget is determined based on their percentage infrastructure gaps index determined through this process. Generally, this index reflects the infrastructure expenditure that a particular *woreda* needs if the existing infrastructure gap is to be corrected.

Table 5 3: Indicators of Infrastructure gap index along with their allocated weight

Sectors	Indicators	Weight
Education	Education	35%
	Student-section ratio	17.5%
	Primary education coverage	17.5%
Health	Health coverage	30%
Agriculture and Rural development	Number of live stock to livestock clinic ratio	20%
Water supply	Water supply coverage	15%

Source: Amhara Regional State BOFED, 2009

The total block grant pool to a particular *woreda* is, therefore, determined by summing up the recurrent expenditure calculated based on unit cost and the capital expenditure calculated based on the infrastructure gap index. The total block grant pool to be distributed to all *woredas* in the region was originally divided into 75% for the recurrent budget and 25% for capital budget. But this proportion changed to 80% and 20% respectively in 2002, as it was observed that the actual allocation to capital budget by *woreda* administrations had been declining and much of it was being used to cover

recurrent expenditure. However, *woreda* administrations receive the fund in blocks and have their own discretion in making budget allocation based on their own *woreda* specific situations.

An attempt is also made to integrate funds from donors to ensure equity among *woreda* administrations by offsetting 15% of the grant to the *woredas*. In other words 15% of the donor fund to a particular *woreda* administration is considered in the computation of the block grant. Budget offsetting is limited to 15% of the donors fund as such funds are not reliable. On the other hand, those donor funds that are allocated by the donors directly to a particular sector without the awareness of the regional Bureau of Finance and Economic Development (BoFED), or else pass through sector bureaus to their corresponding *woreda* sector offices are not considered for offsetting. Finally it should be noted that there is a special grant for urban administration to be used for urban development works or urban infrastructure developments.

5.2.2.2 Borrowing

Borrowing is also one of the sources that could or should be used alternatively to solve the likely gap between the available financial source and the required finance. But unfortunately, not only in the *woredas* of the Amhara region but also in all the regions in Ethiopia, local government borrowing is the least utilized means of raising revenue. Under the Federal Democratic Republic of Ethiopia (EFDRE) constitution, even regional governments have very limited borrowing powers, which are restricted to internal sources and require authorization by the federal government. However, there is no provision at all in the Amhara regional constitutions as to whether *woreda* governments can mobilize finance through borrowing. Currently no such borrowing has taken place. Although projects at the *woreda* level are financed through foreign loan, these are arranged, managed and allocated by the Federal Government.

5.2.3 Autonomy

The third important question is about the extent to which *woreda* administrations are empowered to make decisions about financing and provision of these functions. The constitution of Amhara region provides *woredas* with full autonomy in making decisions with regard to the planning and financing of the devolved functions without

interference by the regional or zonal government. Article 86 (2/g) provides *woredas* full liberty as to how to spend the revenue which they receive in the form of block grants or they collected from their *woreda*.

However, there are a number of concerns in the design of the current district level fiscal decentralization that prevent *woreda* administrations from exercising this power. The following section provides an assessment of a number of factors that have contributed to this situation, including the lack of exclusivity, the lack of clarity and the inadequate assignment of functions to *woreda* administrations.

The first problem has to do with the lack of exclusivity that may well result in ambiguities in the specification of the autonomy devolved to *woreda* governments. That is to say the regional constitution does not make clear the extent to which the region can be involved in matters that are already transferred to *woreda* governments. What is clear is that the local government cannot enact policies contrary to the proclamations and policies enacted by the region. In contrast, the constitution does not preclude the region from legislating on local matters. Given the limitless legislative power of the region on regional matters, the laws and policies enacted by *woreda* administrations will stay in force only temporarily. If the regional government issues new proclamations and policies that contradict those of *woreda* administration, the laws and legislations of *woreda* administration will automatically lose effect. This can seriously undermine the autonomy of *woreda* administrations.

For instance, the federal/regional government has passed a decision to revoke the power of urban administrations to raise revenue from land lease. This was intended to reduce the possibility of local corruption. As long as the autonomy is assigned to urban administrations, they should have an exclusive right to exercise it in a manner they wished. If there was a concern over land corruption, the federal/regional government could have given them appropriate support to improve their working system rather than to arbitrarily cancel their mandate. This problem of non-exclusiveness can cause a lot of pressure in the financial condition of urban administrations, including a decline in revenue collection. As shall be seen in detail in the forthcoming sections, one of the factors that resulted in a low level of revenue collection in Debremarkos Town administration is the arbitrary decision of the federal/regional government to revoke the

city administration's power to raise revenue from land lease. The city administration had been generating large amounts of revenue from land lease. Some of the costs of various infrastructure development projects undertaken in the city's administration had been covered by such revenue. But when the federal/regional government withheld the practice of land leasing in all cities in the country, the revenue of city administration from land lease was interrupted. Consequently, the budget execution of the urban administration has declined and the projects that had been partially financed from this source could not be completed.

A closer look at the plan and performance report of the regional government sector bureaus also indicates the lack of exclusivity. The lists of planned targets as well as their performance presented in the reports of the regional Bureau of Health, Bureau of Education and Water Resource Bureau for evaluation and approval by the regional council contain the services that are already devolved to *woreda* administrations and are supposed to appear in the plan and reports of *woreda* administrations. The inclusion of these services in the regional bureau plans and reports means regional sectors are evaluated based on the performances of services that are devolved to *woreda* administrations. This leads the regional offices to interfere and closely supervise the affairs of *woreda* administrations. Needless to say, this undermines downward accountability and *woreda* administration autonomy while strengthening upward accountability to regional/zone administration.

The second gap in the transfer of functional competencies in the district level decentralization of Amhara region is the lack of legislation that clearly specifies and empowers *woreda* administration to decide about socioeconomic affairs of their *woredas*. There have been debates about the issue of specifying the functional competencies of local governments through legislation. While proponents for legislating argue that financial autonomy and accountability can be adversely affected if functions devolved are not clearly specified (already discussed in chapter two), opponents have argued that legislating the functional competencies will not allow the local governments and higher level tiers of government to flexibly adjust the level of devolution of function according to the changing situations.

In the Amhara region district level decentralization process, matters of social services and economic development within the competences of *woredas* are not clearly defined in the regional constitution. There is no legal framework that specifies the functional competencies and powers devolved to *woreda* administrations. The reflection of interviewees and discussants in the expert focus group discussions was sought about this issue. None of the participants seemed to be aware of the importance of having legislation and were not concerned about its nonexistence. Most of the interviewees had little or no idea how the devolution of such power and functions had been made to their office. Since all of them had not been in their position during the original decentralization process, they assumed that the then officials of *woreda* governments may well have received some kind of proclamation or directive from the region. But none of them could point to any legal instrument or directive in their offices sent from the regional office about the functions and powers transferred to *woreda* governments. The head of education office in the Mekiet *woreda* just assumed that there must be some proclamation that explains the powers and functions delegated to *woreda* governments even though he has no knowledge of such a proclamation.

The head of the education office at Bahirdar Zuria *Woreda* stated that the functions and powers given to *woreda* governments have been explained in the training organized by the zone administration. He further explained that the planning formats and budget structures designed by the regional government to be used in the preparation of *woreda* plans and budgets are indicative of the functions and budgeting powers transferred to *woredas*. All of the discussants in the experts' FGD provided the same explanation.

All of them witnessed that they have never experienced any conflict with their counterpart at the regional government concerning the exercise of powers and functions. They mentioned that the regional government would not hesitate to transfer more responsibilities and power to *woreda* governments if it was convinced that the work can be better done at *woreda* level. Similarly, the *woreda* governments would never resist giving up some of their responsibility and power if the region believes the work can be better done at the region. They believe that there is little propensity to conflict with each other as both of them are working towards a common goal. They said they like to emphasize issues which are common to both of them rather than emphasising the distinct problems of each *woredas*. They are of the view that problems of the country both at

regional and *woreda* level can be best addressed by following the overall national and regional directions. Thus, the relationship is not only based on the separation of powers and functions but also, according to the expert focus group participants, on partnership and cooperation between the different tiers or spheres of government.

Almost all of them believe that the existence or lack of a legal framework for the decentralization would not make a significant difference to the current relationship between the *woredas* and the regional government. However, the heads of the education and health offices in the Mekiet *woreda*, as well as the deputy head of BoFED, did think that having a clearer legal mandate might have positive impact on the confidence of the heads of *woreda* offices involved in the process of making decisions. Currently, the different heads of offices in the *woredas* exercise their power differently. Some of the heads in the *woredas* who are more experienced and loyal to the ruling party tend to exercise their full power while newly appointed officials often do not have the confidence to do so and therefore tend to follow what the experts at the zone level tell them to do.

It is not adequate to assess the clarity on the assignment of functional competencies to determine the extent of autonomy of *woreda* administrations. It is also important to see the adequacy of the assignment of functions to *woreda* administrations. In this regard, theories advocate that the assignment of functions to local governments will be adequate when public services that can be served best and felt by a particular local community or area are devolved to local governments. However, in the Amhara region, some of the services used by the local people are not in the mandates of *woreda* governments. For instance, administering and financing services such as preparatory high school (grade 11 & 12), Technical and Vocational Education and Training (TVETs), hospitals, large scale water construction works and so forth belong to the regional government.

The inter-jurisdictional nature of the services might be mentioned to justify their retention at regional level. But it is difficult to conclude for all of the services that their beneficiaries are from different *woredas*. It varies from one *woreda* to another. For instance, the students of preparatory schools will be from different *woredas* if they come from small *woredas*. But those preparatory schools located in larger *woredas* have

students only from that particular *woreda*. The same is true for TVETs. Furthermore, one of the purpose of the block grant formula used to determine the amount of regional grant to *woreda* governments, as explained by the regional government, is to accommodate the spill-over cost effects of the cross-jurisdictional services by using the number of beneficiaries of services as the primary criteria.

The case of large scale water constructions (such as deep water well excavation projects) also suggests that there are functions yet to be devolved to *woreda* administrations. Large scale water constructions in *woreda* administration are currently under the responsibility of the regional government's Bureau of Water Resource. These large projects involve large budget and would have constituted the largest share of the budget transferred to *woredas*, had the mandate been to *woreda* offices. A report prepared by Water Aid reveals that only 17% of the water supply budget allocated to regions is transferred to *woreda* governments, compared to 50% of the total budget allocation (Water Aid Ethiopia, 2008:3). The technical complexity of the work is the only reason mentioned for taking this mandate even if the benefit is limited to a particular local people. But this reason does not sound convincing enough as regional governments could have provided technical support and guidance to *woreda* administrations rather than taking over the mandate.

It is understood from the heads of the rural water supply offices in the case study *woredas* that it has been a common practice in the region that the power to allocate the budget for and supervise deep water well excavation projects belongs to the regional water supply bureau. The *woreda* rural water supply office is involved only in the day to day operation. The head of rural water supply office in Mekiet *woreda* argued that there are certain reasons to believe that such projects need involvement from the regional bureau. It was mentioned, for instance, that such projects cannot be carried out by local contractors that are accessible by local bidding as most of them do not have heavy excavating machineries required for the projects. In order to solicit capable contractors, it is necessary to announce international bidding which the *woreda* office has neither the capacity nor the expertise to do. In this case the *woreda* needs support from regional government. He said that this, however, does not to mean the power to decide on financing and supervising the project should be given to the regional government.

According to the head of rural water supply office at Mekiet, it has been common in the past to hear complaints from the people over delays in the completion of such water projects. The office at Mekiet *woreda* has little power to address such complaints, as the mandate to take the necessary corrective measures belongs to the regional bureau. The office at the *woreda* had done its best to let the regional bureau know the extent of the problem and the need to take necessary action to ensure the timely completion of the project. However, the regional office has not made any substantial effort to take the necessary corrective action. This has prevented the *woreda* office from carrying out effectively its delegated responsibilities for supervising and following-up the construction, as the budgets allocated by the regional bureau have not been adequate to cover the operating costs of the office for carrying out such tasks. Another problem was observed when the completed water supplying projects needed maintenance. The regional government basically does not allocate budgets to cover maintenance costs. The focus is on building new projects rather than maintaining the old ones.

The head of the education office in Mekiet *woreda* also recounted an incident that reveals how keeping the power to decide and control the budget to the regional education bureau caused poor quality of the maintenance of a preparatory school (11-12 grades) in Filakit town. A few months after the maintenance was completed by a contractor, the *woreda* office received complaints from the students and their parents that the class rooms turned into mud and dust. This constituted a danger to the students' health and was extremely difficult for students to attend to their study. Despite repeated requests by the *woreda* education office to the regional bureau, the bureau turned a deaf ear to the problem and failed to provide any tangible solution. After waiting for three years, the *woreda* office realized that the regional bureau would never fix the problem, and provided its own maintenance by moving resources from within its own budget. However such self-initiated actions place an additional burden on their budgets.

On some occasions the regional government has taken steps to assign such functions to the *woreda* administrations. However, this often takes place without the necessary additional budgets being allocated, resulting in unfunded or underfunded mandates.

5.2.3.1 Fiscal Autonomy

Revenue

Fiscal autonomy with respect to revenue is often measured in terms of the share of own revenue raised in the *woreda* compared to the total amount of revenue secured during the fiscal year in question. As table 5.4 clearly reveals, *woreda* administrations in the region have been able to raise 17.28%, 10.38%, 11.24% and 11.31% of the total revenue they secured in 2005/06, 2007/08, 2008/09 and 2009/10 respectively, representing an average revenue collection of 11.96%. The revenue collection of the case study *woredas* of Bahirdar Zuria, Debremarkos, Shebel Berenta and Mekiet represents on average 14.51%, 37.87%, 15.73% and 16.87% of the total budgeted revenue respectively in the period between 2005/06 and 2009/10. The revenue collection for the case study *woredas* was therefore better than the regional average. The revenue collection of Debremarkos city administration is far higher than the other case study *woredas*, not surprising fact given its revenue generating base and the fact (explained in the previous chapter) that it has greater revenue raising powers than its rural counterparts. In general, however, the revenue collection capacity of *woredas* still remains far less than the amount needed to offer them the financial autonomy they need to make financial and implement decisions independently.

Table 5 4: Share of own revenue collected by *woreda* administrations as a percentage of their total revenue

Share of own Revenue to Total Revenue	2009/10	2009/08	2008/07	2006/07	2005/06	Average
All <i>Woredas</i> in the Region	(11.31)	(11.24)	(10.38)	NA	(17.28)	11.96%
Bahirdar Zuria	(11.56)	(18.44)	(12.57)	(14.1)	(16.31)	14.51%
Debremarkos)	(26.8)	(23.28)	(14.8)	(20.91)	(21.9)	37.87%
Shebel Berenta	(19.73)	(17.72)	(12.97)	(11.3)	(14.91)	15.73%
Mekiet	(22.15)	(11.21)	(11.36)	(16.93)	(25.14)	16.58%

Source: Own Calculation from Amhara Regional State and the Case *Woredas*' Budget Data of Various Years

Moreover, there is an equally serious problem that threatens the fiscal autonomy of *woreda* administrations. *Woreda* administrations are not at liberty to spend even the relatively small amount of revenue they collect from their own residents. They have only the power to levy and collect revenue from their residents based on the rate and base determined by the region. The revenue has to be transferred to the treasury of the regional government. *Woreda* administrations can spend the revenue they collect only if approved by the regional government as a portion of the block grant from the region. There has to be offsetting on the block grant to be transferred from the regional government before *woreda* governments spend what they collect. In a nut shell, revenue administration in Amhara regional government is under the mandate of the regional government. It is only the regional administration that determines the tax base and rates and their distribution among *woredas*.

Nevertheless, there are two conditions which might allow *woreda* administrations to exercise autonomy over revenue collection and spending outside the mechanisms of the regional block grant. The first condition is if *woreda* administrations can collect revenues in excess of the planned revenue collection target. In reality, however, this is not a very realistic possibility, as *woreda* administrations rarely collect beyond their planned targets, especially as excess revenues can be recognized only after the end of the third quarter.

The second condition according to article 86 (2/g) of the regional constitution is when *woreda* administrations can collect from other revenue sources within their *woreda* which are not administered by the regional government. The constitution of the region provides that *woreda* administration can make use of other sources if there is any source of revenue which is not used by the region or federal government. However, the region currently is administering and making use of almost all the sources of revenue under its jurisdiction. Those that remain outside the remit of the regional or national government (such as nuisance taxes) are usually too small to provide a meaningful source of revenue to the *woredas*.

Regional Fiscal Transfers

As explained earlier, the fact that *woreda* own revenue provides only a relatively small share of the total resources required for their administration means that they are heavily

dependent on regional transfers. The data in table 5.5 shows that between 2005/06 and 2009/10, on average 89.04 % of *woreda* administrations total yearly revenue has been covered from regional government transfers. The table also shows that the case study *woredas* have been receiving on average between 44.94% and 86.48% of their budgets from the regional government in the form of block grants, with Debremarkos and Bahirdar Zuria being the lower and upper limits respectively. Debremarkos's reliance on regional transfer has been significantly less, not due to the actual size of the transfer but because of its better revenue raising potential. In summary, the data reveals that there has been a heavy reliance on regional government transfers, which in turn is inversely related to the autonomy of *woreda* administration to decide independently.

Table 5 5: The proportion of regional grant to total *woreda* administrations' budget

The Proportion of Regional Block Grant to Total <i>Woredas</i> Budget	2009/10	2008/09	2007/08	2006/07	2005/06	Average
Total Block Grant from the Region	(84.40)	(84.39)	(87.10)	NA	(92..81)	(86.48)
Bahirdar Zuria	(70.70)	(59.19)	(77.59)	NA	(64.59)	(67.61)
Debremarkos)	(40.73)	(30.95)	(76.28)	NA	(78.3)	(44.94)
Shebel Berenta	(74.83)	(83.90)	(79.19)	NA	(63.00)	(76.20)
Mekiet	(70.03)	(80.31)	(83.91)	NA	(72.65)	(77.00)

Source: Own Calculation from the Case *Woredas*' Budget Data of Various Years

Note: NA stands for the data not available

Theoretically, no matter how heavily their budget is reliant on regional transfers, *woreda* administrations would still have the discretionary power to decide on the spending of the fund providing regional government transfers are not accompanied by any conditions. In this sense, the transfer scheme in Amhara regional government can be described as the most empowering form of intergovernmental transfer as the block grant transfers from the region to *woreda* administrations are not attached with such conditions. However, the process and index used for the computation of the block grant pool to *woredas* does weaken this discretionary power.

The block grant formula is praised for its capacity to accurately estimate the expenditure needs of *woreda* governments as well as correcting the inequality in service delivery between *woreda* administrations. The fact that the formula uses unit costs per standard service level means *woreda* administrations would have the basis for allocating and

utilizing public resource according to the set unit costs. Moreover, since the unit recurrent expenditures are determined based on the number of beneficiaries, this block grant formula helps to absorb the spillover expenditure pressures imposed by beneficiaries of a particular service from other *woredas*.

Despite such strengths of the formula, there are a number of limitations. As demonstrated earlier in the study, the block grant is determined based on the relative priority given to the sectors by the regional policy. For example, a key focus of the regional government as well as of the federal government is on achieving the UN's millennium development goals (MDGs). Thus, the block grant volume to *woreda* governments is also influenced by these targets. One of the purposes of the block grant is to use it as an instrument of linking regional policies to budget allocations. That is to say that it is used to impose regional policies on *woreda* administrations, despite the fact that the grant scheme at face value appears to have no conditions attached to it.

There are some contradictions between the purpose of the block grant allocation and the discretion given to *woreda* administrations. The purpose of the block grant as explained earlier is to make allocations based on the expenditure needs of *woreda* administrations. Moreover, *woreda* administrations are given the guidelines to prioritize MDG sectors in the allocation of their budget, thus limiting their discretion. *Woreda* administrations can do little to deviate from the block grant pattern of allocation unless they spend below the standard unit cost. This can be done only at the expense of quality and service performance of the *woreda* administrations. Even if they want to spend below the standard unit cost, they can do so only on the allocation of operational expenditures.

One of the reasons for modifying the previous block grant formula is that one of the criteria used to determine the block grant has been population size. *Woredas* with a small population but with the same government structure and functions have therefore been challenged due to the size of their population. Rather than encouraging *woreda* administrations to set up government structures that fit their small size, the current unit cost approach of computing block grant formula allocates operational budgets to small and large *woredas* in the same way. This is because the block grant for operational expenditures is computed based on the number of sector offices in the *woreda*.

Moreover, the capital budget computation is made based on only the capital expenditure needs to expand new services to correct the existing service gap between *woreda* administrations. It does not take in to account the resources needed for improving the existing quality or sustainability of services. The resource needs of the *woreda* administration to cover maintenance costs, for example, are not taken into consideration.

5.2.3.2 Financial Management/Budgeting Autonomy

The revised constitution of the region provides that *woreda* administrations have the autonomy to formulate their own socio-economic development plans (article 84), as well as to spend the finance (article 86/g) they collect from residents and receive from the regional government in the form of regional transfer. They can prepare plans and budgets and carryout various financial management activities independently without any interference of zonal or regional government provided that regional policies, laws, standards and regulations are respected. Just to make sure that such regional ordinances are respected, the Amhara regional constitution, according to article 84, allows regional government to exercise regulatory and supervisory roles. However, there is no clearly stipulated procedure according to which the regional government can assess local government. In addition there is no clear procedure of intervention by the region when a *woreda* administration fails to discharge its responsibilities. There is only one provision in article 115 that gives clear power to agencies such as the Amhara Regional Auditor General (ARAG) to inspect the accounts of *woreda* administrations. However, it is clear in the proclamation that the regional government cannot interfere in the financial management activities of *woreda* administrations. All of the FGD discussants as well as the interviewees in the case study *woredas* uniformly agreed that the preparation of socioeconomic plans and budgeting are entirely done by the *woreda* administrations themselves.

5.2.4 Perceptions towards Woreda Level Decentralization

In order to gauge the perception of citizens towards the current fiscal decentralization in *woreda* administrations, citizens and civil servants were asked which government body or social body they would like to be involved in the process of administering public finance used for local development. Then, those bodies were arranged in order based on

the number of votes they received. Table 5.6 shows that *woreda* government involvement was the first choice, receiving 74% of the votes of civil servants and 68.5% of community members. The second choice was people involvement which received 69 % of the votes of civil servants and 68 % of community members. Higher level government was the third preferred government option, followed by *kebele* administration, and finally government by elders and religious leaders. The order of choice is consistent between the civil servants and community members and there is no statistically significant mean difference in the response between the case *woreda* administrations. This confirms that the current district level fiscal decentralization is consistent with the preference of people. But at the same time, the involvement of citizens, higher level government and *kebele* administration in financial administration are still given significant importance.

Table 5 6: Preferences of respondents regarding the bodies that should be involved in financial administration for development purposes

	Frequency		Total		Missing		Valid total		Valid percent		Rank	
	CS	Co	CS	Co	CS	Co	CS	Co	CS	Co	CS	CO
Higher level government	60	200	100	309	1	3	99	306	60.6	65.4	3 rd	3 rd
<i>Woreda</i> Government	74	209	100	309	0	4	100	305	74	68.5	1 st	1 st
<i>Kebele</i> Administration	45	199	100	309	0	3	100	306	45	65	4 th	4 th
People	69	208	100	309	0	3	100	306	69	68	2 nd	2 nd
Elders and Religious Leaders	42	153	100	309	0	3	100	306	42	44.1	5 th	5 th

Source: Field Survey: 2011

Note: CS stands for civil servants and Co stands for community members

Interviewees (*woreda* officials) were asked for their opinion towards the currently devolved power of planning and spending. All of them opted to highlight the benefits that have been derived from decentralization rather than the drawbacks. They stressed, in particular, that due to the decentralization of power to *woreda* governments, they have been able to utilize the government money in the most economic manner allocating it according to their specific *woreda* situations. They feel that they have been able to utilize the money properly by minimizing wastages, corruption and

embezzlements. The administrative inconveniences (bureaucratic cumbersome) that had existed in the pre-decentralization period, such as the long time in obtaining regional government approval, has been removed. They believe that projects that are carried out under the responsibility of *woreda* government have been started and completed more effectively, timeously and responsively that would have not been the case if they had been carried out by the regional government. A much faster and effective response to complaints from the public has also been made possible. This is primarily due to the fact that *woreda* officials are closer and live together with the people so that they can directly experience and empathize with the discomfort that the people suffer due to poor services. Hence, *woreda* officials are under a much greater practical as well as moral obligation to address these problems as soon as possible without waiting for approval from higher levels, as long as the power to fix the problem is in their hands. Despite such benefits, most of the civil service respondents nevertheless acknowledged that they still faced capacity problems in addressing complaints from the public, resulting in them having to sometimes seek support from regional governments to do so.

The head of education office at Mekiet *Woreda* placed emphasis also on the efficiency in budget allocation and utilization that the *woreda* office has achieved. The head referred to the 5 primary schools they had built with 800,000 birr they received from the region in recognition of their performance in primary education coverage. These schools have been constructed with the contribution of people. He stated that “*the money could not have been enough to construct more than one primary school, had the construction been carried out by the regional education office*”. The head of the health office in Bahirdar Zuria *Woreda* also explained that they have constructed three health centres in three *kebeles* using the funds saved due to efficient use of money and prioritizing the most critical need of people in the *woreda*.

The respondents also indicated that decentralization has created a spirit of healthy competition between *woredas*. It has become common to see when one *woreda* announces a fund raising event, others follow. It has helped them to look for alternative sources of finance to fund development activities in their *woreda*, and not rely only on finance from the government. This has created an opportunity for *woreda* administration officials and citizen to work together towards the development of their respective *woredas*.

In addition, as the head of rural water supply office in Bahirdar Zuria explained, self-government has helped the *woredas* to “*understand, identify problems, and look for immediate solutions of smaller budget or less cost*”. It has also helped them to identify and provide various *kebeles* with appropriate types of water supply facilities according to their different needs and water reservoir capability. The fact that the *woreda* office has been able to mobilize the people to contribute towards the construction of water supply facilities is the result of decentralization. This would not have been possible if such powers were kept at the regional office. But the head of education office at Shebel Berenta believes that much more needs to be done to devolve financial power not only to the *woreda* but also to the sector offices. He was of the opinion that the current single pool finance system has taken away the power of sectors and has created a lot of obstacles on sector offices to utilize their budgets efficiently.

Generally, communities in the focus groups (FGDs) in all *woredas* had a similar positive perception of the benefits of decentralization in bring government closer to the people. Regional government, it was felt, can never have the required information about the specific desires and priorities of people and what is needed to address them. They believed that if the decision on the allocation and use of budgets remained at regional office, the money would not come down to the people, or else, it would tend to be allocated only to those *woredas* closer to the regional capital. Rural *woredas* far from the regional capital would be overlooked. All of the respondents in the focus groups believed that decentralization should go even further at the local community level.

Discussants at Debremarkos suggested that decentralization had increased the willingness of people to contribute to the development activities of the town. The carrying out developing activities was previously seen solely as the responsibility of government for too long. But, since the advent of decentralised *woreda* governance, people have voluntarily participated and contribute towards various fund raising activities organised by the government. They now feel that they have an important role to play, together with local government, in their own development. They also referred to the role played by the media (the print media and radio and television) in reporting on the different development programmes being carried out in the various *woredas*. This has helped to create a momentum by encouraging people to initiate similar activities in their own *woredas*.

In summary, benefits related to administrative efficiency, utilization efficiency and local resource mobilization are most mentioned in the discussions and during interviews with officials. However, there were significantly fewer references made to the benefits of fiscal decentralization with respect to transparency, accountability and the active participation of people in fiscal affairs decisions.

5.3 THE DESIGN OF FISCAL DECENTRALIZATION AND FINANCIAL MANAGEMENT

5.3.1 Local Socio-Economic Planning

Theoretically, preparing specific local socio-economic development plans is the responsibility of *woreda* administrations, provided that such plans are consistent with the broad federal and regional policy frameworks. Nevertheless, the regional government sector bureaus through their respective agencies at zone administration level have been clearly interfering in the planning process of *woreda* administrations. *Zone* administration offices interfere in the planning process of *woreda* administrations at least twice in the planning process.

The first incident of interference is when the planning process begins at *woreda* administrations. *Woreda* government plans are required to reflect not just the socioeconomic problems of their people but also to comply with regional specific targets. *Woreda* governments and their heads of various sector offices are required to have contact and get information about the socio-economic development targets set by the regional government for the upcoming year, and should determine derived target for their *woreda* in line with these. Both the interviewees and expert focus group discussants agreed that zone administrations and their different offices provide preliminary base information to their counterparts at *woreda* governments each year about the targets that the region plans to achieve. *Woreda* governments are therefore required to take into consideration not only their own *woreda* socioeconomic situation and goals but also the regional planning targets.

The second incidence of interference is when zone offices provide their feedback in response to the plans sent by the *woreda* offices seeking their approval. The feedback might be to include new activities and/or targets. The zone offices often give feedback

to the *woredas* several months after the submission of the plans and after the required budget has been allocated and the implementation has been started. The deputy head of BoFED affirmed in the interview that the *zone* administration would interfere in the *woredas*' planning process if their coverage in health, education and water supply is below the regional average. In this case, to bring their coverage level at least to the regional average level, *woreda* governments are often forced by their respective zone offices to increase their coverage target. The deputy head of BoFED stated further that *woreda* administrations often plan a target below the required level due to the uncertainty they feel about the adequacy of their budgets in realising such targets. In fact, data or information shortages also contribute to the deviation between regional and *woreda* plans.

The question that arises is whether such interference from the *zonal* administrations should be regarded as a support or as an imposition. To answer this question it is important to assess the extent to which *woreda* administrations conflict with zone administration over planned targets and how far *woreda* administrations are prepared to go in refusing to modify or change their targets in line with those of the *zonal* administrations.

The experience of the case study *woredas* shows that *zonal* interference is often an imposition that the *woreda* administrations are often forced to accept. Education sector planning is one source of conflict between *woreda* governments and zone administration. The number of students at the age of five to be enrolled in the year has been the area of dispute between the *woreda* education offices and *zonal* administrations in all the *woreda* cases covered in this study. The experts at *zone* level often suspect that the number of students planned to be enrolled by *woreda* offices is understated and that the numbers should be increased in order to meet the regional targets. However, the *woreda* officials interviewed insist that their targets are based on a realistic estimate of what in practice is achievable. In 2009/10, for example, the Bahirdar Zuria *Woreda* education office planned to enrol 8000 new students, but the education office at *zone* level had instructed them to increase it to 10,000. The informants claimed that this target was unachievable, not least because the total number of children who turned 6 in the *woreda* was less than this number. The education office at Shebel Berenta *woreda* was also ordered to change its student enrolment target for

2009/10 from 24,459 to 30446. The education office head interviewed claimed that their plan was based on accurate data from *kebele* administration records of the number of children at age 7.

The same is true in the case of the number of children planned to be vaccinated in the year. The health offices of *woredas* and their counterpart at zone level often dispute such targets. The head of the health office at Bahirdar *Woreda* mentioned that they were forced to change their plans on the number of households to be targeted for improvements in household hygiene in 2010/11 from 37,034 to 45,110. Household hygiene refers to ensuring that households have appropriate toilet and sanitation facilities in place, as well as separate partition for the family and livestock. According to his explanation, the difference is mainly due to the different types of data they used. The *woreda* office used the number of households registered by the *woreda* Internal Revenue office while the zone office used the estimation of World Health Organization. But the head of the *woreda* office is not convinced insisting that the *woreda* does not even have the number of household residents targeted by the zonal administration. No matter how strongly the *woreda* insisted, the zone office has not been ready to compromise on those targets. Generally, the *woreda* government offices did not accept those imposed targets voluntarily but are often forced to do so. Such impositions by the regional and *zonal* sector bureaus are often put in place because the regional sector bureaus have to present consolidated performance reports of the *woreda* administrations to the regional cabinet and the regional council. Even though these basic services are formally devolved to *woreda* administrations, regional sector bureaus are still accountable for their performance.

One of the functions that often passes through such revisions and modifications process is revenue collection. In Mekiet *woreda*, for instance, the plans of the *woreda* revenue office were 3 million and 7 million respectively in 2008/09 and 2009/10, whilst the zonal office pushed them to achieve targets of 6.3 million and 9 million respectively. The deputy head of the regional BoFED makes clear that *woreda* governments in the region often understate their plan especially when it comes to revenue collection. This is because if they set higher targets of revenue collection, the amount of grant that comes from the region would decline. The *woredas* are often not certain if they will be able to collect the target levels of revenue. If they are not able to collect what they have

planned, there would be a budget deficit and there is no guarantee that the regional government would give an additional grant to cover the deficit. The *woredas* therefore have a natural inclination to be on the safe side when estimating their revenue targets. Another incentive relates to the fact that if they collect in excess of their planned targets, the regional government (as discussed earlier) would allow them to use it for their own *woreda* development activities. This is why the planning targets of the *woredas* and the zonal administrations are often at variance with each other.

Generally, it is unlikely for *woreda* government officials to ignore the targets and feedback from the *zonal* administrations with respect to revenue and expenditure targets. This is because they are ultimately dependent for a large amount of their revenue through the block grants provided by the regional government. Continuous refusal to accept regional targets could easily result in a reduction of such block grants. In some ways, therefore, the planning activities of *woreda* administrations seem to conform more to deconcentration rather than genuine devolution.

5.3.1.1 Consequences of Interference in the Planning Process

Undermining the Importance of the Legislative Power of Woreda Councils

Zonal offices often seek to change the service targets of *woreda* administration not only at the beginning of the planning process but also when they give feedback several months after the plan has been approved by *Woreda* Council. That means that the plans approved by the highest body of *woreda* governance may well be subject to change by those (the *zonal* administrations) that do not have formal power to do so. The *Woreda* Councils are in theory supposed to go over the development plans in considerable detail in order to ensure that they aligned to the development needs of the *woredas*. However, if the plans are going to be arbitrarily changed subsequently by *zonal* offices, there is no adequate reason for *Woreda* Councils to waste their time and energy to attentively examine and approve the plans. Therefore, it can be said that *Woreda* Council members are likely to become uninterested in the plan reviewing process, as their role is in many ways to merely rubberstamp. This, in turn, impacts on the process of holding executive officials accountable for their performance. It is often quite confusing which of the plans (the plan approved by the council or the one modified based on the feedback from

the zone offices) the *Woreda* Council should use as a benchmark for evaluating the performance of officials. That is why the head of education at Shebel Berenta *Woreda* described the contribution of the *Woreda* Council to the development plans approval and evaluation process as non-value adding.

Undermining Planning from Below

Theoretically, *woreda* administrations follow the bottom-up planning approach. It begins at *kebele* and service delivery institution level. Planning for education and health, for instance, begins at school and health centre/health posts in each of the *kebeles*. Schools in the process of preparing their plan are supposed to consult teachers, community members, students and parents. The plan prepared by the schools is presented to *kebele* administration and their opinion is sought. Upon the completion of this process and its approval by the *kebele* council, the plan is presented to the *woreda* education office. The same process is followed also in the health service. Health centres/posts in each *kebele* prepare their institutional plan based on the facts they gather in the *kebele* or surrounding beneficiary *kebeles*. After discussions and consensus with different bodies in the *kebele*, the plan is sent to *woreda* health office. *Kebele* administration offices also prepare their plans for the expansion of new service delivery facilities, emphasizing in particular the development projects and activities that can be carried out with voluntary contributions from the people. This may include new schools, new health centres/posts, rural roads, water supply taps, natural resource and soil fertility conserving activities and so forth. *Kebele* plans are supposed to pass through approval by the *kebele* council. Upon their completion, both *kebele* wide and service delivery institutional plans are supposed to be sent to the *woreda* administration as well as to corresponding *woreda* sector offices.

In practice, however, *woreda* sector offices often do not take the targets set in the institutional and *kebele* plans at their face value. According to heads of the case *woreda* education offices, the plans of schools often are often unreliable and unrealistic and cannot be trusted. This is because student enrolment targets are usually uninformed about regional policies and targets, as school directors and teachers are often unaware of these. School directors and teachers prepare plans only based on the capacity of their school and the data available to them. The head of education office at Shebel Berenta,

for instance, admitted that his office has had to modify the school plans because they were inconsistent with the targets set by the region. The head of the Mekiet *Woreda* education office indicated that the *woreda* education plans are not based on information supplied by the schools but rather on the annually updated census data produced jointly by the Ministry of Education and Amhara Region Bureau of Education. The same applies for *woreda* health office.

Budget Deficit and Disruption

The pressure and disruption on budget plans, as well as the likelihood of budget deficits, are among the consequences of planning from above. The experts from Mekiet *Woreda* Inland Revenue stated in the focus group discussion that the *woreda* had experienced a budget deficit of 600,000 birr in 2007/08, due to the shortfall in meeting the over-ambitious targets set by the zonal administration. The regional government eventually agreed to cover the deficit after negotiations and a series of requests from the *woreda*. In 2008/09 and 2009/10 the Mekiet *woreda* was able to collect more than they planned due to unanticipated changes in the sources of revenue. One of the events that helped them to increase their revenue collection was an average 36% salary increment to civil servants all over the country that helped to raise the levels of income tax collected. Another was the increase in royalty payments from a Chinese Road Construction Project for the sand gravel it used in constructing the main road that passes through Mekiet *woreda*. This is not a sustainable revenue source as the project is now about to be completed. Had these unanticipated sources of finances not occurred, the *woreda* would not have met their targets and would have been confronted with the same budget shortage problem.

Inadequate Time for Well-conceived and Prudent Planning

A major problem in the establishment of well-conceived and prudent planning processes in the *woredas* is related to delays in the planning process caused by the interference of the zone administration. The *woredas* have to wait until they receive preliminary information from zone administration about the targets that the region wants to focus for the year. According to discussants in the experts focus groups in all the case study *woredas*, the delays in the planning process can be attributed in the main to the inability of zone administrations to timely provide those targets to their *woredas*. Some of the

sector offices in the Debremarkos urban administration attempt to get the information by personally contacting their counterpart offices at the zone (since both Debremarkos City administration and the office of Eastern Gojjam *zone* are located in Debremarkos Town). This was not as easy for the rural-based *woredas*. In Mekiet some of the *woreda* officials sought to get the information by telephone, but not with great success. Thus, many of the offices in the *woreda* governments did not make such attempts to solicit advanced forms of information, but rather waited for the provision of such information by the zone administrations. The delay left the offices in the *woredas* with little time to make careful considerations and computations in the design of the plan, resulting in inadequate attention being paid to the accuracy of the specific targets and activities proposed.

Planning as an Ineffective Tool of Financial Management

As has been discussed earlier, *woreda* administrations are supposed to send their plan to their respective offices at zone level and make necessary modifications and changes on their planned targets when they receive feedback. However, reviewing and scrutinizing the plan of each *woreda* to make sure that they are in conformity with regional target and giving approval accordingly is apparently a time consuming process for the zone administrations. The zone offices often give feedback to each of the *woredas* several months after the completion of the plan (as noted earlier in this chapter). The feedback from the zone administrations comes often in the second quarter of the financial year after plan implementation has already begun. The feedback may require embracing new activities and/or targets. It is unlikely that *woreda* government officials will be able to ignore such feedback, for reasons that have been discussed above. Consequently the importance plan to serve as a guiding tool for financial management is reduced. The problem is not only in the planning process but also in the budget preparation, allocation and execution process.

A Declining Level of Attention to Planning

A declining level of attention paid to the preparation of plans is also another consequence of *zonal* interference in the planning process. One can imagine how disappointing it would be to be forced to make significance changes in the plan in the middle of its implementation. For the head of the education office at Mekiet *woreda*,

this was particularly disappointing. Such repetitive modifications in the plans have also caused *woredas* officials to be less concerned about the preparation of plans. The attention given to planning is in some cases minimal and *woreda* officials and civil servants pay more attention to political alignment and routine tasks, according to the expert focus group discussions at Debremarkos and Shebel Berenta.

Another reason for the declining level of attention to planning is because the performance of politicians is not evaluated according to the achievement of targets but rather according to the levels of political loyalty and commitment. As they know that their fate will be ultimately determined by their political performance rather than their success in achieving planning targets, *woreda* officials are often occupied by executing the various seasonal activities instructed by higher level political officials rather than attempting to implement what has been put in place in the plans. In general, planning has thus received lip service. In most cases officials and experts prepare their plan by making slight modification from the previous year's plan.

Strategic Planning as an Ineffective Tool of Financial Management

More fundamentally, the interference of zone administration in the preparation of annual plan leaves the strategic development plans of *woredas* as virtually useless. New targets which had not been part of the strategic plan may be imposed by the zone administrations. Zone administrations frequently fail to consider the strategic plans of *woredas* when devising and imposing their own plans and targets on the *woredas*. This gives *woreda* government officials the impression that planning is not taken seriously even by their higher level officials. Hence, investing time and effort on the preparation of the strategic plan and efforts to link it with annual plans is often perceived by *woreda* officials to be unnecessary. According to the expert focus groups held with officials, little interest is also shown (especially by the *Woreda* Council members) and little time is spent in the evaluation of strategic plan performance.

The Undermining of Bottom-up Planning Approaches

The decentralized planning processes in *woredas* are supposed to be based on a bottom-up approach, as discussed earlier in this thesis. However, effective bottom-up planning

is frequently undermined by a number of factors, including the non-alignment of lower level (*kebele* and local service delivery institutions) plans with the *woreda* budgets.

Kebele administrations, unlike local service institutions, often set ambitious plans, especially when it comes to the fulfilment of facilities, maintenance and construction of new schools, new health centres/posts, and new water supply facilities. In most cases, these targets are merely reflections of the arbitrarily set desires of *kebele* administrations without consideration to available budget resources. The *woreda* administrations rarely accept the *kebele* plans as they are. There are various factors which they take into consideration before the *kebeles* plans are included in the *woreda* sector plans, including the availability of budgets, the severity of the problem, the number of users of the service, the feasibility of the plans, and the fulfilment of preconditions by the *kebele* administrations. For example, in the case of new school construction requests, the head of Mekiet *woreda* education office explained that the *woreda* office evaluates *kebeles* requests in terms of factors such as the existing number and capacity of schools in the *kebele*, and how likely the people residing in the *kebele* are to cover at least 75% of the cost of construction. However, the plan of *kebele* administrations to mobilise resources from people are often over ambitious and very challenging to achieve given the existing budget shortages. Hence, such plans cannot be accepted as they are unless there is a guarantee that the people of *kebele* will voluntarily contribute towards their implementation.

By the same token, *woreda* rural water supply offices decide which of the *kebele* administrations' requests to include in the *woreda* plan, based on several factors, such as the severity of the water supply problem, the availability of reliable water sources, the cost of the project and its feasibility with respect to the expected budget, the number of anticipated service users, and the willingness of the people to contribute towards the implementation of the plan. Therefore, the plans of the *kebele* administrations will be crosschecked in terms of those variables by experts of the office. The head of Bahirdar Zuria *Woreda* further states that *kebele* administrations are also required making sure that the *kebele* administrations have organized a committee comprising genuinely elected representatives of the community.

Therefore, it can be understood that planning at *kebele* level is carried out more to show that formal procedures have been followed rather than for the actual contribution it makes to the *woreda* planning process. In many cases the *kebele* administration plans are largely ignored or rejected by the *woreda* administrations, due to their over ambitious nature and the lack of budgetary provision.

However, discussants in the community focus group discussions felt that the mismatch is not necessarily due to budget deficiency but rather due to the lack of genuine involvement by *kebele* administrations in the budgeting and financial management processes of the *woredas*. This has often resulted, according to the respondents, in unfair budget allocation among the different *kebeles*. The discussants in Bahirdar Zuria put it clearly when they argued that they do not believe their *kebele* administration is getting its fair share of government resources. They suspect that the money allocated by the regional government to the *woreda* is being diverted to a few favoured *kebeles*. They argued that they wanted to know more clearly the amounts of funds allocated to their *kebele*. They believed that currently there is no fair and transparent basis for the allocation of budgets among *kebeles*. Their desire is not to obtain full responsibility over budgetary matters but rather to ensure that *kebele* administrations are assigned a meaningful role in identifying the priorities of people and controlling the proper utilization of budgets. They also stressed that there was an urgent need to improve the capacity of *kebele* administrations that would allow them gradually to play a more active role in the budgeting processes in the *kebele*.

5.3.2 Budget Preparation/Allocation

Budgeting at *woreda* level is formally the exclusive duty and power of *woreda* administrations. It is one of the activities in financial management that the regional government follows with a relatively hands-off approach. All of the interviewees and expert FGD discussants in all the case study *woredas* maintained that they prepared budgets and allocated expenditure without any direct involvement of regional government or *zonal* administrations. The only means by which the regional government seeks to influence the budget process is through the guideline that it sends along with the block grant. The guidelines serve to remind *woreda* administrations of the need to prioritize pro-poor sectors in the budget allocation. However, in most cases,

there has not been a serious follow up from the region to make sure that the guidelines are strictly followed. As observed in table 5.8 (see later in this section), *woreda* administrations have not been following a uniform pattern of budget allocation to pro-poor sectors. In general, the budget preparation process has been the most independent activity when it comes to the involvement of region/*zonal* offices.

Nonetheless this discretion in the budget preparation process has not been fully translated at the practical level in the allocation of budgets. This is due to a number of limitations in the design of fiscal relationships, as well as the interference of regional/*zonal* offices in the planning process as has been discussed earlier.

The budget is allocated for the implementation of development plans which, as noted earlier, are formulated under considerable influence from the regional government. The main focus of the region in the last five years (2005/06-2009/10) has been to increase access to and the expansion of basic social services, particularly primary education, primary curative and preventive health care services, and the provision of clean water supply, with the objective of attaining the MDGs. *Woreda* administrations have been urged by the regional government to prepare their socioeconomic plan to achieve the targets set by the regional government.

Achieving this ambitious plan normally entails a large amount of budgetary resources for capital expenditures to construct schools, health institutions and water supply points, particularly in the rural *kebeles*. Despite its commitment to expand these services, however, the regional government has not been able to provide *woreda* administrations with adequate financial resources to support such infrastructure projects. Instead, the regional government chose another strategy for increasing access to services in rural *woredas*. It has taken a political decision to build many schools, health institutions and water supply points in rural *kebeles* with low capital investment. The contribution of people has become the primary source of resource particularly for school construction. In all *woredas* except Debremarkos, most rural schools have been constructed with less than 25% support from government and with at least 75% from the public. The *woreda* governments essentially provide a limited amount of construction materials such as corrugated sheets and nails while the people contribute money, labour and other construction materials. By following this strategy, *woreda* administrations have

succeeded in building at least two primary schools, and at least one health post and water supply point in each rural *kebeles* in the last five years. This, in turn, required *woreda* administrations to hire a large number of teachers, health workers and technical and administrative workers to work in these institutions. The deputy head of BoFED explained that more than 40,000 new workers have been employed in *woreda* administrations of the region in the last five years.

Consequently, all of the case study *woredas* have registered significant success in improving access to primary education, primary health service and rural water supply. However, due to the fact that use has been made of local materials contributed by the people, nearly all the schools are poorly constructed with mud and wood walls and dusty floor. Several of the schools collapsed or have been blown away by the wind shortly, thus requiring extensive maintenance not more than a year later. As a result, most of the schools constructed in such way have not been good enough to deliver the required services. Moreover, most of the schools also lack necessary facilities, such as desks and chairs, blackboards, clean water, toilets and office facilities for teachers. Only a few schools constructed with support from donors or NGOs have been properly constructed with brick walls and asphalt floor and equipped with appropriate facilities.

The same is true for health centres and health posts. Health posts and health centres in most cases are short of drugs and health facilities, such as delivery beds, blankets, bed sheets and laboratory facilities. They also lack proper sanitation facilities. At the same time, the evidence seems to suggest that many of the new health workers employed have not been of appropriate quality.

Although access to clean water has shown a significant increase in rural areas in the past five years, several of these water points are now not providing the service as either the water taps are broken or the water source has dried up.

As shown on table 5.7 the result of the response of surveyed community members also highlights a range of important constraints surrounding their service institutions in the education, health and water supply fields.

Table 5 7: Perception of respondents about existing constraints in service delivery institutions

	Frequency		Total		Missing		Valid total		Valid percent		Rank	
	CS	Co	CS	Co	CS	Co	CS	Co	CS	Co	CS	CO
Poor construction quality	84	251	100	309	1	4	99	305	84	82.3	1 st	3 rd
Limited service capacity	38	153	100	309	1	5	99	304	38	50.3	5 th	5 th
Lack of skilled personnel	67	230	100	309	1	4	99	305	67	75.7	4 th	4 th
Lack of timely maintenance	84	258	100	309	1	4	99	305	84	84.6	1 st	1 st
Lack of facilities, equipment and furniture	83	257	100	309	1	4	99	305	83	84.3	3 rd	2 nd

Source: Field Survey; 2011

Note: CS stands for civil servants and Co stands for community members

From the table above it can be deduced that 84.6%, 84.3% and 82.3% of the surveyed community members are certain that the lack of maintenance, lack of facilities and poor construction quality respectively are the most critical limitations that challenge service delivery institutions, although the lack of skilled personnel and limited service capacity are also highlighted as important constraints. Such perceptions are consistent with the result of another survey conducted to assess service delivery in other *woredas* of the Amhara region (ADA, 2009).

The Annova test (see Appendix 3) shows that there is no statistically significant difference in the mean response between the case study *woredas*. This shows that the constraints are common both in rural and urban *woredas*, despite the fact that Debremarkos, the urban *woreda*, has been able to access much larger sources of revenue that could have been used to improve the existing education, health and water supply facilities. Discussants in the Debremarkos community FGD indicated that the city administration has invested little to improve service quality problems. Much of city administration's investment focus has been on large scale infrastructure projects in line with the regional urban development plan. Although a number of health centres have been constructed recently, most of the service delivery institutions are old and in urgent

need of maintenance and upgrading. Resulting problems include the lack of sanitation facilities and the shortage of drugs and lack of laboratory facilities in the health centres, as well as a shortage of classroom furniture and text books in the schools. The focus group discussants also mentioned the low calibre of staff as a concern in many of the service delivery facilities.

5.3.2.1 Internal Facilities and Maintenance in Service Delivery Institutions

The lack of internal facilities in service delivery institutions is a widespread problem across all case study *woredas*. The head of the education office at Mekiet expresses his frustration that despite taking 52% of the *woredas* budget, schools are still rarely provided with benches, books, laboratory facilities, toilets and water facilities. The head of the education office in Bahirdar *Woreda* provided data that revealed that none of the primary schools in the *woreda* have fulfilled the facilities required for effective teaching-learning process. Sixteen of the 57 schools do not have any single combined chairs and the rest of the 41 schools do not have all the required combined chairs they need. In some schools, he stated that even the teachers do not have chairs or tables. In Shebel Berenta, only 63% of the *woredas* have been able to provide the required number of combined desks.

The head of the health office in Bahirdar Zuria *Woreda* highlighted the challenges that have been faced in equipping the nine health centres constructed in the past two years with the required facilities and staff, although many of these challenges have now been resolved through direct assistance from the federal government. The community focus group discussants in Bahirdar Zuria also stressed that the health centres had not functioned properly for a long time due to lack of facilities and medical staff. Delays in securing facilities from the federal government meant that it took a long time to fully equip and make them functional.

A key problem with respect to the full functionality of service institutions is that of maintenance. According to the interviews and focus groups with officials, none of the case study *woredas* have a strategy or plan for regular inspection, maintenance and repair. Nor have they allocated any budgetary provision for such activities. Once facilities are constructed, the *woreda* administrations largely leave the responsibility for maintenance to the staff working in the institutions or the communities served by them.

However, the service delivery institutions rarely have adequate internal sources of revenue to complete such tasks, and most communities are unable or unwilling to contribute in any major way.

Furthermore, many of the schools constructed by community contribution are not repairable. The only thing that can be done is to remove them and rebuild new schools. Replacing all the poorly constructed schools would require a huge investment, well beyond the financial capacity of the *woredas*. The head of the education office at Shebel Berenta *Woreda* stated that, instead of repairing them, it would be better to replace or upgrade them. They have been doing so whenever they have received support from outside donors, such as the Safety Net Program. However, the pace of replacement and upgrading still lags well behind what is really needed.

According to the interviews and focus group discussions, many of the water supply points constructed in the various areas (*kebeles*) are not functional due to either poor quality materials used in the construction or inappropriate or misuse of the facility by the constituents. Despite such widespread problems, none of the *woredas* have allocated budget for repairing water supply points. The priority, according to the instruction from the regional government to *woreda* administrations is the expansion of services, not the quality and sustainability of services. All of the interviewed *woreda* officials agreed that there is no adequate budget for maintenance and repair, and that the responsibility in this regard has been left to the local communities.

Another issue that all of the discussants in the community FGDs uniformly emphasised is the quality and competency of service providers. They indicated that both in terms of number and qualification, all of the schools and health centres appeared to be fully staffed. But they were concerned about the quality of many of the staff working in such institutions, and suspected that the qualifications of some of the staff may well not be genuine. As a result of the expansion centred strategy of the government, it was felt that many of the new staff recruited were simply massed produced without going through a quality education process.

As a result of the problems highlighted above, many of the community respondents surveyed by this study felt that the expansion in the numbers of education, health, water supply and other facilities has compromised the sustainability and quality of service

delivery. They explained that they have contributed money, labour and materials for the construction of schools, health institutions and water supply points, with the expectation that the government would make further investments to improve the poorly constructed and equipped institutions. However, neither the regional nor *woreda* governments have so far demonstrated any indication of allocating capital budgets for improving buildings and making the required facilities available. The emphasis continues to be placed on the mere expansion of facilities rather than their quality or sustainability.

Therefore, the complaints of constituents of the *woredas* over the quality and sustainability of services are increasing. It is one of the reasons why parents tend not to send their children to schools. Students themselves are not happy to go to such schools. Patients and mothers in labour do not want to go or take their children to health centres/posts for treatment. If they have the funds they would rather use private clinics that are mostly found in the towns.

Most of the officials interviewed for the study were cognizant of the poor service quality being offered in the schools, health centres/posts and water supply points, as well as the popular discontent with this situation, and agreed that the service quality and sustainability problems needed to be addressed as a matter of urgency. However, without a change of the regional priorities (favouring the expansion rather than maintenance of facilities), resulting in the allocation of the necessary budgetary provision for maintenance and quality improvement, there was little they could do to rectify the situation.

5.3.2.2 Responsiveness in Budget Allocation

One of the indicators that can be used to evaluate the responsiveness of *woreda* administrations in budget allocation is the share of budget allocated to pro-poor sectors compared to the total budget of the *woreda* administrations. As it can be observed in table 5.8 below, *woreda* administrations could be considered to have the most responsive budget allocation. The budget allocation in the period between 2005/06 and 2009/10, as revealed in the table, shows that Bahirdar Zuria, Shebel Berenta and Mekiet respectively allocated 72-75%, 62-81%, and 67-84% of their annual budget to pro-poor sectors. All of the interviewed *woreda* officials also believe that pro-poor sectors are given priority over other sectors in the allocation of budget in their *woredas*. For these

reasons, it can be concluded that the attempt to ensure responsiveness of budget allocation in rural *woredas* through top-down approaches, in line with regional priorities, has succeeded.

Table 5 8: Proportion of budget allocated to pro-poor sectors

<i>Woreda</i>		2005/06	2006/07	2007/08	2008/09	2009/10
Bahirdar	Total Budget as % of SP Budget	58.43	53.6	71.52	172.33	188.27
	Pro-poor budget	12101511	12502861	NA	28058864	32276055
	Pro-poor % of total budget	73.3	72.0	NA	73.2	75.4
Shebel Berenta	Pro-poor budget	8707704	7410205	11199231	16043953	12307623
	Pro-poor % of total budget	81.2	62.2	78.8	NA	68.7
Mekiet	Total Budget as % of SP Budget	25	28.24	37.88	41.52	46.50
	Pro-poor budget	8281673	10659798	15674687	23146311	19301924
	Pro-poor % of total budget	67.9	71.5	67.2	84.9	NA

Source: Case *Woredas*' Budget Data of Various Years

Note: NA stands for data not available and SP stands for strategic plan

Of course, pro-poor sectors are widely thought to address the need of the people and to help them get out of poverty. However, there are still unanswered questions about the responsiveness of budget allocation. These include the extent to which the service institutions are functioning properly and providing the intended service, as well as the extent to which the services provided are really benefiting the targeted citizens. In this context, it is important to highlight the fact that only 13.2 % of the community members surveyed in the questionnaires felt that the budget allocation by their *woreda* administration had been responsive of their socio-economic problems. As the table in Appendix 2 shows, 54.5% of the respondents replied 'don't know' and 32.5% felt that the budgetary allocations were unresponsive. There was no statistically significant mean difference between the case study *woredas* in their responses to this question.

As noted above, the *woreda* officials surveyed in the study acknowledged that they were aware of the popular discontent about this lack of responsiveness, but felt that they had little power to rectify the situation. The main reason for this is related to limitations in the autonomy of *woreda* governments. Contrary to their formal autonomous status, *woreda* governments have been obliged (as noted earlier) to follow the direction and targets set by the regional governments in their planning processes. According to the interview with the deputy head of BoFED, the performance of *woreda* officials is evaluated primarily in terms of the coverage they have achieved not in terms of the

quality or sustainability delivered by schools, health centres/posts and water supply points. *Woreda* administrative level and zone/regional level evaluations are all about coverage not quality and sustainability.

The second reason has to do with lack of opportunity for the local people to voice their demands and needs, as well as to hold officials accountable. This will be discussed in greater detail in chapter seven.

The effort of the *woreda* administrations to comply with regional government targets imposed through guidelines and plan approval processes has in many ways eroded *woreda* discretion over budget allocation. The strategy chosen by the region to meet its own service coverage targets has had a major influence on the budget structure, shifting it towards non-discretionary expenditure and away from discretionary expenditure. This is to say that the allocation of the budget in the *woredas* has been forced to be biased towards salary expenditures for increasing numbers of employees, and associated administrative expenditure, leaving only a small amount in the capital budget for improving the condition of service delivery institutions as well their facilities.

As it can be observed in table 5.9 below, in general, the non-discretionary budget (recurrent budget) that contains both payroll and operational expenditure takes nearly the full budget of the *woreda* governments, very little left for capital expenditure. Capital expenditure in the *woreda* governments, if any, is funded largely from foreign assistance or loans. This trend in budgetary allocations has been in place for the past five years and, according to the interview with the deputy head of BoFED, it will continue until the regional government's commitment to achieve 100% coverage succeeds. Although people have been complaining and officials are aware of the quality and sustainability problems due to underinvestment, *woreda* administrations have had little or no choice in the matter, due to their heavy reliance on regional planning priorities, as well as regional allocations which in most cases constitute the largest proportion of *woreda* revenue.

The only exception is in Debremarkos city administration in the past two years (2008/09 and 2009/10) when capital budget constitutes large proportion of the budget (61% and 70% respectively). The reason for such allocation is because the city administration anticipated that it would secure adequate revenue from municipality services. But such

budget allocation has not become reality due to the fact that, as observed in table 5.13 in the forthcoming section, the planned amount of revenue has not been collected.

Table 5 9: Budget structure (by percentage) of expenditures of the case *woreda* administrations

Woreda		2005/06	2006/07	2007/08	2008/09	2009/10
Bahirdar Zuria	Operating	22.53	18.08	13.44	20.55	11.34
	Payroll	61.78	71.26	78.92	53.89	53.49
	Capital	15	10.38	7.49	25.5	35.17
	Capital(SP)	34.23	44.01	46.24	16.75	16.04
Debremarkos	Operating	16.46	19.07	15.69	9.21	4.12
	Payroll	62.26	65.67	64.90	29.57	25.79
	Capital	22.53	15.25	19.40	61.2	70.08
Shebel Berenta	Operating	NA	16.65	14.46	NA	14.31
	Payroll	NA	58.74	66.85	NA	79.35
	Capital	NA	25.02 (11.57)	18.67 (10.93)	NA	6.33 (0.94)
Mekiet	Operating	21.97	12.42	13.71	11.30	NA
	Payroll	70.69	87.06	76.94	75.81	NA
	Capital	7.33(2.21)	6.22 (0)	9.33 (7.95)	12.87 (4.8)	NA
	Capital(SP)	28.11	31.64	25.89	24.01	NA

Source: Case *Woredas'* Budget Data of Various Years

Note: NA stands for data not available

SP stands for budget allocation in the strategic plan

Recently the regional government seems to have paid greater attention (though still quite limited) to the quality and sustainably concerns surrounding basic services. However, most of the recent quality improvement efforts have been related with programs designed to improve employee capacity, service management and administration, and curriculum improvement in schools. As of yet, there has not been a substantial effort to address quality and sustainability problems that demand capital investment. This situation is likely to remain the same unless the volume and priorities of the regional block grant change substantially. All interviewees agreed that the current block grant from the region is far below that required for their *woreda* to improve the

quality and sustainability of their service facilities. It is not even adequate to achieve the new service expansion targets that they are required to achieve each year.

The inadequate capital budget available for improving the current service quality and sustainability problems has forced *woreda* administrations to rely, where possible, on donor funds. However because such funds are usually earmarked by the donors for specific projects, they do not allow *woreda* administrations to decide on their own allocations and utilization according their specific *woreda* situations.

Administrative Interference and its Pressure on Budget Allocation

Currently, there is no clear indication in the district level decentralization framework of the Amhara region whether the mandate to set up organizational structures of *woreda* administrations belongs to the regional government. However, in practice the regional government has reformed and re-designed the organizational structure of *woreda* administrations on a number of occasions. To some extent this may well have been with the genuine intention of building the organizational capacity of *woreda* administrations. However, the focus group discussants argued that these reforms and their uniform application across all *woredas* had in many ways served to weaken the discretion of *woreda* administrations in allocating their budgets efficiently according to their specific local socio-economic problems.

The most recent structural reform organized all *woreda* administration into 21 sector offices, without taking into account differences in the size of the various *woredas*. In the smaller *woredas*, it would have made greater sense, according to many of the officials surveyed, to have merged a number of the sector offices into more economical units. Some of these offices are not believed to be good enough to be organized as a separate office and two or three of them could have been merged into a single office. Having so many different sector offices in the smaller *woredas* has caused an unnecessary increase in operational expenditures as all the offices require their own personnel and administrative support systems. This additional expenditure could have been used for capital investments to improve the quality of service provision. In general, the uniform organizational structure imposed by the region on *woreda* administrations has served to reorient the *woreda* budgets even more to non-discretionary recurrent items.

Another example of interference in the activities of the *woredas* concerns the interference by *zonal* administrations in the personnel practices of the *woredas*. Although *woredas* are assigned the responsibility for hiring and administering their civil servants, *zone* administrations have sometimes been involved in the hiring of *woreda* staff, as well as the secondment of staff to the *woreda* administrations. This, in particular, has been the experience in *woreda* health offices and education offices. The head of health office at Bahirdar Zuria and the head of the education office at Shebel Berenta expressed concern that they were forced to accept employees hired by their respective *zone* office despite the shortage of budget provision to cover their salaries. They insist that this practice has caused the bulk of the budget to be used for non-discretionary recurrent budgets. The discussants in the expert focus groups in Bahirdar Zuria and Mekiet stated that there is a lot of pressure from higher level government to hire more employees. They expressed their suspicion that this might be a political decision to reduce the growing unemployment in the region.

Unfunded Mandates and their Budget Pressure

The budget pressure under which many *woredas* operate has been compounded by the fact that *woreda* administrations have also been forced to allocate budget for unfunded mandates. As argued earlier (in the case of preparatory schools and TVETs), *woreda* governments have sometimes been required to allocate budgets to activities which are basically under the mandate of the region. As the head of the education office at Shebel Berenta indicated, the *woreda* contributed one million birr in 2009/10 for the construction of the preparatory school in their *woreda*, despite the fact that this should have been the responsibility of the regional government. The Mekiet *woreda* also allocated one million birr in 2009/10 for the construction of TVET in the *woreda* in 2008/09. *Woreda* administrations have compelling reasons for contributing to the construction of such education infrastructures in their *woredas*. The lack of access to Preparatory Schools/TVETs is an issue that the people in Mekiet and Shebel Berenta have been complaining about for long time. Because of the lack of preparatory School/TVETs, residents have been forced to spend large amount money for their children to study in other towns. Accordingly, the *woreda* governments could not realistically refuse the regional government's offer to construct preparatory

schools/TVETs in their *woredas*, despite the fact that they would be obliged to contribute a share of the finance required.

The block grants that the *woreda* administrations receive from the region are supposed to finance only those activities that are in their mandates. Un-mandated activities are not taken in to consideration in the process of determining the amount of block grant. Thus, the enforcement of unfunded mandates upon *woredas* by the regional government has in practice led to the diverting of budget resources away from those activities that are within the mandate of the *woreda* administrations.

5.3.2. Budget Allocation for Quality Improvement

Despite turning a blind eye to the problem for a long time, the regional government seems to have been aware of the quality problems in rural schools of *woreda* governments. For this reason the regional Bureau of Education (BoE) has established a standard for the additional amount of budget to be allocated for each student for the purpose of improving the quality of education and set aside grant funds for this purpose that can be accessed by *woreda* administrations. The customary procedure is to allocate a standard amount of money per student according to their grade. The standard is 15 birr per student in 1-8 grades schools and 20 birr per student in 9-10 grades schools.

However, budgetary constraints in the *woreda* administrations have often forced them not to follow such quality improvement standards set by the regional government. Many *woredas* have therefore been forced to budget below the regional standards, in order to meet other important socio-economic commitments. In Bahirdar Zuria, for example, the *woreda* administration has only been able to fund schools at the rate of 8 birr per student for 1-8 grade schools and 10 birr for 9-10 grade schools. Shebel Berenta has done better in this respect because it has allocated the standard rate required by the regional government for a longer time. It allocates 7 birr per student to 1-4 grade schools, 10 birr per student to 5-8 grade schools, and the standard rate to 9-10 grades schools. In Debremarkos and Mekiet, the *woreda* administrations have not allocated this grant to their schools.

5.3.3 Budget Implementation

The power to implement budgets as planned for the purpose of tackling various local socio-economic problems in the *woredas* belongs to *woreda* administrations. They have full autonomy to spend, transfer, procure, and enter into contracts to accomplish various planned activities. However such discretion has often been handicapped by the inflexible planning and budget structures, resulting from the interference of the regional government.

5.3.3.1 Budget Transfer

Budget transfer is a process by which local government administrations can implement their activities flexibly in an effective and efficient manner by transferring funds from one budget item to another to accommodate various unexpected situations. Up to an acceptable level, such transfers are clearly beneficial. However, if excessive, they can easily result in indiscipline in budget implementation.

As revealed in the interviews and focus groups, budget transfers from one sector to another, as well as from one budget item to another within sectors, has been prevalent in all the case study *woreda* administrations. As observed in table 5.10 below, the case study *woreda* administrations have made regular use of high levels of budget transfers. Sometimes such transfers were made to *woreda* administration office budget as a contingency fund to be used later when unexpected/unplanned expenditure needs arose. Interviewees explained that this practice is common also in each sector offices. Since the unpredictability of activities in sector offices is rising, they have opted to keep some amount of their operational budget in certain budget items such as stationary, training, office equipment maintenance and so forth, which can be transferred to other priorities as when the need arises. Even though this practice is neither formally known nor explicitly told, it seems to be a common practice in all case *woredas*.

This practice also, as most interviewees agree, opens a loop hole for wastage and misuse. Discussants in all the FGDs stated that most of the transfers are made in the last two months of every fiscal year. Furthermore, experts in the WOFED of all case study *woredas* indicated that the majority of transfers from contingency funds are used to fund per diems and transportation costs of personnel. In some *woredas* the amount left in the

contingency fund is shared among all employees with the major share going to administrative council members (cabinet members). Even those employees who have not travelled for business purposes may still get paid a share. No one in the *woreda* sees this as violation of financial rules and regulation as it is known that the *woreda* offices rarely have sufficient budgets to cover the per diem of those employees who frequently travel for field work. As will be discussed in the next chapter, unless supported by donors, all *woreda* sector offices cover only a maximum 3 days per diem per month, regardless of the number of days the employees might travel. Accordingly, employees as well as officials do not see the sharing of the budget left over as a violation of financial rules.

Table 5 10: Percentage of budget transferred

		2005/06	2006/07	2007/08	2008/09	2009/10
Bahirdar Zuria	Amount (% of total budget)	NA	NA	2791324.44 (11.61)	3989855.45 (10.41)	2319116.13 (5.41)
	Number of times	NA	NA	357	448	442
Debrema rkos	Amount (% of total budget)	NA	3711487 (21.97)	2559721.17 (11.30)	8773176.73 (14.59)	2490200 (3.17)
	Number of times	NA	NA	NA	NA	NA
Shebel Berenta	Amount (% of total budget)	4836716.7 (45%)	2199474 (18%)	4572252 (32%)	5316732 (33.13)	2490200 (13.9%)
	Number of times	300 (13t)	335(14t)	321 (13t)	NA	398 (17t)
Mekiet	Amount (% of total budget)	NA	NA	7862888.64 (33.73)	3150713.65 (11.55)	2974715.16 (10.45)

Source: Own Calculation from the Case Study *Woredas' Budget Data of Various Years*

Note: NA stands for data not available

Several factors are responsible for the high levels of budget transfer in the case *woreda* administrations. But here only those factors which have connection with the design of fiscal decentralization are discussed.

Autonomy Related Factors

The first reason has to do with the high levels of non-discretionary funds resulting from zonal administration interference in the *woreda* planning processes. *Woredas*, as noted earlier in this chapter, are often forced to rely on community resources for the construction of capital projects (such as schools and clinics), due to insufficient grants from the region to meet regionally identified targets. This has had an effect on budget transfers, as pointed out by the head of rural water supply in Mekiet *Woreda*. The use of community funds together with the small capital budget apparently helped the sector

office to expand access to clean water and to meet the service targets imposed from the zone office. However, this has not been without the need for additional operational funds especially for the purposes, such as per diems, transportation costs, and the coordination and inspection of construction projects. The budget appropriated for this purpose is not adequate to cover such expenditures. This requires the particular office to transfer budget from one budget item to another within the operational budget. Budget transfers of such kind result due to the fact that *woredas* lack autonomy to follow their own targets rather than targets imposed from zone administration.

The other factor mentioned in all the FGDs is the need to fund unplanned seasonal activities, most of the time of a political nature, imposed by the regional/zonal government. These include meetings, training sessions, conferences and evaluation sessions, all of which cause an additional budget burden, especially on per diems, stationary materials, and entertainment. Such unanticipated expenditure disrupts the planned budgetary processes, and is a contributory cause of excessive budget transfers.

Under such circumstances, it has been difficult if not impossible to curtail the excessive use of budget transfers. The cases of the Mekiet and Shebel Berenta *woredas* are a good example to demonstrate this. In order to prevent excessive budget transfers prevailing in the *woredas*, the East Gojjam *Zone* administration had circulated an internal memo to *woredas* in 2009/10 that budget transfers by sectors be confined to only once in each quarter of a year. But by the third quarter of the year, it was realized that most of sector offices had not used their budgets. This was because the zonal directive had prevented them from using their budgets flexibly according to their specific changing sector situations. Consequently, the zone administration was forced to lift the restriction in the third quarter of the same year.

Failure of the regional government to play its regulatory and supportive role

The loose follow up, monitoring and support from zone/regional offices has also encouraged officials to make use of excessive budget transfers. This was highlighted in particular during the interviews and expert focus group discussions in Debrenarkos. Despite the regular submission of reports to *zonal*/regional offices, the *woreda* has received little or no feedback, evaluation, criticism or support from the regional/zonal

offices. The lack of effective monitoring by the regional level authorities has in some ways encouraged *woreda* administrations engage in conduct that violates standard financial routines and practices, as little or no consequences are likely to come from the regional government for doing so. This has therefore served to further encourage the practice of budget transfers by the Debremarkos officials.

5.3.3.2 Budget Execution

All the discussants and interviewees agreed that budget execution is not a major concern with respect to recurrent budgets. Concerns related to low levels of budget execution are confined in the main to capital budgets and especially those funded by donors. It is unlikely that there will be low levels of budget execution for payroll, as long as the personnel establishment remains unchanged. Such costs are essentially fixed. Operational budgets are also unlikely to be under-spent, given that most of the case study *woredas* complain that face serious operational budget shortages. Moreover, *woredas* are unlikely to under-spend on their recurrent budgets, as this would result in a lower allocation in the regional block grant for the subsequent financial year. The main problem, of course, as pointed out in the expert focus group interviews and discussions, is the fact that sector offices tend to rush to finish their operational budgets before the end of the financial year, often on fairly wasteful and unnecessary items of expenditure. This can easily impact adversely on the optimal and effective use of budgetary resources throughout the financial year. This, of course, has to do with the limited fiscal autonomy of *woreda* administrations. Had *woreda* administrations been able to raise all the finance needed from own sources, they would not be so tempted to use their budgets in a potentially wasteful manner just to ensure that their subsequent grants from the regional government would not be reduced.

As Table 5.10 shows, the level of execution for recurrent budgets is better than that of capital budgets, in the two *woredas* covered by the table. Government funds also tend to have a better execution rate than those from donors. Table 5.11 reveals, however, that there are significant year on year variations in the execution rates.

Table 5.11: Budget execution of the case study *woreda* administrations (%)

Woreda		2005/06	2006/07	2007/08	2008/09	2009/10
Bahirdar Zuria	Payroll	99.92	99.57	98.88	99.95	99.99
	Operating	88.52	93	89.77	94.6	98.79
	Capital	51.39%	73.22	78.88	39.8	80.92
Shebel Berenta	Payroll	NA	94.22	66.85	NA	NA
	Operating	NA	97.71	14.46	NA	NA
	Capital	NA	72.23	18.67	NA	NA

Source: Own Calculation from Two Case *Woredas*' Budget Data of Various Years

The fact that *woreda* administrations rely heavily on block grants and donors funds, one of the reasons for low execution of capital budget has been the delay in the release of the budgeted funds from the regional government or donors. Because of frequent delays in the disbursement of federal funds to the regions, the regional block grant to *woredas* often only arrives at the end of September, or later in some cases. However, the financial and planning year begins on 1 July in the *woredas*, which means that they have to operate for three months or so with a shortfall. Although formally *woredas* are only able to use their own internally generated revenue once it has been included in the regional block grant, they are typically allowed by the regional government to use such revenue to cover personnel and operating expenditure in the period before the block grant is disbursed. However, they are not able to engage in capital expenditure until the block grant is received. This means that annual plans for capital investments on infrastructure and other projects in the *woredas* can only start in later September or early October (except for projects that were already started in the previous year but are still incomplete). As a result the actual time available in a year for projects to be carried out is squeezed into nine months. Thus, various programs/projects start very late and cannot be accomplished as planned. This is a serious challenge that cannot be tackled by *woredas* themselves, unless the existing two-step intergovernmental transfer system is changed or expedited, or *woreda* administrations are empowered to spend their internal revenue on capital as well as operational expenditure.

According to the expert focus groups and interviews with officials, there are similar problems associated with the release of donor funds. Donor funds promised and

included in the *woreda* budgets often come as late as the second or even third quarter of the year. Such delays are accentuated by the lengthy process that has to be gone through in presenting invoices and settling accounts. In most cases, the settling of accounts has to go through the regional bureau of finance and economic development (BoFED). Thus, *woreda* finance officers have to collect and present invoices along with performance reports to BoFED. It is the responsibility of accountants at BoFED to examine the validity of invoices and to balance the accounts. Some of the funds even require project completion reports in order the final payment to be released. Some donors only refund the cost of the project when the project work is completed and necessary invoices and documents have been provided. Others typically make revisions on the amount of the budget they have already promised. This makes the time span for the actual work of the project or purpose very tight and consequently the management of the funds becomes very difficult.

The head of education office at Mekiet indicated that the delays mentioned above are often compounded by problems related to the bidding process with contractors. The bidding process itself takes at least a month, and often longer. Due to the lack of private sector capacity in many of the *woredas*, bids often have to be re-advertised because there were insufficient bidders in the first bidding process. Unless *woreda* officials rush and give the contract to a contractor (however uncompetitive) without following the procedures properly, this situation will result in additional delays in the use of donor funds. This has resulted in most of the projects funded by donors not being completed in time. This situation has been particularly prevalent in the Bahirdar Zuria *Woreda* education and health offices, where most of the capital budgets have been funded by the Local Investment Grant (LIG) program since 2008/09. The respective heads of these offices pointed out that the late release of funds from the program has resulted in the low level of budget execution, and often in poor construction quality. The respondents also indicated that regional officials were also well aware of such problems. On some occasions, donor funds have not been released, even though the bidding process has been completed and contracts awarded. In some cases, this has led to successful contract winners resorting to legal recourse.

The head of education office at Mekiet *Woreda* referred to 117,000 birr that was allocated to a project by a particular donor. However, the funds had not been released

by the time the project was over. The respondent suspects that this delay may well have been caused due to the fact that the regional BoFED unit charged with managing donor funds has become overburdened. He argued that it had now become beyond BoFED and regional sector bureaus capacity to supervise and closely follow up on the timely release and execution of such budgets. Thus the donors' choice to retain the controlling and administration responsibilities of their funds at the regional level (with the intention of protecting against possible financial misappropriation and misuse by *woreda* administrations) has served in many ways to negate the essence of the on-going fiscal decentralization process, and has led to adverse consequences in financial utilization at the *woreda* administration level.

However, in contrast to most of the cases revealed by the study, the head of rural water supply at Bahirdar Zuria *Woreda* argued that the Community Development Fund (CDF) projects in the *woreda* had been very successful in terms of budget execution. The head said that, unlike the previous arrangement in the Water, Sanitation and Health Program (WASH), the new CDF approach has helped the *woreda* to execute the allocated budget according to the plan. Under the CDF approach, there is no delay in the release of the fund as well as in the completion of the projects. The designated money is already deposited in the Amhara Credit and Saving Institute (ACSI) in the name of the *woreda* committee responsible for managing the funds, and is readily available whenever needed. This supports the argument in favour of the further decentralization of financial responsibilities closer to community level. A more detailed discussion of the CDF is presented in chapter eight).

Another factor that exacerbates the low budget execution of donors fund has been the low level of attention paid to such funds by both the heads of sector offices and the *woreda* administrations in general. The heads of the education and health offices interviewed for the study highlighted that often they do not seriously follow up the execution of funds from such sources. There is a widespread feeling among the heads of the sector offices that such donors' funds do not really belong to the *woreda* administration. They therefore treat such funds with a low sense of ownership and commitment. With the exception of funds that are included in the treasury fund, donor funds do not usually pass through the formal financial management and budgeting process in *woredas*. The regular quarterly budget execution evaluation by *woreda*

administrations does not include such off-treasury funds. Some of them are specific to single sectors and the *woreda* administration has little or no responsibility for them. The result is that *woreda* administrations do not consider off-treasury funds as their resource and are therefore not worried about their timely or successful execution. Unlike the normal treasury funds most of such funds are administered in a separate bank account, with no systematic way of notifying the relevant sector offices of the release of such off-treasury funds.

The cause for low level of budget execution is different in Debremarkos City. Unlike all other case study *woredas*, capital budgets in Debremarkos are not predominantly supported by donors. Besides, the city raises a significant amount of finance from internal municipality services which are not accounted in the block grant and the City can use it without obtaining approval from the regional government. Therefore the impact of the late release of funds on budget execution is not as bad as it is in the other case study *woredas*.

Unlike rural *woredas*, urban administrations in the Amhara region receive intergovernmental transfers in the form of a special grant scheme made on ad hoc basis (not formula driven) designed to support their infrastructure development projects. Debremarkos City has received a large amount of fund through this scheme. With the presumption that such grants from the region will continue, the city administration has begun a major infrastructure programme, focusing in particular on the upgrading of existing roads and the construction of new ones. There are, however, doubts whether such ad hoc grant funding to Debremarkos will continue at the same level, especially as the regional government has recently upgraded an additional number of towns to urban administration status, resulting in the grant funds having to be shared with an increasing number of urban administrations. The special grant for Debremarkos City has already started to decline in quite a major way. This highlights the unpredictability of reliance on ad hoc forms of intergovernmental transfers.

Thus, the city administration has opted to compensate for the dwindling regional grant by expanding and diversifying its internal revenue sources, at least to enable it to complete the development projects that have already been started. One of the sources that have been generating significant revenue is land lease to investors. The City

administration has also planned to increase its revenue by leasing their construction equipment to the private sector. However, such sources of internal revenue have now declined in importance as the federal government has ordered the municipality to stop land leasing, and the hiring of machinery to the private sector has not derived major benefits as much of the equipment is in a state of disrepair. As a result, it seems likely that the City administration will not have the funds to successfully complete a number of its infrastructure projects. Thus, in Debremarkos, the main factors for low levels of budget execution with regard to capital expenditure have been the reliance on unpredictable sources of regional grants (given the regional government's tendency to change its priorities and methods of grant delivery), as well as its own over-ambitious plans for internal revenue generation.

5.3.33 Procurement

The regional government has formulated a legal framework for all procurements made by government agencies both at the regional as well as *woreda* level (Proclamation No. 179/2011). The framework, though it allows for various procurement methods to fit different conditions, places emphasis on the importance of open bidding (Article 20). This, it is argued, is the best way of preventing various forms of corruption, as well as ensuring quality, value for money and reliability through open competition. Therefore, the legal framework requires *woreda* administrations to make use of open bidding procurement methods, save for a few exceptional situations.

However, as the expert focus group discussions and interviews with sector officials revealed, the *woreda* administrations often do not comply with the competitive bidding requirement, particularly for bulk procurements. Instead direct procurement from existing providers is often used, as this avoids going through a lengthy tendering and bidding process. In addition, in the rural *woredas*, there is shortage of available providers and contractors. Often, therefore, not enough bids are submitted to meet formal tender requirements, and the whole bidding process has to start again.

Other reasons for the lack of compliance with formal tender regulations have to do with the factors discussed earlier in this chapter as causes for the non-compliance with annual plans and budget plans. It was noted that such plans have often not been followed due to either unplanned activities imposed from the top, the disruption in the

plans triggered by the late release of block grant and donors fund, or an immediate change in the budget structure due to shortage of budget funds to achieve the targets imposed by regional government.

Discussions in all the case *woredas* explained that unplanned training and evaluation meetings and workshops imposed on the *woreda* administrations by the regional government have contributed to the lack of compliance with the formal requirements for procurement. Often these unplanned activities imposed by the regional government have to be organised at a moment notice. Thus, stationery materials, drinks, food items and various entertainment arrangements needed for such functions often have to be procured in an instant manner through direct procurement methods.

Interviewees also indicated that the unreliable nature of donors funds, as well as other problems surrounding budget shortages (as discussed earlier in this chapter), have also contributed to the tendency to use direct forms of procurement (rather than competitive bidding processes) that can enable officials to respond more quickly to changes necessitated by such an uncertain budgetary environment. In such cases, a motivation to use more direct forms of procurement has to be submitted and approved by the chief administrator of the *woreda*. Given the need to harness development activities and meet performance targets, in the face of uncertainties about donor funding and problems of budget shortages, such approval is generally forthcoming.

Even in situations where *woreda* administrations were able to use open bidding procurement methods, they were often not able to reap the intended benefits. This has been a problem for all *woredas* but, as noted earlier, it has been a particular challenge for the remoter rural *woredas* such as Shebel Berenta and Mekiet, where adequate numbers of contractors and suppliers are not available to meet the requirements of a competitive tendering process. Together with the limited time span to implement projects, resulting from the late availability of the fund from donors or the block grant, as well as the pressure to meet unplanned activities imposed by the regional government, this has left most *woreda* administrations with little choice other than to engage in direct forms of procurement, accepting the price and quality offered by the suppliers selected. The deputy head of BoFED explained that the regional government is aware of this situation, and essentially has turned a blind eye to the non-compliance

with formal procurement regulations due to the exigencies under which many of the smaller rural-based *woredas* have to operate.

5.3.3.4 Construction

With respect to construction, the problems are not merely confined to challenges in the tendering and supply chain management processes. A key problem in many of the *woredas* is the failure of contractors to complete construction projects on time and to the agreed quality. This often is connected with the limited capacity of *woreda* administrations to supervise construction works and enforce contracts (as explained, for example, in the interview with the deputy head of BoFED).

Shebel Berenta and Mekiet *woredas* do not have their own construction experts to supervise constructions works. They have therefore had to obtain expert support from their respective Zone Urban and Works offices. As mentioned earlier, this arrangement has had limited success. Experts from the zone office are only able to go to these *woredas* and supervise the construction works on an intermittent basis (as they have to cover other *woredas* in the zone as well). Construction projects, however, need regular and continuous inspection and supervision.

More fundamentally, the weak and dubious accountability of the experts for the quality and progress of the construction work may also lead them to be reluctant in their supervision duties, as well as to be exposed to corruption. All interviewees in the two *woredas* confirmed that the zone experts are not fully committed and serious about their responsibilities with regard to the supervision of construction projects. They even blamed them for colluding with contractors against the interest of the *woreda* administrations, by giving contractors a go ahead despite defects or unsatisfactory progress they noticed in the construction. The head of education office in Shebel Berenta maintains that the consultant engineers assigned to Shebel Berenta have sided with the contractors whenever the disputes aroused between the *woreda* administration and contractors. In recent years it has become common for contractors to demand additional payment due to unexpected ground situations and/or the price hike in construction materials. The consultant engineers' suggestions typically confirm such claims, despite the fact that on many occasions they have been contested by the *woreda* administration. The support from the consultant engineers has increased the likelihood

of the contractors pursuing successful legal cases against the *woredas*. As a result of such legal cases, or to avoid going to court in the first place, most *woredas* end up by agreeing to the additional payments, even though this often places considerable pressure on their budgets. According to the interviews with officials in the case study *woredas*, there is a strong suspicion that the consultant engineers are either bribed by contractors or do not critically examine the problem.

The head of the education office in Shebel Berenta also indicated that the lack of effective supervision also impacted the quality of many of the construction projects. For instance, the library building constructed for the high school in Yeduha town entirely collapsed just one year after its completion. Mekiet *woreda* also had similar experiences, as explained by head of education office. This was due largely to the difficulty faced by *woredas* in holding accountable the consultant engineers approved by the zone administrations. It is only the zone administrations that have the effective power to hold such officials accountable, not the *woreda* administrations. The respondents in the focus groups with officials all agreed that the experts sent by the zonal administrations seem to believe that they have authority over employees of *woreda* administrations. In general, it can be inferred that the assistance provided by *zonal* administrations with respect to the supervision of construction projects has in many ways undermined rather than strengthened the accountability systems in the *woredas*, due mainly to the dominance relationship that exists between zone administrations and the *woredas*.

5.3.3.5 Revenue

The study reveals that ambiguity and confusion exists to some extent regarding the extent of the revenue raising power devolved to *woreda* governments. The legislation does not provide a clear indication or explanation of which sources of revenue belong to *woreda* governments. In practice, there are lists of areas where *woreda* governments can raise revenue in the form of taxes, fees and service charges. These include revenue collected from trade and transport (in the form of tax, licensing or licence renewing); agriculture income tax and land use fees collected from small peasants; employment tax, mainly from government employees; and royalty taxes on mining (Worku, 2005). The deputy head of BoFED, however, stated in the interview that *woreda* governments

have limited powers when it comes to revenue. The power to decide on the tax base and rate belongs to the region. *Woreda* governments can only levy and collect tax on behalf of the region, complying with directives provided by the region, and using or transferring revenue to the region as required by the regional office. However, there is currently no practice of transferring revenue collected from the *woredas* to regional governments, as the amount collected could cover only small proportion of the budget that the *woredas* need. Rather, the transfer has been the other way around from region to *woredas* to fill their budget shortage in the form of block grants. The revenue collected by *woredas* is, however, considered as revenue of the region and there is offsetting from the total block grant for the amount collected from the *woreda*.

Urban *woredas*, on the other hand, are empowered to collect and use charges and fees for services provided by the municipality. In all of the *woredas*, with the exception of Debremarkos, the types of revenues collected lie under the C category, which means businesses that have an annual turnover below 100,000 birr. These are businesses that are not required to present books of accounts or profit and loss statements. At the same time, these businesses are not supposed to pay VAT. The *woredas* collect tax also from informal vendors. Furthermore, schools in the *woredas* are empowered to collect several sources of revenue (though usually very small amounts) and use this to assist in covering their various administrative costs. These sources include revenue from the selling of grain they harvest or trees in their plot, and a very small registration fee they collect from students.

One of the indicators that reveal the existing *woreda* administrations' disincentive for effective revenue collection is the frequent conflict that is observed between *woreda* administrations and the regional government over the revenue collection targets. The only mechanism through which the regional government tries to encourage or force *woreda* administrations to improve their revenue collection is by reviewing and revising their revenue plans. However, when the regional government has attempted to push *woreda* administrations to achieve higher revenue collection targets that, according to the *woreda* administrations are beyond their capacity to achieve, this has often resulted in conflict between the two tiers of government.

In Mekiet *woreda*, for instance, the initial plan of the *woreda* Inland Revenue office was 3 million birr in 2008/09 and 7 million birr in 2009/10 but the office was later forced by the zone inland revenue office to increase these targets to 6.3 million and 9 million respectively. The deputy head of the regional BoFED made it clear in the interview that *woreda* governments in the region often understate their revenue collection targets. This is because if they set higher targets, the amount of the regional block grant would decline, as the regional grant is calculated based on the expenditure need of the *woreda* not revenue collection capacity. But the interviews with officials demonstrated that the *woreda* administrations often are not certain that they can collect the amounts of revenue insisted upon by the regional zonal offices. This is a risky situation that they want to avoid as much as possible. If they are not able to collect what they have planned, they would face a budget deficit, and there is no guarantee that the regional government would give additional grants to cover such a deficit. On the other hand, if their revenue collection plan is low and they collect in excess of their planned targets, the regional government would allow them to use the excess revenue collected for their own *woreda* development activities. That is why most *woreda* governments tend to set fairly low revenue targets.

Even though *woreda* administrations are not willing to accept the targets set for them by the region, the regional government, in most cases, forces them to accept them. However, this has often failed to realise the intended result. The experts from Mekiet *Woreda* Inland Revenue stated in the FGD that because of such unachievable revenue collection targets imposed by the zone office, the *woreda* had faced a budget shortage of 600,000 birr in 2007/08. The regional government, after negotiations and a series of requests from the *woreda*, eventually agreed to cover this shortfall through additional transfer. In 2008/09 and 2009/10 the *woreda* was able to collect more than they had planned, due to the occurrence of certain unanticipated sources of revenue. One of these was the introduction by the federal government of a 36% salary increment all over the country, which increased the levels of income tax collection. The other was the growth in royalty tax collection from the Chinese Road Construction Project that has been constructing the main road that passes through Mekiet *woreda*. Without these additional sources of revenue, the *woreda* would not have achieved its revenue targets for these

years. The royalties from the road project are not sustainable on a longer term basis of course, as the road project has now been completed.

Table 5 12: Percentage of revenue budget execution (%)

	2005/06	2006/07	2007/08	2008/09	2009/10
Bahirdar	81.39	96.11	118.4	107.59	118.67
Debremarkos	NA	128.1	102	80.20	57.38
Shebel Berenta	NA	103.4	110	98.16	99.31
Mekiet	81.02	89.86	144	204.77	107.3

Source: Own Calculation from Case *Woredas'* Budget Data of Various Years

Note: NA stands for data not available

Unlike the rural *woredas*, where the problem has been the understatement of revenue targets, the problem in the Debremarkos city administration has been, paradoxically, the setting of very ambitious targets for revenue and municipal service charges. As noted earlier, the city administration has full discretion to determine the size and utilization of such sources of revenue. As observed in table 5.12 above, the reason why the revenue budget execution of the city administration has been declining (unlike that of other *woredas*) is because the city administration has been setting ambitious revenue collection targets. The fact that the mandate to utilize the revenue collected from municipality services has been given to the city administration has motivated it to take full responsibility and to make entrepreneurial efforts to increase the administration's revenue so that to cover some of the finances needed for various infrastructure development activities. This was especially the case, as observed in table 5.13 below, for revenues from municipality services in the past two years (2008/09 and 2009/10) when the special grant from the region declined. However, due to the challenges mentioned above, the city administration was unable to achieve the increased targets set.

Table 5 13: Debremarkos city administration municipality service revenue trend

Year	2005/06	2006/07	2007/08	2008/09	2009/10
Revenue					
Planned	3,000,000	3,180,000	5,329,762	14,000,000	21,000,000
Actual	3,066,802.64	3,758,422	4,110,227.65	7,552,427	6,980,241
Execution (%)	(102.2%)	(118.1%)	(77.1%)	(53.9%)	(33.2%)

Source: Own Calculation from Debremarkos City Administration Budget Data of Various Years

One of the few incentives that the regional Revenue Authority has attempted to use to encourage rural *woreda* administrations to increase their revenue collection is the discretion given to them to use the additional revenue if they collect in excess of the planned targets (without this being considered as part of regional block grant). If they collect this excess revenue, they have the discretion to use it in any development activity they think is critical to their communities. As presented in table 5.12, *woreda* administrations have been able to collect more than their planned target. However, as discussants in the FGDs stated, such excess revenue collection has sometimes been used for wasteful expenditure rather than for developmental activities. The fact that such excess revenue collection is often unplanned and happens unexpectedly, it is impossible to have a well-conceived and viable development planning process that is responsive to the priorities of the people. In addition, in most cases, the excess collection of revenue is only recognized after the end of third quarter of the financial year, leading to a very short time period available to plan and design useful development project. Such excess revenue collection has also often been used to cover per diems gaps that the *woreda* has not been able to pay due to operational budget shortages. For instance, the allocation of excess revenue collected in 2009/10 in Mekiet *woreda* revealed, as shown in table 5.14, has been used mainly to cover operational expenditures and other sundry expenditures.

Table 5 14: Utilization of excess revenue collected in the Mekiet Woreda

Amount (birr)	Sector Office	Amount (birr)	Purpose
54880	Woreda administration office	30000	As incentive to high performing <i>Kebeles</i>
6680	Administration and security office	15000	CWE projects
		6000	Support for EPRDF headquarter construction at Wadla <i>woreda</i>

Source: A Letter from Chief Administrator on 09/26/2002 EC to WoFED

Another issue revolves around the collection of business taxes. Discussants in the community FGDs indicated that the effort to improve revenue collection by bringing informal businesses into the formal and legal system has so far achieved very limited results. A number of campaigns have been launched in this respect, usually at the behest of the regional government, but these have often stopped when the attention shifts to other issues.

It therefore seems that it has been easier for *woredas* to increase the tax burden on already registered legal businesses than attempting to tax small informal businesses and untaxed businesses. One participant in the community FGD recounts the conversation he had with the previous head of the revenue office when he asked him why the office has levied higher amounts of tax on his business while other and more successful businesses have been required to pay much less. The revenue office official's reply was "our effort to increase revenue can be acknowledged by the *woreda* administration as well as by *zonal* office only when registered and known businesses like yours complained for excessive taxation". Thus, discussants in the focus groups insisted that the current approach results from the fact that revenue officers in the *woredas* do not want to risk their social relationship in the community by directly confronting those businesses that are not paying tax or paying very low levels. These problems in the taxation of businesses have led some established businesses to shift to informal businesses or else run another informal business alongside their formal ones.

In general, the approach of withholding the power of *woredas* to raise revenue and making *woreda* administrations upwardly accountable has weakened their entrepreneurial effort to increase revenue by looking for alternative sources.

5.3.4 Regional Support in Staffing *Woreda* Administrations

In the current practice, while *woreda* administrations take the responsibility of hiring and firing of their staff, the regional government is responsible for the design of personnel structures, salary scales and the capacity building of employees. However, as observed from the interviews and focus groups with officials, there is a wide gap in training between *woredas* as well as between what is required and what is provided.

For instance, Bahirdar Zuria has received training in all its units, and the discussants in Debremarkos did not complain about inadequate training opportunities. In Mekiet *woreda*, however, training opportunities have varied from section to section. Discussants from the finance and disbursement section were relatively satisfied with the training opportunities provided, whereas employees in the audit, procurement and property management sections expressed discontent about the lack of opportunities to upgrade their skill. Employees in both sections indicated that they are running their day to day duties without getting any training. In general, Shebel Berenta lags behind all the case *woredas* in terms of training opportunities. Thus, the overall impression in the discussions was that the regional government is not playing its role as adequately as required to strengthen the capacity of *woreda* administrations in administering their financial resources.

Although all the case *woredas* have been affected by successive restructuring required by the regional government, especially in terms of the experience levels of staff, wide variations continue exist in terms of staff expertise and experience between the case *woredas*. Bahirdar Zuria has the most experienced employees and a relatively stable personnel establishment, followed by Debremarkos. In Mekiet, there is variation between sections. The audit section has the most inexperienced employees followed by procurement and property management section. Disbursement and government finance has relatively better experienced employees followed by the budget and planning section. Shebel Berenta *Woreda* suffers severely from inexperienced employees. None of the employees in the procurement office, for example, have more than one years of experience. The main reason for this problem, particularly in Shebel Berenta, is the high rate of human resource turn over. It has been a common trend in Shebel Berenta *woreda* that employees rarely work for more than two years. Due to the remoteness of the

woreda, most of the employees look for jobs in other *woredas* after obtaining one or two years of experience. Even though other *woredas* closer to cities are the recipients of experienced employees, Bahirdar Zuria and Debremarkos are the primary beneficiaries of this situation. The opportunities available in the larger and better resourced *woredas*, and especially in the urban centres of Bahirdar and Debremarkos, acts as a magnet. Consequently, Shebel Berenta has the highest staff turnover followed by Mekiet *woreda*.

The only means by which the existing manpower turnover trend in remote *woreda* administrations can be addressed is through differential compensation systems. Currently, the region has a uniform salary structure across all *woreda* administrations. The regional government could have designed a differential compensation system that provides an incentive for employees working in rural *woredas* to remain in their posts. To date, however, there have no signs that the regional government has any intention of resorting to such differential compensation approaches.

5.3.5 Transparency and Accountability and Performance Reporting

The absence of a legal framework that clearly reveals the distinction in the respective functional competencies of the regional government and *woreda* administrations, has led to a considerable degree of uncertainty and confusion amongst *woreda* officials and the broader community as to what functions belong to the *woredas* and regional government agencies respectively. As can be observed from table 5.15 below, only 12.4% of the people and 15% of civil servants stated that they are able to differentiate the power and responsibility between the region and their *woreda* administrations (without statistically significant mean variance between *woredas*). The majority of the respondents have no clear idea about the distinctions. This data was derived from the questionnaire responses of both community members and civil servants.

Table 5 15: Clarity of intergovernmental relations between the *woreda* administrations and the regional government

Extent of Clarity		Frequency		Percent		Valid Percent		Cumulative Percent	
		CS	Co	CS	Co	CS	Co	CS	Co
Valid	.00	15	82	15.0	26.5	15.0	26.8	15.0	26.8
	.25	19	24	19.0	7.8	19.0	7.8	34.0	34.6
	.50	43	132	43.0	42.7	43.0	43.1	77.0	77.8
	.75	8	30	8.0	9.7	8.0	9.8	85.0	87.6
	1.00	15	38	15.0	12.3	15.0	12.4	100.0	100.0
	Total	100	306	100.0	99.0	100.0	100.0		
	missing	0	3						
Total		100	309						

Source: Field Survey: 2011

This is why most of the participants in the FGDs highlighted the importance of using hierarchical accountability recourse to hold local officials accountable. Few if any of the respondents correctly viewed their *woreda* administration as independent political units. When they were asked to whom they would report if they noticed any improper use of *woreda* finances, all of them explained that they would present their complaints to different government bodies following the hierarchical structure of government. First this would be to the head of the particular office, then to the chief administrator, then to the zone administration, then to regional administration and so on. They believe that if *woreda* officials do not abuse public money the only reason is because they fear the reaction from higher levels of government, rather than because of the pressure from bottom-up accountability structures.

Therefore, whenever they felt that *woreda* government finance is being embezzled by individual *woreda* officials, they feel that their only recourse is to complain to the next level of government in the hierarchy as long as this is convenient and feasible for them. Participants Bahirdar Zuria and Debremarkos explained that they are able to do this as the *woredas* are close to the seat of the zone or regional government. However, little action normally follows such complaints, as the *woreda* officials are typically protected by the *zonal* or regional officials, especially if they are connected through the political

party system. Hence citizens have little confidence that their complaints will be addressed effectively.

Because people have not effectively understood the intergovernmental relationship between their *woreda* administration and the regional government, attempts to hold *woreda* officials popularly accountable have often lost momentum when *woreda* officials explain that it is the regional government's failure to release the expected grant that has resulted in the failure to deliver services as promised. Despite existing weak initiatives from the people, there have been a few cases where citizens have enquired about the utilization of public money, especially when the funds were contributed from the communities themselves. Discussants in Debrmarkos, for example, explained that the people in Debremarkos City have on occasion complained about delays in the construction of city roads, as well as rumours of embezzlement of the budget by city administration officials, when they have been called together for public meetings. Particular concerns were directed at a construction project going on in the city funded jointly by the *woreda* government and the community. The fact the people contributed their own money encouraged them to question the authorities, especially about the slow pace of delivery and the rumours circulating about corruption. The authorities responded that the accusation of embezzlement was a baseless accusation and the only reason for the delay of the construction was the decline in the transfers from regional government. The city administration officials pointed out that the money they expected from the region was not transferred. This situation left the people undecided whether to accept or reject the explanation as they did not have any idea as to how much money the regional government was expected to transfer.

As discussed earlier, due to the high reliance on block grants from the regional government citizens have not shown a willingness to demand accountability for the utilization of such funds. They have tended to count on higher levels of government to control the proper use of finance at the *woreda* level. As shown in table 5.16 below, questionnaire respondents chose higher level government control as the first important factor (mean=.9443) for ensuring the proper utilization of public finance in the *woreda* administrations, as opposed to *woreda* administration autonomy which is the least preferred (mean=.5508) factor among the list of factors to determine public financial utilization.

Table 5 16: Factor determining for proper allocation and utilization of public finance

	N	Minimum	Maximum	Mean	Std. Deviation
Control from higher level government	305	.00	1.00	.9443	.20320
Autonomy to lower government	305	.00	1.00	.5508	.45870
Citizens should have role	303	.00	1.00	.8894	.27923
Elders should have role	304	.00	1.00	.7829	.35260
Religious leaders should have role	305	.00	1.00	.6852	.40670
Capable executives (skill & experience)	302	.00	1.00	.9503	.18903
Police and court should have controlling role	302	.00	1.00	.8725	.29016
Valid N (listwise)	298				

Source: Field Survey: 2011

The deputy head of BoFED also stressed in the interview the importance of relying on upward accountability arrangements to fill existing accountability gaps in *woreda* administrations. He said that in a situation where about 75% of *woreda* administration budgets come from the regional government, *woreda* administrations should be held primarily accountable by the regional government itself for achieving regionally set service standards.

Nonetheless, the deputy head explained that to date few actual mechanisms have been put in place to hold the *woredas* accountable, except by giving directions as to which sectors and areas they should prioritize in budget allocation. There is, however, an intention of signing performance contracts with *woreda* governments that can place a clear and enforceable accountability on them to achieve appropriate service performance levels with the budgets they are provided.

This also supports the idea that is held by participants of the FGDs that the more the *woreda* administrations rely on finance from regional government, the less people feel the pain of its misuse and, as a result, the less interest is shown by them in trying to hold their local level officials to account. Discussants in the FGDs explained that they lack the initiative and commitment to try and follow up and expose financial abuses because they do not think that they have the mandate or power to ask for information, as the

money largely comes from regional government or donors. They think higher level officials have more interest than citizens in controlling the utilization of public finance. However, they indicated that they would still like greater access to information about the utilization of such resources, even if this does not lead to greater forms of popular accountability and control.

Discussants also mentioned an issue that symptomizes the need for further financial decentralization down to community level. They believe that popular accountability would be strengthened if allocation decisions and control were decentralised where appropriate to the *kebele* level. The discussants argued that most people were not very interested, nor capable of really understanding, what was happening in other parts of the *woreda*. But they would be interested in understanding and having a greater say in what was happening in their own *kebeles*. By bringing financial matters down to *kebele* level, the discussants argues that the pool of beneficiaries would be reduced and any financial transactions and utilization could be easily traceable so that misuses and irregularities could more easily be noticed and controlled.

5.3.5.1 Performance Reporting

Performance reports (both financial and physical) are crucial for providing financial transparency and accountability (for both downward and upward accountability). In the Amhara region, with the aim of facilitating transparency and accountability, there is a formal requirement that *woreda* administrations and their sector offices should prepare and present integrated performance reports, covering both financial and physical performance. Despite the requirement, none of the *woreda* administrations have done so to date. Financial performance reports for all sector offices are prepared centrally by WOFED whereas physical performance reports are prepared by the respective sector offices. Interviewed sector office heads mentioned two reasons for the impracticality of preparing integrated performance reports.

The first reason mentioned by interviewees is connected with the budget structure, in particular the skewing of budgets towards recurrent expenditures required by the regional government. In a situation where recurrent budgets become the dominant expenditure, it is difficult to systematically link financial spending with performance or programs. Recurrent budgets, in most cases, are by their nature inter-activity

expenditures incurred for a pool of activities and are not easily traceable to a single activity performance. That is to say the more expenditure allocated to recurrent expenditures, the more they become difficult to be identified with single activity. Therefore, the interviewees explained that they have not been able to report their performance by effectively and systematically linking financial and physical performances.

Besides, the ambitious performance targets imposed by the regional government, as discussed earlier, has led the capital investments of *woreda* administrations to be dominated by non-discretionary donor funds. As noted earlier, these often have no systematic link with the plans of *woreda* administrations. This is why sectors such as rural water supply offices, which have relatively larger capital investments to undertake, are unable to engage in effective forms of performance reporting, as the capital investments come primarily from donors.

There is therefore no clarity in the performance reports of *woreda* administrations as to which part of government activities is funded by government and which part by donors. For example, activities such as family planning, child health and nutrition, vaccination, maternal health and HIV/AIDS in the *woredas* are often supported by various donor funded projects. However, such activities are also funded by the *woredas* themselves. *Woredas* which attempt to follow the formal reporting format typically provide data on their own performance and budgets whilst ignoring the activities funded by donors. As donor funding is the dominant form of funding for capital investment projects in most of the case *woredas*, this form of reporting distorts the actual performance on the ground and provides an inadequate basis for holding local officials accountable.

The second reason is connected with failure of officials and their offices to prepare and implement planning and budgeting based on a systematic link between finance and physical activities. Although several factors are responsible for this, only those factors related with intergovernmental relationship are discussed here. Due to the arbitrary changes and modification through the successive interferences of the regional government, the importance of planning and budgeting as a tool to implement *woreda* level development has declined. Similarly the attention given by *woreda* officials to the

preparation and implementation of plans and budgets has also declined. In this situation, interviewees stated that there is no systematic link between physical activities and financial performance. Even if there is a limited link, this typically changes because plans are often not followed as intended. Activities to be performed are changed as a result of unanticipated impositions from zone administration and budget plans are frequently upset by budget shortages resulting from delays in the receipt of the regional block grant and donor funding, as well as other factors described in detail in the sections above.

5.4 SUMMARY

This chapter addresses the impact that intergovernmental relations has had in shaping and determining the financial governance of *woreda* administrations. Thus, it started with an assessment of the level of autonomy afforded to *woreda* administrations and the supportive and regulatory role of regional government. It is understood from the revised constitution of the Amhara Regional government that *woreda* administrations are autonomous political units mandated to undertake specified functions for which they can also raise and spend funds. The expenditure roles are almost entirely devolved to *woreda* governments, whereby they can formulate their socio economic plans, budget the required resources and spend them. Nonetheless, the fact that neither the regional constitution nor other legal instruments clearly specify the functional competencies devolved, a lack of clarity has characterized the district level fiscal decentralization of the Amhara region.

In terms of revenue rather than expenditure, *woreda* administrations have not as yet been devolved with significant powers to raise revenues, as many of these powers continue to remain within the competence of the regional government. In this respect, urban administrations are in a better situation as they are empowered to raise their own revenue from the provision of municipal services. Otherwise, the dependence of most of the case *woredas* on regional block grants and donor funding, coupled with limited local revenue generating potential and the inability to borrow, has resulted in the lack of financial autonomy. Their revenue responsibilities are in the main confined to the levying and collection of various taxes in line with regional requirements and therefore essentially through de-concentration rather than genuine devolution. Thus, the limited

revenue raising power coupled with no right to raise revenue by borrowing and *woredas* low level of revenue potential resulted in *woreda* administrations not to be financially autonomous. Currently, *woreda* governments are highly dependent on regional transfer.

A further issue, however, is the extent to which the limited financial autonomy of *woreda* governments has been translated into a loss of spending autonomy. The fact that the block grants transferred from the regional government are unconditional grants means that *woreda* administrations, at least in theory, do have the discretion to decide on the allocation and utilization of the funds. But in practice, the regional grant formula which determines the volume and distribution of block grant effectively dictates in many ways that the plans and budgets of the *woreda* governments must be aligned to regional rather than local priorities.

More fundamentally, the constitutionally recognized spending autonomy of *woreda* governments in the Amhara region has been constrained in practice by the constant interference of the regional government through its *zone* administration structures. Various sector offices in *zone* administration have interfered in the plan preparation of *woreda* sector offices by dictating to *woreda* governments what goals and targets to include, either by providing planning guidelines, through their plan approval processes, or through the evaluation of *woredas* sector offices performance. The interference of *zone* sector offices has sometimes been also in terms of hiring employees for *woreda* administrations, as well as compelling *woreda* officials to engage in unplanned activities for which no budgetary provision has been made, thereby forcing the *woredas* to switch funds from its own budgets and divert resources from its own planned activities.

Despite the budgetary challenges experienced by the case *woredas*, most of them have nevertheless made progress, particularly in areas such as expanding access to services, the more economic use of resources, increases in administrative efficiency by streamlining bureaucratic processes, and the mobilization of local resources for development purposes. However, none of the case study *woredas* have showed signs of achieving some of the other claimed benefits of decentralization, such as the involvement of citizens in local financial allocation and utilization decisions, the provision of financial information to citizens, or the engagement of the people in

holding local officials accountable. In a number of key respects, therefore, the kind of decentralization that has been put in practice in the Amhara region exhibits the features of decentralization by de-concentration rather than decentralization by devolution.

The chapter also provides evidences to show how intergovernmental relationships have negatively affected the financial governance of *woreda* administrations. Most of the case *woreda* administrations have not been able to respond adequately to the needs and demands of citizens, or meet desired levels of service quality, due in the main to the inflexible budget structure resulting from interference from the regional and zone administrations. Changes required by the *zone* administrations, particularly those in the middle of the fiscal year, have had serious adverse effects in disrupting the budgetary and financial management process starting, from budget preparation to evaluation. *Woreda* administrations have experienced serious budget pressures as a result of the administrative interference by *zone* administration, due to assuming the responsibility for unfunded mandates imposed by the regional government. Excessive budget transfers and unplanned procurement have been caused as a result of the consequent disruption in the planning and budgeting processes. Another problem has been the low levels of budget execution in most of the case *woredas*, caused by delays in the release of the regional government transfers and donor funds.

The ability and willingness of *woreda* administrations to try to identify and raise additional sources of internal revenue has been discouraged by the fact that they have no power to utilize such revenue unless approval is granted by the regional government. The urban *woreda* of Debreworkos was to some extent an exception in this regard, as it did have the power to raise and utilize additional sources of revenue for its own purposes. However, such powers have recently been curtailed by the regional government.

The current unclear assignment of roles between the regional government and *woreda* administrations seems to have led local citizens to resort to voicing their concerns through hierarchical rather than local voicing mechanisms. Moreover, it was observed that the more local projects are financed through regional grants or donor funds, the less likely are citizens to have seek information about the finances and hold their local

authorities accountable. Such accountability might well be enhanced by expanding decentralization to the local community or *kebele* level.

The preparation of transparent financial report that link financial performance to activities carried out has not been possible to date. This has been due in part to disruptions in the planning and budgeting processes, but in the main to the fact that the majority of *woreda* budgets are spent on recurrent expenditure (especially personnel), which cannot be readily attached to specific activities.

Finally, the lack of adequate human resource experience and expertise in the financial management process in most of the *woredas* can be attributed to a considerable extent to the regular restructuring processes directed by the regional government, as well as to the lack of training and other forms of support provided by the regional and *zone* administrations.



CHAPTER SIX: BUDGETING REFORM AND LOCAL FINANCIAL GOVERNANCE OF WOREDA ADMINISTRATIONS

6.1 INTRODUCTION

It has already been discussed in the earlier chapters that local financial governance is a function of the interplay of various determining factors. The analysis of the impact of intergovernmental relations on *woreda* administrations financial governance was covered in chapter five. Another factor that plays a determining role in local financial governance is the public arrangement of financial management system installed in the local government system. There are several forms of public arrangements in financial management systems that might need to be reformed. The focus in this thesis will be on two broad categories of processes relating to public financial management systems: first, the arrangements designed for proper budgeting (upstream processes), and secondly the arrangements designed for proper budget implementation (downstream processes). While the arrangements in the first category are designed to improve such processes as budget estimation, allocation and appropriation, the arrangements in the second are to improve processes such as revenue assessment and collection; cash management; procurement; internal controlling; accounting and recording; internal and external auditing; and external scrutiny. This chapter concentrates on issues related to the first category, and chapter seven focuses on issues related to the second.

This chapter therefore presents an analysis and discussion of the nature, adequacy, and appropriateness of the public arrangement reforms implemented to improve budgeting processes and their impact on the financial governance of *woreda* administrations in the Amhara regional government. The chapter begins with an analysis of the reforms in the *woreda* planning processes and approaches and the impact on budgets, followed by a detailed presentation of the nature and adequacy of the budgeting reforms and their impact on the proper appropriation, allocation and execution of *woreda* budget. First, however, a brief assessment will be presented of the financial management reforms that have been undertaken in recent years in the Amhara region.

6.2 FINANCIAL MANAGEMENT REFORMS IN THE AMHARA REGION

Subsequent to the commencement of the district level decentralization in Ethiopia, the then Ministry of Capacity Building in 2002 introduced a District Level Decentralization Program (DLDP) to facilitate the decentralization process in all regions. The program was one of the fourteen programs that have been undertaken by the Ministry of Capacity Building (MCB) and one of the six sub-programs incorporated in the larger Public Sector Capacity Building Program (PSCBP). It aimed at supporting the *woreda* level decentralization in the regions by promoting good governance, enhancing organizational effectiveness and manpower capability, institutionalizing decision making processes and improving rural *woreda* working systems as part of the county's poverty reduction and sustainable development strategy (Worku, 2005).

Each of the regions, supported by the DLDP, has taken respective measures to facilitate the devolution of power to their *woreda* administrations. Apart from amending the regional constitution, adopting the functional assignment framework and replicating the federal block grant system to allocate finance directly to *woreda* governments as discussed earlier, the Amhara regional state has also introduced several reforms in the public sector to strengthen the self-administering capacity of *woreda* administrations. To this effect the Bureau of Capacity Building (BoCB) in the Amhara region established a district level decentralization program (DLDP), the replica of the federal government MCB, to address the capacity building needs of decentralized *woreda* administrations in the region.

Some of the efforts undertaken by the regional DLDP in this respect include the redeployment of experts and personnel from regional and zone offices to *woreda* administrations, the reorganization of public institutions in the *woreda* administrations, the strengthening of the institutional capacity by providing administrative and office infrastructure, and efforts to strengthen grass roots participation in the activities of the *woreda* administrations. At the same time, the regional Bureau of Economic Development and Finance (BoFED) was assigned the responsibility for rolling out various finance management reforms that had already been introduced by the federal government in the regional administrations down to the *woreda* level. Consequently, through its Decentralization Support Activity Project, BoFED has undertaken

successive reforms in various finance activities including planning, budgeting, cash and disbursement, procurement, accounting and internal auditing, using the ‘getting the basics right first’ approach. The introduction of a Medium Expenditure Framework, together with program budgeting and full accrual accounting is also being planned, but has yet to be into practice. Discussants in the experts’ FGD and interviewed officials in all case study *woredas* confirmed that these reforms were implemented in all the case study *woredas* financial management system.

To begin with planning, bottom up planning and strategic planning are the approaches introduced to transform the planning practices to make them fit to the needs of the self-administering *woreda* administrations of Amhara region. As discussed in detail in the previous chapter, the practice of preparing five year strategic plans began in *woreda* administrations in 2003/04. Annual plans and budgets are expected to be derived from the strategic plans. The planning process, at least theoretically, follows a bottom up approach. As described in the previous chapter, it begins at *kebele* and/or service delivery unit level where citizens at grass root level supposedly participate and have a say in determining the targets of the plan. *Woreda* level sectoral and comprehensive plans are expected to include the planning decisions made at the *kebele* and service delivery unit level.

Budgeting is also another component of the financial management reform. The new budget system has introduced a new budget classification system and codes designed to more effectively track government expenditures from a number of different dimensions. The new system is based on administrative structures grouped under three functions: administrative services, economic services and social services. These services are further divided into sector offices based on sub-services. Expenditure tracking is further sub-divided into categories such as personnel emoluments, operational expenditure and capital expenditure. The classification has also made preparation for programme budgeting which will be introduced in the next phase of financial reforms.

A new budget calendar has also been developed. The budget calendar defines the sequences of budget planning along with the roles and obligations of the different sector offices of *woreda* governments. These reforms have been supported by the introduction

of a number of in-service training programs, designed to strengthen the self-administration capacity of *woreda* government officials and staff (Worku, 2005).

The recording and accounting systems have also been improved as part of the financial reform process. A new chart of accounts has been introduced, based on a double-entry and modified-cash accounting system. It is anticipated that this will facilitate a more complete picture of expenditure than the previous single-entry cash accounting system.

Another fundamental reform has been the adoption of single pool finance system in *woreda* administrations of the region. The single pool finance system enables all treasury funds to be managed through a single bank account and all accounting and reporting activities to be handled at a single location. The regional government has implemented this with the aim of improving the efficiency and effectiveness of reporting, the use of scarce human resources, service delivery, cash management and control across all the sectors of *woreda* administrations (Muhammed, 2006).

Procurement procedures have also been overhauled, with the introduction of open bidding systems and tighter controls. The internal audit system has also been reformed, with the previous system of pre-audit inspection and verification being replaced by a new post-audit and sample based system. Manuals have been prepared, and in-service training has been provided, to guide *woreda* officials in implementing these new systems. A clarification of the roles and duties of officials has also been undertaken, together with the reshuffling of personnel, to ensure that appropriate financial personnel systems are in place.

Generally, it can be argued that such incremental reforms were justifiable, given the organizational, institutional and manpower capacity limitations of *woreda* administrations. However, most of them were introduced at the time of the decentralization process, and have not been followed during the past ten years by further reforms (such as the introduction of a MTEF framework or the introduction of the kind of New Public Finance Management reforms discussed earlier in this thesis. Discussants in the experts FGDs in all the case *woredas* indicated that quite a number of the reforms that were originally contemplated (in areas such as planning, budgeting, and evaluation) were later put aside. They mentioned that reforms have been successfully

sustained only in areas such as recording, accounting, cash management and financial reporting. However, their real impact of these reforms on *woreda* financial governance has yet to be fully examined. As indicated earlier, this chapter attempts to present an analysis of the impact of the reforms in the budgeting system on the financial governance of *woreda* administrations. The next chapter (Chapter 7) will provide an assessment of the impact of reforms in recording and accounting, cash management, procurement, and internal and external auditing.

6.3 BUDGETING REFORMS AND WOREDA FINANCIAL GOVERNANCE

6.3.1 Planning in *Woreda* Administrations

Discussions about local budgeting are only meaningful if placed in the broader context of planning. The role of budgets is to translate the socio-economic priorities of local communities as identified in the development plan into financial allocations and utilization. This can only happen effectively if an appropriate planning system exists, and there is a systematic link between plans and budgets. Before turning to an analysis of the budgeting systems in the Amhara region, it is therefore important to look at the planning practices in *woredas*.

6.3.1.1 Planning Process in *Woreda* Administrations

During the pre-decentralization period plans were prepared by sector offices at the *zone* administration level and sent to their counterpart at *woreda* level. Therefore, *woreda* administrations were destined to prepare only implementation plans. But now, as part of the district level decentralization process, the procedure followed in the planning process has been overhauled. Consequently, *woredas* are now responsible for the formulation and implementation of their own five year strategic socio-economic development plans, as well as the annual plans derived from them. Moreover, *woredas* are required in the planning processes to take account of the interests and priorities of local citizens by incorporating into their own plans (by incorporating the plans from *kebele* administrations and service delivery units). The strategic plan for *woreda* administrations is prepared by a planning committee (often a task force composed of, in most circumstances, representatives of each sector office and coordinated and chaired by WOFED). The formulation of the strategic plan involves not only the identification

of development activities to be carried out in the five year period, but also an estimation of expenditures required in the given period to guide the annual budget.

After the strategic plan is prepared, each sector office in *woreda* administrations has an important role in the process of annual plan preparation. Sector offices are designated to prepare their annual sectoral plan under the framework of the strategic plan, taking in to account the service delivery units plan and *kebele* administrations plan. After plans from each sector offices are collected, a consolidation is made at the *woreda* Office of Finance and Economic Development (WOFED). In fact, here a planning committee to handle all these tasks is also formed. But it has to be noted that the committee is an ad hoc committee and its role is limited to consolidating the *woreda* plan. In addition to its coordinating and technical advisory role in consolidating the *woreda* plan, WOFED is permanently responsible for providing technical assistance and ensuring that plans prepared at various sector offices, units and levels follow the appropriate planning structure and process.

The consolidated plan of the *woreda* should then be submitted to *Woreda* Administrative Council (the highest executive body in the *woreda*) for review. If improvements and revisions need to be made, these are referred back to WOFED and the planning committee. The plan is then approved by the *Woreda* Council. The *Woreda* Council being the highest political body in *woreda* and has the ultimate responsibility for ensuring that the targets in the plan are feasible and in line with the needs of the people.

Hence, in principle, the general features of the reforms in the district level planning process (such as a bottom up approach; strategic planning; *woreda* sector offices autonomy to prepare their plan; plan consolidation by WOFED and approval by the *Woreda* Council) are in line with what are generally acknowledged to be the requirements for self-governing district level decentralization.

However, the relationship of such planning processes in *woreda* administrations to budgeting can be identified only through a detailed evaluation of each of the planning practices.

6.3.1.2 Planning Approaches in *Woreda* Administrations

As noted above, *woreda* administrations are responsible for the formulation and implementation of both longer-term strategic plans and annual plans. In doing so, they are required, at least theoretically, to follow a bottom-up planning approach, whilst at the same time ensuring that their plans conform broadly to the policies and development priorities and goals of the regional and federal governments.

Planning from below

Although *woredas* are supposed to follow a bottom-up planning approach, it was demonstrated in Chapter 5 above that, in practice, they have often struggled to find the right balance between plans from below and regional plans and targets (plans from above). Because of interference from the *zone* administrations, *woreda* plans are often biased towards the priorities of the regional government rather than needs of the people expressed in the *kebele* plans.

This bias has not only been the result of the way in which the current system of intergovernmental relations tends to operate in practice as presented in detail in Chapter 5, but also due to a number of internal challenges in the district level planning process. For instance, one of the factors mentioned by heads of *woreda* education offices for ignoring school level plans is due to the fact that *woreda* education offices suspect that school directors and teachers intentionally understate their plans. The same is true in the case of health posts/centres. All of the interviewed heads of *woreda* sector offices argued that officials at the service delivery unit level do not want to get into trouble by setting high level targets for themselves. They therefore tend to targets that can quite easily be met. This is because they think that their careers depend on the evaluation by the *woreda* administration of their performance in meeting such targets. It is ironical that while such local level officials are supposed to set targets through a process of consultation with the people, their performance is evaluated by their respective sector offices not by the people.

Another reason for service delivery units setting relatively easy targets and goals is because they suspect that the kinds of higher level targets required by the regional government are politically motivated, over ambitious and unrelated to the actual

challenges on the ground. As noted in the previous chapter, local people are often not convinced of the quality of the services provided by the *woredas*, and, where they have the choice and the means, prefer to use private education and health facilities rather than those provided by the government. Under such circumstances, setting ambitious targets for service usage would almost inevitably result in underachievement. Much more clearly needs to be done to improve the level of service provision, as well as to raise popular awareness about the kinds of services provided. Without an increase in the levels of popular awareness about such services, as well as popular confidence and trust that they will be effectively delivered, ensuring genuine interest amongst the people in participating in the planning processes is likely to remain a pipe dream. According to the perceptions of all the expert focus groups discussants, a related factor in promoting genuine forms of bottom-up planning and accountability is the fact that citizens and communities are aware that ambitious targets for service delivery are unlikely to be met because of budget shortages and constraints. This is why they do not challenge the relatively low targets put forward by the *kebele* level officials.

Strategic Planning in Woreda Administrations

As explained earlier, *woreda* administrations have adopted the use of medium strategic planning following the implementation of district level decentralization in the region. However, given the competency limitations in many *woredas*, there are doubts about how well and carefully the strategic plans are prepared, as well how effectively the annual plans are linked to them. The head of education office at Mekiet *Woreda*, for example, indicated that heads of *woreda* offices and their planning experts do not have the necessary qualifications, skills and training to prepare such complex plans.

Besides such competency problems, several other reasons were mentioned in the interviews and focus group discussions for limitations in the strategic planning processes and the link between strategic and annual plans. The first reason has to do with the challenges of preparing strategic plans in circumstances where there is a lack of predictability about the activities to be carried out by donors. Preparing an integrated strategic plan requires first acquiring information concerning the possible sources of finance from both government and donor agencies. However, while those activities to be carried out with finance from government sources are fairly predictable, at least

based on past trends, *woreda* administrations rarely have access to complete information as to what activities donors have planned to carry out in their *woreda*. In most cases, donor funded programs are arranged at the federal level and come down to *woreda* administration through the respective regional government. There are limited opportunities for *woreda* administrations to know in advance which activities will be carried out by donors and how much funding will be made available. Thus, *woredas* tend to simply put activities and targets to be accomplished in their strategic plans without identifying which of them are to be financed from government sources and which of them from donors funds. A strategic plan prepared in this manner is not much more than a wish list of targets that are thought to be reflective of the regional government targets.

In this situation, it is hard to say the strategic plan is a valuable document for the preparation of annual plans, and the attempt to link it up with annual plan is just a token effort. The discussants in the experts FGDs mentioned that the attempt by the planning division in WOFED to a certain whether the preparation of annual plans was consistent with the five years strategic plan has not been an easy task. In general, despite the fact that considerable proportions of development activities carried out in the *woredas* are being supported or directly operated by donors, the lack of information about the availability and extent of donor support, as well as the lack of a systematic method of integrating donor plans and performance with those of *woreda* administrations, means that effective forms of both strategic and annual planning is problematic.

All of the interviewed heads of the *woreda* sector offices, as well as discussants in the expert FGDs, unanimously agreed that targets in the strategic plans have never been seriously considered and followed in the preparation of annual plans. Even if the heads of offices in the *woredas* are keen to align their annual plans with the strategic plan of the *woreda*, they find it extremely difficult to obtain information about which part of the activities will be implemented by their office and which part by the donors.

According to the head of education office at Mekiet *Woreda*, another planning challenge is the high rate of turnover of the politically appointed heads of various offices in the *woredas*. Due to the frequent reshuffling caused by the restructuring of *woreda* administrations, or for essentially political reasons, many heads of offices rarely

stay in office for more than a year. In most cases, they transfer from one office to another, or are given promotion to higher level positions. This has proved a major challenge, because implementing strategic plans through their derived annual plans needs relatively stable management. Implementing officials need to be familiar with what has been planned in the strategic plan, and capable of following up and evaluating consistently whether their offices are heading towards the achievement of the plan targets. In the current situation, however, senior *woreda* officials are more likely to give more importance to the day to day and seasonal activities imposed from above than to their own long term development objectives contained in the strategic plan.

Another factor, related to the high rate of turnover of senior officials; that contributes to the weak link between annual and strategic plans, is the improper handover of documents by the outgoing officials to the incoming ones. The replacement of officials in the *woredas* is often made in a state of hastiness. Outgoing officials are often reluctant to hand over the appropriate information to their successors, either because of time constraints or because they do not want to make it easy for their successors perform more effectively than they have. Incoming officials also often do not seriously enquire about a proper handover of information, as most of them do not know how the handover process is supposed to take place. Moreover, they know that their success in their new positions will depend more on their achievement of politically motivated targets imposed by the regional government than the priorities and goals set out in the strategic plan. There is often no attempt made to enforce proper handover by anybody in the *woredas*. Since officials are typically removed, transferred, or promoted for political reasons rather than their performance in office, little effort is made by the *woreda* governments to evaluate their performance in office and the extent to which strategic planning targets have been achieved. This means the incoming officials often lack the one of the necessary information to discharge their responsibilities effectively.

For instance, the planning expert in the WOFED of Shebel Berenta *Woreda* and the planning expert in the education office of Bahirdar Zuria *Woreda* explained that, following their appointment, they could not find the strategic plans prepared for the period 2006/07-2009/10, even though these were clearly needed for the evaluation of performance and for the preparation of the next five years strategic plan. Therefore, the

incoming officials often opt either to prepare their own plan or continue from the recently annual plan of the outgoing officials.

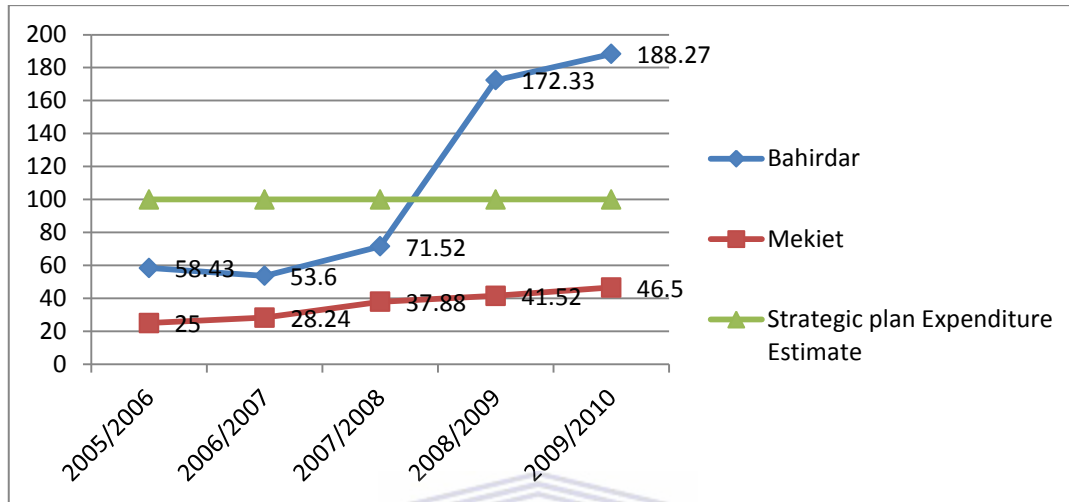
Finally, it is worth noting that, with the exception of Mekiet, none of the *woredas* have carried out an effective evaluation of the performance of their strategic plans. According to the FGD discussion with officials in Mekiet, an evaluation was carried out by the *Woreda* Administrative Council, but it was found that there was a positive deviation between the plan and the actual performance, and there was little or no link between the strategic and annual plans.

Link between Plan and Budget

One of the arrangements to insure the link between plans that are basically thought to be driven from strategic development targets and budget is through medium term expenditure plans. These have not been introduced as yet in the Amhara region. Instead, expenditure estimation is made for the five years strategic plan of the *woredas*. However, such expenditure estimations in the strategic plan have not proved very useful in linking *woreda* development policy initiatives with the annual plan and budget. The following graph (figure 6.1) clearly shows a huge deviation between the expenditure plan in the strategic plan and the actual budget in Bahirdar Zuria and Mekiet *woredas*. (The researcher was able to find the strategic plan of only two *woredas*. Shebel Berenta's strategic could not be found and Debremarkos City strategic plan did not include an expenditure plan). As it can be understood from the graph, Mekiet *Woreda* in 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 respectively has been able to secure only 25%, 28%, 38%, 41%, and 46% of the funds they needed to achieve the targets in the strategic plan. The budget the *woreda* has secured is far below the required amount and this is an indicator of a huge gap between strategic expenditure plan and actual annual expenditure. There is also a wide gap between in Bahirdar Zuria. The graph shows 58%, 53% and 71% in 2005/06, 2006/07 and 2007/08 respectively which are below the strategic plan estimations. However, in 2008/09 and 2009/10, Bahirdar Zuria *Woreda* secured 172% and 188% of the estimated budget. This was due to the Local Investment Grant (LIG) fund (a World Bank fund) that has allocated budget for capital budget investments since 2008. In any case, the data shows that the expenditure plan in

the five year strategic plan is not reliable as a basis to determine the annual expenditure budget.

Figure 6.1: Annual *woreda* actual expenditure across years as percentage of the expenditure estimation of the strategic plan



Source: Own Calculation from *Woredas'* Budget Data of Various Years

This is due to various reasons. The first reason relates to limitations in the preparation, appropriateness and implementation of the strategic plan. As discussed earlier, the strategic plans in the case study *woredas* are in general not well prepared, documented, and followed properly. Nor are they evaluated regularly. That is to say the activities included in the strategic plan are not reflected appropriately in the annual plan.

Even if we assume that strategic plans have been prepared and followed properly, *woreda* officials and experts do not have the required information, competency and commitment to prepare realistic strategic expenditure plans. They severely lack information about future macroeconomic variables such as inflation, possible sources of finance, and exact cost of activities to be carried out in the period. Expenditure estimation without obtaining information about such factors is highly likely to be unrealistic. Besides, the capacity and commitment of staff members currently is not currently capable of enabling them to systematically estimate the expenditure for the strategic plan. Thus, it has been difficult to link the actual annual expenditures budgets with estimates of the strategic plan.

It is also important to examine the budget preparation process in each sector of the *woredas* to assess how budgets are linked to planned activities. Normally *woredas* follow an incremental method to estimate the cost of their planned activities. As will be discussed in the following section, estimation of the budget for the upcoming year is incrementally based on the previous year's allocation. Such incremental budgeting estimation is essentially inconsistent with the essence of strategic medium term expenditure planning.

6.4 BUDGET PREPARATION

Budget preparation in the *woredas* theoretically begins when the first budget call letter from the regional government is received, usually in February (18th February according to the budget calendar) (Appendix 1) to announce the temporary ceiling. The first call is made before the actual block grant to the regional government from the federal government is known, and is based on the previous year's government revenue, foreign aid and loans. Up on receiving the first budget call from the BoFED, *woreda* administrations are supposed to make temporary allocations between their capital and recurrent expenditures on condition that these will be adjusted or revised up on the notification of the actual ceiling. Practically, however, the temporary ceiling has little purpose for budget preparation process. Basically, the WoFED and other *woreda* sector offices in the case study *woredas* do not do substantial work based on the temporary budget ceiling. Most of them do not even pay attention to it and just file it. Others, such as the WoFED in Shebel Berenta use it for some preparatory work, including the preparation of ledgers. Interviewees in Mekiet and Bahirdar Zuria stated that the temporary ceiling lets them know roughly the extent of the increments that can be expected based on the previous year's budget.

A few days before the budget ceiling data is distributed by the regional government, the required data to be used by the BoFED for the upcoming year's block grant formula is also supposed to be sent. This relates to the personnel establishment and salary levels in the various *woredas*, together with the previous year's budget execution. This has been discussed in detail already in the previous chapter.

In practice, however, all of the interviewees and discussants in the experts' FGDs agreed that budget preparation in the *woreda* governments practically begins when the

second budget call announcing the actual budget is received. This is supposed to happen on 17 May, but in practice usually happens in July or early August. The actual budget ceiling typically contains information about the total budget for the year, the sources of the fund, areas that the *woreda* should prioritize in the allocation of the budget, and financial rules and regulations that various bodies in the *woredas* should be reminded of in the process of budget allocation and implementation. The amounts to be transferred from the region, to be collected from own revenue, to be transferred from donor aid, and to be acquired through loan arrangements are also indicated. The budget ceiling announced is in the form of a lump sum, except for earmarked program based funds from donors.

Thus, the moment the WofED of *woredas* receive it, they pass it to every sector offices instructing them to prepare and submit their budgets for the new fiscal year. In this process, the *woreda* sector offices have the task of adjusting their work plans to the budget ceiling, determining the cost of activities in the work plan, and completing the standard format for the submission of their budget request. Budget preparation by each sector office is made differently. For instance, in Bahirdar Zuria, Debreworkos and Mekiet *Woreda* health and education offices, where they have experienced staff in their planning offices, the planning officers actively involved in the computation of the total budget needed to carryout activities specified in their plan. Whereas in Shebel Berenta *Woreda*, where there is lack of experienced staff in their planning sections, the three deputy heads of the sector and division heads are responsible for the computation of their budgets. Sector budget requests are submitted in lump sum and are not allocated to individual budget line items.

Upon the receipt of each sectorial budget request, the WOFEDs of the *woredas* analyse and consolidate these into a single *woreda* comprehensive budget proposal and present it to the *Woreda* Administrative Council (Cabinet). Therefore, the power to closely see the details and decide on the appropriation of the budget among sector offices resides with the cabinet. The cabinet is a standing committee where each of sector offices is represented by their heads, and is chaired by the Chief Administrator. Tough discussions, debates and negotiations take place in the cabinet meetings. However, before the budget is presented to the cabinet, it is supposed to be reviewed by the budget

hearing committee whose members are assigned by the chief administrator. Recently, however, such hearing committees have been omitted from the budget process.

The budget appropriation made by the *Woreda* Administrative Council is also subject to review and approval of the *Woreda* Council, though practically no change is expected from it. Upon approval of the council, the WOFED notifies the actual budget appropriated to each of the sectors instructing them to make allocations to each budget item accordingly. The mandate to make such allocation is given to each sector office to provide them with some flexibility in the utilization of their budget. In normal circumstances, budget allocation is made only once at the beginning of every fiscal year. Once approved by WOFED, the respective office is bound, at least in theory, to implement as planned. Monthly allocated cash flows and action plans must be submitted and approved by WOFED. This process is supposed to be completed by 25th July of the new budget year. However, in all *woredas*, due to the delays noted earlier, this rarely takes place before September.

Thus, despite the fact that the time available for preparation of the budget in *woreda* administrations is clearly specified (with the primary purpose of giving *woreda* administrations adequate time to prepare their budget systematically) in the budget calendar adopted as part of the reform process, the officials in the FGDs in all the *woredas* indicated that *woreda* administrations were not able to comply with the budget calendar. The calendar gives about three months to carryout activities between the actual budget notification and sector office budget allocation. Nonetheless, as discussed earlier, the time available for *woreda* administrations to prepare their budget is often squeezed into less than two months. In addition, the time for the completion of budget preparation is often pushed back by as much as two months (from 25th July to the end of September). The short time period available for sector offices to allocate their budget among budget results from the fact that the allocations made following the announcement of the temporary budget ceiling are not really serious. The actual allocation made before the notification of the approved budget to the sector therefore tends to be highly overstated, and is intended largely for budget debate in the cabinet (this will be discussed in detail in subsequent sections of this chapter). The actual allocation in the sector offices is made after the approved budget is notified by

WOFED. Thus, the actual time available for this allocation is often not more than a week. The short time period for the budget allocation process is due not only to the delay in the announcement of the actual budget ceiling (block grant), but also to weaknesses in the strategic plan and its expenditure estimates to guide the annual planning and budgeting processes. If the strategic plan was the main guiding document, and there was a strong link between this plan and the annual planning and budgeting processes, sector offices would not be so likely to have difficulty in beginning serious budget allocation when the temporary budget ceiling is notified.

6.4.1 Inter and Intra-Sector Budget Appropriation/Allocation

As already mentioned, the allocation and computation of budgets to each sector, as well as to each budget item, within sector offices effectively begins when the actual budget ceiling is received from the region. The allocation of budgets basically follows an incremental system using line item budgeting. Therefore, sector offices in *woreda* administrations start estimating and allocating budgets to each budget items in their sector offices, as all interviewed heads of sector offices indicated, often using three types of information. The first is the budget ceiling that is indicative of the extent of the increment they can expect on each budget item of their last year's budget. The second is their sectoral budget performance for last year, and the third is the work plan of their offices. Thus, based on these indicators, they estimate the amount of fund to be allocated to each item of budget. They are also supposed to make necessary adjustments in their planned activities so as to fit the budget ceiling.

However, despite such formal requirement, unrealistic budget requests by the sector offices are often made without due regard to the budget ceiling of the *woreda*. The intention behind this is typically to try and take up the largest slice of the *woreda* budget for their sector. This naturally creates difficulties for *Woreda* Cabinets in determining and approving the budget appropriation between sector offices and has almost become a tradition in the budget request process in many of the *woreda* governments. The head of the education office in Bahirdar Zuria *Woreda* mentions three reasons for such exaggerated budget requests. The first reason is related to excessively sector-oriented rather than *woreda* wide socioeconomic development attitudes on the part of the heads

of sector offices. They want to achieve high levels of performance in their own sectors by motivating for a disproportionately excessive slice of total *woreda* budget.

Many sector offices insist, nevertheless, that the budget they request is not exaggerated, when compared to the responsibilities they shoulder and the scope and size of activities they plan to accomplish. The only practical choice would be to make changes in the scope of their work plans, but this is not easy given the pressure they are under from the regional/zone administrations to achieve unrealistic high performance targets. An attempt to achieve such targets without adequate budgeting is likely to lead not only to a poor quality of service but also poor work relationship in their sectors. Currently, sector offices are not able to pay employees the appropriate per diem and refund transportation costs employees incur when they travel for fieldwork. It is a common practice in all sector offices, except those supported by donors, to pay a maximum of three days per diem in a month irrespective of the number of days they travelled. Thus, they argue that the budget they request is genuine, although it may well not be realistic with respect to the funds available in the total *woreda* budget ceiling.

The second reason is related to the attempt to secure a bargaining position in the cabinet budget dialogue process by letting others know that their sector needs in fact a huge financial resource to discharge its responsibilities effectively. There is a widespread believe among the *woreda* sectors that if the sector requests lower and more realistic budgets, it would get much less than what it needs or deserves. There is always a deduction from the budget request no matter how realistic and fair the request is. Therefore, sector offices often intentionally inflate their budget requests.

The third reason is to use budget shortages (which will be inevitable given the inflated requests submitted) as an excuse for possible unsatisfactory performance. The sector offices would not have sufficient justification for their failure to achieve their targets if they received the full amount of budget they requested.

All of the interviewees confirmed that all sector offices always make exaggerated budget requests. As a result, the budget allocation discussions in the *Woreda* Administrative Council are typically characterised by unprecedented strong arguments and debates among cabinet members, unprecedented because council discussions on

other issues ends to be a much more harmonious affair. The various sector offices try to convince each other as to why their sector should be given priority in the budget appropriation. Sectors sometimes group themselves into factions in fighting such battles in the administrative council.

6.4.2 The Process of Budget Appropriations between Sector Offices

The budget appropriation process in the Administrative Council (Cabinet), as all interviewees agreed, begins with compulsory expenditures. Therefore, the first appropriation that is relatively the easiest to decide is that of payroll. The amount of budget for payroll in each sector depends on the number of employees working in the sector offices and their remuneration for the year. In all *woredas*, overwhelmingly the largest proportion of the budget is taken by payroll. In most cases, this leaves relatively little for other forms of expenditure, both operational and capital.

The appropriation of the capital budget in most cases is based on previous decisions in the planning phase. Priority decisions for capital investments are often made by the administrative council in the plan review process and in most cases are based on instructions from and agreements with the regional/*zonal* government offices. The capital budget generally receives the smallest share of government finance. The majority of capital budgets in the *woreda* administrations are therefore by donors. As noted earlier, donor funding is in most cases earmarked for specific capital programs and projects, leaving little influence in the matter to the *Woreda* Administrative Councils. For this reason, there is generally little dispute or complaints from the sector offices in the *woredas* over the appropriation of the capital budget. Additional capital expenditure may take place, however, usually in the third or fourth quarter of the year, providing there are unused budget items in the *woreda* budgets that can be used for such purposes, or if additional transfers are approved and released from the regional government.

With respect to operational budgets, there is currently no method of objectively appropriating operating budget to sector offices. Therefore, as the discussions in the interviews and FGDs demonstrated, appropriation decisions are exposed to the influence of dominant individuals or groups. Not surprisingly, all of the heads of sector

offices interviewed complained about the appropriation of operating budgets, and claimed that shortages in operational funds were one of the main reasons for not meeting planning targets.

Although the financial rules and regulation of the region do not allow for contingency expenditures, it is also a common practice amongst all the case *woreda* governments that the Administrative Council keeps some portion of the budget for contingency expenditures, either in the *woreda* administration office or in the WoFED account.

6.4.3 How Fair and Appropriate is the Budget Appropriation among Sectors?

All of the officials surveyed in this research believed that pro-poor sectors are given priority over other sectors in the allocation of budget in their *woredas*. Despite such pro-poor budget appropriation, sector offices still complain that the total budget for the *woreda* and their sector is far below the required amount to undertake all the planned activities. They feel it is the overall budget shortage in their *woredas* that has hindered their offices efforts to achieve the targets set.

However, the head of the education office at Shebel Berenta *Woreda* feels his office has been discriminated against in the appropriation, as it gets less than 50% of the *woreda* budget. In the other *woredas* the education sector usually receives at least 50% of *woreda* budget. The argument between the sectors offices particularly over operational budget allocation seems never ending. All of the heads of education offices (except in the case of Mekiet *Woreda* which receives approximately 53% of the *woreda* budget) complain about the unfair appropriation between sectors. They believe that their sector is discriminated against, particularly with respect to operational budget appropriation. They argue that other sectors, such as health, agriculture and rural water, are being supported by donor funds, whereas this is not the case with respect to education.

On the other hand, the heads of health and rural water supply offices are of opinion that their offices are not getting what they need or deserve, because they are also in receipt of donor support. They argue that the reduction in their operational budget is often much larger than the budget support they get from donors. In addition, donor funds are often earmarked for capital expenditure, with the expectation that the *woredas* will cover the associated operational expenses. Donor funds, of course, come in various

forms: some of them cover only the capital budget (as indicated above); some have earmarked budgets over which *woreda* officials have little or no say; whilst others leave the discretion over allocation of budget between capital and recurrent budget for *woreda* sector offices (though this latter variation is not very common).

The head of rural water supply at Mekiet *Woreda* argued that those donor funds which come through the regional government are often earmarked only for capital expenditure. This was with the presumption that the construction work would be given to private contractors. However, given the relatively small funds available, this approach has typically failed to lead to the construction of the number of water points planned. The *woreda* realized, therefore, that the donor funds could be utilized more efficiently if it buys the construction material itself and hires local artisans to carry out the work. This has helped the *woreda* to significantly increase water supply coverage in the district. However, there has nevertheless been a difficulty in ensuring the appropriate amount of operational funds to support such projects, as these were not covered by the donors. The operational budget allocated from the government treasury has not been adequate to cover such operational expenses, forcing the *woreda* to re-allocate operational funds from other budget lines.

The head of rural water supply in Bahirdar Zuria mentioned an incident that reveals how donors fund might require even additional operational budget allocations from the government treasury. The head explained that his office has faced operational budget deficits due to the *woreda*'s failure to allocate the matching fund required to undertake projects supported by the donors. According to the agreed arrangement with the donor, to support water point constructions in the *woreda*, the *woreda* government was supposed to provide matching funds for such operational expenses as fuel, vehicle repair and maintenance, per diems, training and stationery. However, it proved difficult in practice to access such additional funds, due in particular to the perception amongst the members of the *Woreda* Administrative Council that the rural water supply office already had more than sufficient donor funds to cover such expenses.

In general, therefore, all of the sector offices (with the exception of the health offices) complained about the inadequacy of their operational budgets, irrespective of the amount of donor funds received. In particular, they complained that the shortage of

operational funds has forced them to curtail expenditure, for example by paying employees a maximum of four days per diem per month, even though many of them were away from the office for much longer periods. This has caused a lot of discontent among their employees.

However, unlike the case in other sector offices, health projects funded by donors have usually received a relatively large proportion of funds for operational expenditures. This is because many of the activities carried out by donor funded programs are not significantly different from the planned regular activities of the health offices. These are activities that do not involve major capital investment and are in the areas of family planning, child health and nutrition, vaccination, maternal health, and HIV/AIDS related activities and so forth. Therefore, as the head of health office at Bahirdar Zuria explained, his office integrates its own activities with those funded through different donor programs. The operational budgets that the donors allocate can be used also to carry out the activities of both the donor program and the normal activities of the sector office. Had the fund from donors not been available, the operational budget allocated from the government treasury would not have been adequate to cover more than three months of their operational expenditures in the budget year.

This is why most heads of sectors (except health) and the deputy head of BoFED were of the view that donor support, whilst vital, has served in many ways to create an unfair distribution of funds between the different sectors in the *woredas*. The discussants in the expert FGDs raised another issue. This was that when donors did provide non-earmarked operational funds, these were often used wastefully. Such funds, it was felt, should be either earmarked or included in the treasury fund of the *woreda*, where their utilization could be supervised and monitored properly. Moreover, all the sector officials interviewed agreed that funding from the government treasury should not be cut with the presumption that this will be fully offset by donor funding. As noted in earlier sections in this study, donor funding is often unreliable, with promised funds not forthcoming or being released very late in the annual planning cycle.

6.5 BUDGET EXECUTION AND FOLLOW UP

As has been discussed earlier, once the appropriation of the budget to each of the sectors has been approved, each of the sectors are required to submit their budget allocation by budget item alongside monthly action plans and cash flow plans. Although the practice varies slightly from one sector to another, such documents and plans are prepared following discussion by the management committee of the various sectors. The management committees comprise the deputy heads and heads of division in the sector, and are chaired by the head of the sector. The execution of budget effectively starts only when the submitted documents are approved by the *Woreda* Office of Finance and Economic Development (WOFED).

Therefore, the responsibility of administering and checking if the disbursement requests from the sector offices are in line with the budget approved, as well as the cash flow plans and action plans, resides with WOFED. WOFED officials also have to make sure that sector budget requests are in compliance with the financial rules and regulation of the regional government. They are also responsible for producing and submitting periodical reports on the execution of budget to sector offices and the *Woreda* Administrative Council. On the other hand, the sector offices shoulder the responsibility for utilizing the budget appropriated to them in an efficient and responsive manner, and in line with financial rules, regulations and standards. Their disbursements are supposed to comply with their budget allocation and the monthly cash flow plan approved by WOFED.

One of the arrangements that financial management systems in the *woreda* administrations use to ensure the proper utilization of budget by sector offices is the requirement that sector offices must present their monthly action plans and cash flow plans. However, compliance with this provision varies significantly from one *woreda* to another. In Mekiet *Woreda* and Bahirdar Zuria *Woreda*, the submission of action plans and cash flow plans is a strict requirement for the budget allocation to be approved and put in to effect. In Shebel Berenta *Woreda*, this was a strict requirement in the past but has now been relaxed, with the result that some sector offices have been spending their budget without submitting cash flow plans and action plans.

Sector offices are also responsible for monitoring the proper utilization of their budget based on the records they keep and the periodical reports they receive from WoFED. Transfers from one budget code (budget item) to another, on condition that revisions on the action plan and cash flow plan are made, are also made by sector offices. Whilst the authority to approve such disbursement requests always belongs to the head of the sector, other members of the staff in the sectors are usually involved in the process of budget utilizing, administering and monitoring in the sector offices.

However, the extent of involvement of other members of the staff, such as members of management committee and other experts, in the process of implementing, administering and monitoring varies significantly from office to office. Initiatives for action on the budget often come from deputy heads (in Mekiet and Shebel Berenta *Woreda* education offices), and division heads (Mekiet *Woreda* health office and rural water supply office, Bahirdar Zuria education office and health office). Recording, filing and following up disbursements from the budget by sector offices is made only in offices which are relatively better-staffed and organized. The Bahirdar Zuria health and education offices are examples of the very small number of sector offices that have been able to properly shoulder this responsibility. The education and health offices in Mekiet and Shebel Berenta have separate planning offices but these are inadequately staffed. In Mekiet only 11% of the total required staff are in place in the planning division of the health office, and in Shebel Bernta only a third of the posts in the planning division in the education office are filled. Therefore, whilst the heads of the offices try to maintain record keeping, this process is not carried out effectively, partly because the heads have many other duties to attend to, and partly because of the lack of training and experience. Similarly, the heads of smaller offices, such as rural water supply, which do not have their own planning offices, also try to handle this duty themselves but not really effectively due to similar problems.

All of the discussants in the expert FGDs argued that the practice of recording, keeping files and following up budgets by reconciling them with the regular budget execution reports from WoFED varies significantly depending on the commitment and skill of the head of the sector as well as the availability of well-staffed planning offices in the sector offices. They argued that since all of the heads of sectors are political appointees based

on only their political loyalty, they often have neither the experience nor the expertise to carry out such activities. Many of them have had little or no prior managerial experience before they took their positions, and little training is provided to develop the financial management capacity of *woreda* leadership. This concern was shared among some of the heads of sector offices as well. The head of the health office at Mekiet *Woreda* emphasised the need for financial management training or at least orientation especially for recently appointed officials. Similarly, the head of the education office at Shebel Berenta *Woreda* felt that many sector heads are carrying out their responsibilities based on individual intuition rather than professional expertise. The deputy head of BoFED also shared such concerns, and felt that the relative lack of experience of many of the sector heads was one of the main reasons for ineffective budget administration.

Another problem mentioned by the discussants was the lack of attention and time paid to budget control. The discussants in the expert FGDs indicated that officials are overly burdened with political duties assigned from the top. They are unlikely, therefore, to give adequate attention and time to effective budget control, even if they had the expertise and experience to shoulder the responsibility.

6.5. Budget Out-turn

Budget out-turn is a measure of the level of budget execution which is widely used to evaluate the efficacy of budgeting in sector offices as well as in the *woreda* administrations as a whole. In fact, it is the only type of report the WoFED produces to show how effectively the budget has been executed. It is one of the reports that the Administrative Council of *woredas* looks at in its quarterly evaluation. Generally, low budget out-turn indicates poor budget execution and a high level of budget out-turn indicates a better level of budget execution. Nonetheless, it is still a crude measure of measuring the efficiency effectiveness of budget execution. It only shows the extent of budget execution by computing the extent of deviation between plan and accomplishment. Despite its limited capacity, budget out-turn has been widely used in all *woreda* administrations to evaluate the performance of budget.

As already discussed in detail in the last chapter, a low level of budget out-turn has not been a major concern for recurrent budgets in the case study *woredas*. But it has been a

problem in capital budgets and typical those funded by donors. The execution of budgets funded from the government treasury in general is much better than that of the donors. Several factors responsible for this were discussed in detail in the previous chapter. These revealed that the major problems in budget execution are not necessarily related with the absorptive capacity of *woreda* administrations.

Low budget execution is not entirely related to problems associated with funding sources. It is also connected with limitations in the management of projects and their ability to complete on time. This is a typical problem with respect to construction projects. This is related with the capacity of both private sector and public sector to properly discharge their respective roles of complying with the contract and following up progress to make sure that the project is completed timely. With respect to private contractors, a variety of problems have been experienced in most of the *woredas*. In the first place, an adequate number of bidders might not appear, leading to tender notices having to be announced on several occasions, with obvious implications for completion times. In the second place, contractors sometimes interrupt their work or walk away in the middle of a project. This typically occurs when the work of the project confronts unexpected circumstances and incurs additional costs. If the *woreda* government is unwilling to fund such additional costs, the contractors sometimes cut their losses and walk away before the project is completed.

From the side of *woreda* government, a major problem is the lack of capacity to follow up on the progress of projects and to take necessary remedial action when progress is found to be unsatisfactory. Most *woreda* offices have serious capacity limitation with respect to supervision and the follow up of development projects. All of the case *woredas* (with the exception of Bahirdar Zuria) do not have site inspectors to shoulder this responsibility. Only the education and health offices at Bahirdar Zuria *Woreda* have their own site inspectors. But the head of education in Bahirdar Zuria still has reservation about the capacity of these inspectors to effectively carry out their work. The inspectors cannot always be present at all construction sites. There should also be follow up by teachers, school directors and the community. According to his explanation, his office has attempted to set up such structures at local level where construction has been going on. These involved school directors, *kebele* training boards,

and *kebele* administration officials. But such structures have not been as effective as planned, due their lack of appropriate know-how to follow upon progress and quality.

6.5.2 *Excessive Budget Transfer*

As stated earlier, in a situation where budget shortage is a primary concern for *woredas*; the level of budget out-turn is a crude measurement and cannot be an adequate indicator for the extent of the efficacy of budgeting or the proper execution of the budget. *Woredas* with budget shortages tend to use their budget fully. Therefore, it is important to look for other indicators that can indicate the proper execution of planned budgets. Budget transfer, in this case, can be a better means of measuring the execution of the budget.

Budget transfer, in normal circumstances, is a tool used for efficiently utilizing the budget. As mentioned earlier, if there are certain funds that have not been used for the designated purpose, for whatever reasons, these can be transferred, subject to approval, from one budget item or sector to another. The Administrative Council is entrusted with the power to decide on the transfer of budgets from one sector to another based on the quarterly evaluation of budget execution. If a particular sector office does not use its appropriated budget and if there is an expectation among *Woreda* Administrative Council members that it will not be used before the end of the fiscal year, the administrative council has the power to transfer the funds to another sector. Furthermore, if there are funds kept as contingency funds, these could also be transferred with the approval of the administrative council, as could any additional subsidies received from the regional government.

Budget transfers are made not only from one budget item to another but also from one sector to another for the reason that a surplus in one budget item/sector can be used to make up a shortfall in another. In the former case, the transfer is made by the head of a particular sector while, in the latter case, the chief administrator representing the administrative councils makes the transfer. All of the transfers made are subject to the provisions of financial rules and regulations. For instance, under no circumstances can transfers be made from capital budgets or payroll to operating budgets. Besides,

transfers prior to the modification of action plans and cash flow plans are strictly prohibited.

In spite of the fact that such transfers are meant for using the budget efficiently and flexibly to accommodate unforeseen expenditures, if they are used excessively this can be an indication of undisciplined spending practice. The data presented in the earlier chapter showed that excessive budget transfer is prevalent in all case study *woredas*. Besides, all the interviewees and participants in all expert FGDs admitted that excessive budget transfer is prevalent in all case *woredas*. All sector offices, except the rural water supply and education offices at Bahirdar Zuria *Woreda*, admitted that they have made budget transfers on a regular basis, and that such transfers frequently constitute a significant percentage of the total budget spending of their sectors. The Amhara region Auditor-General (ARAG) Authority audit report of Bahirdar Zuria *Woreda* also noticed excessive budget transfer in the *woreda* administration.

In fact, there have been efforts to limit the excessive use of budget transfers. Discussants at Mekiet *Woreda* mentioned that in the past they were not allowed to make budget transfers on more than four occasions per year. However, this often resulted in a significant proportion of the budget being unutilized. The former restriction was therefore subsequently revised and sector offices were then allowed to utilize their operational budgets without any limit (subject to the provisos regarding transfers from capital budgets and payroll noted above). However, this has created an enormous work burden particularly in WoFED. Thus, the *woreda* administration has now decided to limit budget transfers to between 1st and 5th of every month, yet still without any limit on the amount and number of times of budget transfer. Due to this fact, there still exists excessive budget transfer in the *woreda*. It was also noted in the previous chapter that the attempt by the Eastern Gojjam *Zone* Administration to curb excessive budget transfer in Shebel Berenta *Woreda* has failed.

There are various factors mentioned by participants of FGDs and interviewees for the prevalence of excessive budget transfers. As discussants in the expert FGD at Mekiet *Woreda* stated, some of the main contributing factors include the lack of experience, the lack of due attention to and problems in the preparation of plans and budgets by the

heads of sector offices, and the lack of attention and compliance to action plans. To begin with, it was mentioned that some of the heads of sector offices as well as their supporting staff do not have adequate knowledge or experience in budgeting. Thus, they sometimes arbitrarily put figures in the wrong budget items when preparing the budget for their sector. Consequently, it has not been uncommon for some sector offices to make disbursement requests from expenditure items for which they have never allocated any budget. Inexperienced staff members of the *woreda* cannot be expected to properly prepare and follow plans and budgets in their sector. The same thing applies for preparation of action plan. As stated in the FDGs and in the interviews, inexperienced heads of sector offices or supporting staff prepare monthly action plans and cash flow plans merely by dividing the total budget into twelve months, rather than on a realistic estimate of likely spending patterns related to the nature and timing of the work involved. All of the discussants agree that the existing shortage of experienced and trained staff is caused mainly by the high levels of turnover and the reshuffling of both officials and staff members.

Excessive and often unnecessary budget transfers also result from the lack of effective political control and oversight of the budget planning and implementation processes. Cabinet members in the *woredas* spend most of their time travelling in the rural areas largely for political purposes. As they are political appointees, their attention is directed more to political duties rather than administrative ones. In addition they often are unwilling to delegate such administrative power to non-political staff members. Thus, they prepare plans and budget in haste, without due care and attention to prioritizing the activities planned and the determination of their costs. This has resulted in conspicuous deviation in the budgets allocated to different budget items between the plan and the actual situation. Thus, in order to correct this deviation they often have to make modifications in their action plans and cash flow plans and budget, entailing transfer from one item to another.

Another problem is the significance difference that frequently occurs between the budgets requested and those approved. Because of budget shortages, sector offices in all *woredas* argued that they rarely received what they requested. Over time this has led officials to be less careful in the preparation of their plans and budgets, particularly in

terms of linking plans with budgets. This situation has been exacerbated by the short time span for the preparation of budget, as noted in the previous sections of this study.

Inflation is also another factor that has disrupted effective action planning and budgeting, thereby contributing to excessive budget transfer. There has not been any practical effort taken by *woreda* officials or from the regional government to enable budget estimations take in to account the prevailing inflation rate in the region/country. The budget preparation manuals issued by the regional/zone administrations provide no guidance on how to take projected increases in inflation into account. Given the high rates of inflation in recent years, this has led to major problems in operating within the budgets set.

An additional problem highlighted by several of the respondents in the expert FGDs and interviews, concerned the tendency, noted above, for some sectors to obtain a disproportionate amount of the *woreda* budget allocation, largely because of the influence they have in the Administrative Council. Because of the relative large amount of operational budgets received, there is a tendency for such sectors not to allocate the amounts effectively or to monitor the actual spending patterns in line with action plans. In such a situation there is a natural tendency towards wasteful expenditure and the excessive use of budget transfers.

Interviewees also mentioned that some operational budget items are quite often set aside as contingency funds to cover possible unplanned activities. Since the unpredictability of activities in their offices has been rising, they have opted to keep some funds in budget items such as stationery materials, training, office equipment maintenance and so forth, which are not likely to be fully spent and can therefore be made available to cover contingencies should they arise. Discussants in the experts' FGD explained also that there are a number of budget items for which the sector offices have never incurred expenditure. However they keep allocating budgets to these items also for possible contingency purposes. Such practices, as most interviewees and all of the participants of the expert FGDs agreed, open an obvious loop hole for wastage and misuse.

There are also unexpected expenditure incidents that might necessitate the transfer of budgets from one item or sector to another. The head of the health office at Bahirdar

Zuria explained that the unexpected incident of a serious Malaria outbreak in the *woreda* required the transfer of a large amount of resources from other budget items. The head of rural water supply at the same *woreda* also explained that budgeted items may sometimes be underspent due to the non-availability of the items that it was proposed to purchase. This was the case with respect to the purchasing of iodine, for example. Because supplies of iodine were extremely low in the country, it was not possible to access any, and the budget was therefore transferred to other budget items.

6.6 SUMMARY

The prime aim of this chapter is to present an analysis of the extent to which budgeting reforms (introduced as part of the public arrangements of financial management reform in the Amhara region), have served to promote effective forms of decentralized financial governance in the case study *woredas* in the region. The reforms introduced to overhaul both the budgeting and planning processes have followed a ‘getting basics right first’ or an incremental approach. In the process a range of new initiatives and practices were introduced. These included, amongst others, new budget classifications and codes, a new budget calendar, and new procedures and roles for the different organs involved in the planning and budgeting processes, including the linking of budgets with annual development plans, the role of the *Woreda* Council in budget approval, the introduction of a bottom-up planning and budgeting approach through the development and integration of *kebele* plans, and new practices for preparing cash flow plans and action plans. These reforms were designed to foster effective forms of autonomous district level financial governance, as part of the federal government’s move towards political, administrative and fiscal decentralisation.

However the reform processes fell short of a number of other necessary elements for effective forms of self-governance at the *woreda* administration level, such as performance/program budgeting, zero-base budgeting and medium-term expenditure planning. In the place of these practices, *woredas* are still using line item budgeting, incremental budgeting, and rough expenditure estimates for strategic planning. Furthermore, despite the original idea that the implemented reforms would be incrementally followed by further reforms towards full-fledged budgeting reform, it was

clear from the evidence gathered by the study that none of the case *woredas* have introduced any new reform since the initial implementation.

This chapter further attempted to present and discuss the effects of these incomplete reforms, as well as of their incomplete implementation. The findings indicate that, despite the reforms, a number of undesirable features of budgeting have been visible in the case study *woredas*. This include undisciplined budget execution, the excessive use of budget transfers by sector offices, the failure to compile accurate cash flow plans and action flow plans, disputes among sector offices over budget appropriation (or misappropriation), and serious budget shortages. Such weaknesses in budgeting can be attributed in part to the incomplete nature of the reforms, and in part to the lack of effective implementation in both the budgeting and planning processes.

For instance, the failure to include the use of medium term expenditure plans in the reform process has made the linking of strategic plans with annual budgets problematic. That is why excessive budget transfers have become a common phenomenon in all case *woreda* sector offices, resulting in large part from the divergence between planned expenditure and the activities derived from the strategic plan. This has also been partly to blame for disputes over budget appropriation and complaints about unfair appropriations, as appropriations are not based on medium term expenditure plan. In this situation it is also difficult to say that budget allocation has been genuinely responsive to the needs or preferences of the people. Furthermore, because expenditures are estimated based on historical cost (incremental budgeting) rather than on the cost of activities to be carried out in the fiscal year, budget estimations are rarely reflective of the real costs of planned activities (as there is no systematic link between plan and budget). This has contributed not only to excessive budget transfer but also to unfair budget appropriation among sector offices. Similarly, the experience of the case *woredas* shows that the failure to allocate budget items to performance/activities has made it difficult if not impossible to estimate the cost of performance/activities. This has caused a major deviation between the planned budget allocations and the actual out-turn, that in turn has led to excessive budget transfers. Budget appropriations and allocations in this situation are unlikely to be a fair reflection of the planned targets.

Moreover, one of the reasons why *woreda* administrations do not prepare well-thought and systematic budgets is because budget preparation in *woreda* sector offices takes place in practice within a short period of time, much shorter in practice than the time allocation provided for by the regional government in the budget calendar. As noted earlier in this study, there have been a number of reasons for this, in particular serious delays in the announcement of the budget ceiling by the regional government. However, had performance budgeting and zero base budgeting been in place, as well as a medium term expenditure framework, sector offices would have been able to start the budget allocation to planned activities much earlier, deriving the information from the medium term expenditure plan instead of waiting for the announcement of actual budget ceilings by the regional government.

In addition to weaknesses and shortcomings in the design of the financial decentralization framework, another important weakness has been failures of implementation. These have resulted in budgets in the case *woreda* administrations not being reflective of the activities to be accomplished or of the preferences of people, and not being executed as planned. There have been serious budget shortages in some sectors and wastage in others. Strategic plans have not been prepared, documented, followed, and evaluated properly in the case study *woredas*. Similarly, budgets have not been prepared or executed properly. Cash flow plans and actions plans have not been prepared seriously or followed properly. The findings indicate that such reform implementation failures are caused by a number of factors, including the lack of personnel and the lack of capacity and commitment amongst those officials and staff members that are in place. The findings of the study reveal, perhaps not surprisingly, that those sector offices with better manpower have generally performed much better in terms of planning and budgeting than those that have suffered from serious staff shortages. Moreover, in both the better and poorer staffed *woredas*, the competency levels of officials and staff members has in general been inadequate in terms of the preparation of annual plans and budgets. In most of the *woredas*, this situation has been compounded by the lack of managerial stability caused by the high levels of turnover and the successive reshuffling of *woreda* officials.

The findings in this chapter reveal that sector offices are reluctant, or lack the commitment, to properly prepare and follow up plans and budgets. In most cases this is due to the absence of appropriate administrative accountability arrangements. One of the main reasons why many officials and experts have not been sufficiently serious in the preparation and implementation of plans and budgets is because they are not evaluated based on the level of accomplishment of targets in the plan or budget. To a large extent, senior *woreda* officials tend to prioritize their political responsibilities over their administrative responsibilities.



CHAPTER SEVEN: BUDGET IMPLEMENTATION AND CONTROL SYSTEM REFORMS AND THE FINANCIAL GOVERNANCE OF WOREDA ADMINISTRATIONS

7.1 INTRODUCTION

Public financial management is not just a process of formulating a budget at the beginning of a year. It is also about the day to day activities to be carried out throughout the year to make sure that the planned budget is implemented in an efficient and economical manner for the intended purposes. Consequently, reforms in the public financial management system are intended not only to change the budget planning, allocation and appropriation processes but also to improve activities in the budget implementation process, such as budget execution, accounting and reporting activities, and external scrutiny. In Chapter 6, an assessment was presented of how reforms in budgeting process have impacted the local financial governance situation of *woreda* administrations in the Amhara region. This chapter is a continuation of the previous chapter, and focuses on an assessment of the adequacy and appropriateness of various reforms that have been introduced in the budget implementation process. These relate in particular to issues such as internal control, accounting systems and practices, cash management, procurement, internal and external auditing, and legislative scrutiny.

To this end, this chapter begins by presenting an assessment of the efficacy of reforms in budget execution processes such as revenue assessment and collection, cash management, procurement and internal controls and auditing practices. This is followed by an assessment of the adequacy of reforms in accounting and reporting system, in particular in relation to their ability to provide reliable, timely and relevant financial information to be used for facilitating management and control functions. Finally, an assessment is undertaken of the efficacy of external auditing and legislative scrutiny in guarding against corruption and mismanagement, and facilitating efficient and accountable forms of budget implementation.

7.2 BUDGET EXECUTION ACTIVITIES

The implementation of the planned budget involves basic activities such as mobilizing revenue, disbursing it for the intended purpose, acquiring supplies and services to deliver the intended services and ensuring these activities are carried out through efficient and economic spending of the finance. There are various activities that have to be carried out properly in order to get the planned budget properly implemented. Revenue has to be mobilized; cash has to be available and timely disbursed; supplies and services need to be procured; and all these activities have to be monitored and controlled to make sure that they are carried out properly. Therefore, the reforms intended to improve local financial governance have to incorporate activities such as revenue assessment and collection; cash management and disbursement; as well as procurement and internal control.

It has already been discussed in detail in chapter two that the implementation of appropriate reforms in these activities helps to determine local financial governance. The deputy head of BoFED also stressed that the reforms undertaken by the government in *woreda* financial management systems, designed to improve budget implementing activities in general, were expected to play an important role in ensuring proper and economic spending and utilization of the budget, as well as minimizing the possibilities for corruption, embezzlement and the mismanagement of public resources in *woreda* administrations. However, he expressed doubt that such reforms might not be adequate by themselves to completely address such wrongdoings in public finance. Compliance with the rules, regulations and procedures might not necessarily guarantee the proper spending and use of public finance. Corruption and mismanagement may still take place without a formal violation of the established financial rules, regulations, procedures and processes. This is because there are still several loopholes that may allow public officials to manoeuvre public resource for their private gains.

Participants in the community FGDs also suspected that officials could abuse public resource elusively under the cover of the complex formal financial processes that are hard for outsiders to understand. They mentioned, for instance, that procurement through falsely inflated prices (overbilling) and other forms of collusion with suppliers

(for example through the provision of fictitious invoices) are some of the most common forms of corruption that cannot easily be traced through internal financial process controls or by external auditors. Therefore, what seemed evident from the interviews and discussions was there were loopholes that could expose the *woreda* administrations to corruption, despite the existence of formal rules, regulations and internal control systems to prevent or discourage such activities.

Hence, it is not sufficient just to assess the appropriateness and adequacy of the reforms that have been put in place. It is also important to identify areas where further reforms are needed to ensure honest and effective financial governance.

7.2.1 Revenue Assessment and Collection

As already discussed earlier in chapter five, levying and collecting tax, based on the tax base and rate determined by the regional government, is a responsibility that lies within the jurisdiction of *woreda* administrations of the Amhara region. Hence, it is necessary to examine the revenue assessment and collection practices of *woreda* administrations, as these clearly have an impact on the efficacy of the budgeting and financial management processes and practices in *woreda* administrations.

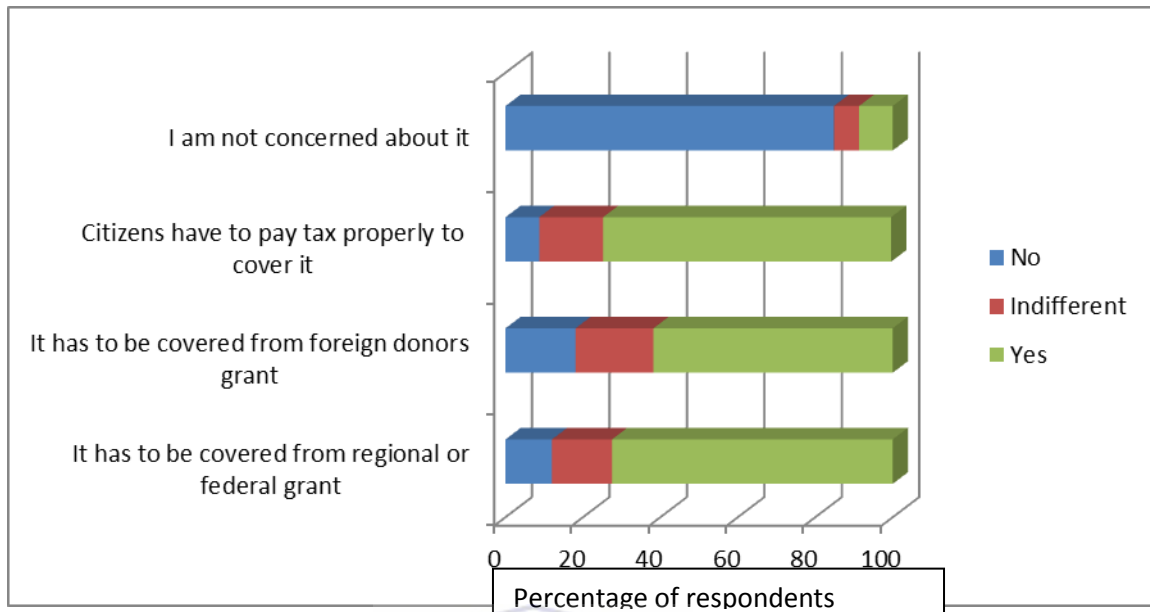
With the exception of Debremarkos, the tax paying businesses in the other case *woredas* are typically small scale businesses that are not required to present book of accounts or profit and loss statements. Because of this, the tax assessment process in these *woredas* follows two somewhat subjective methods. The first involves an estimation of business turnover by a committee that comprises members from the *woreda* revenue office and business community representatives. The second method is a flat rate levied on particular sectors such as grinding mills and transportation. In this case the amount of tax is determined by multiplying the flat rate by the numbers of grinding mill machinery or vehicles.

However, not all businesses in rural *woredas* are small businesses. Discussants in the expert FGDs explained that there are a small number of businesses in the *woredas* whose annual revenue apparently exceeds 100,000 birr. These should therefore present books of accounts or profit and loss statements to the Inland Revenue Office for

taxation purposes. However, such businesses often fail to do so, essentially for two reasons. The first is the bureaucratic procedures that have to be followed which the businesses feel are unnecessarily complicated. The second and most important factor is their lack of capacity to produce such financial statements. The requirement that such businesses should submit a book of accounts prepared by qualified accountants was regarded as unrealistic by the business representatives in the community FGDs. They explained that they cannot afford to permanently hire accountants, nor are there any qualified accountants in their home town for them to hire on a part-time basis. The only choice they have is to collect invoices and bring accountants from nearby cities to close their monthly accounts. Such an alternative is not affordable by most of the businesses.

Participants in the expert FGDs in all case *woredas* revealed their frustration about the widespread practice of concealing information about business operations with the intention of tax evasion. Such evasion exists, they believed, because of the lack of awareness among the people about the use and rationale of tax. However, the views of the discussants in the community FGDs were different. They explained that no one in their community objects to the essence of tax. They know that they have both a moral and legal obligation to pay tax to the government. This is supported by the data in Figure 7.1 below, which shows, amongst other things, that 72.5% of respondents believed that citizens have to pay tax properly to finance various development activities and public services. That implies that citizens are at least aware of the importance of tax paying for the development activities as well as service delivery in their surroundings.

Figure 7 1: Respondents' opinion as to how should development activities and public services to be financed



Source: Field Survey: 2012

Despite this, attendance at meetings arranged by the *woreda* administrations to raise awareness about tax paying is still very low. The revenue offices in the case *woredas* have a separate work unit for advocating, promoting and enhancing the awareness of tax payers, members of the business community in particular. However, discussants in the expert FGDs stated that the turnout whenever they call for a meeting has been extremely low. Members of the business community, in particular, have shown little or no interest in participating in such meetings. Discussants in the community FGDs also admitted that they were no longer interested in taking part in such meetings, as they do not think they are relevant in solving existing problems in the taxation process. As one participant uttered “we have never understood each other, we tell them to stop the corruption, they give us explanation about the importance of tax and why we have to pay. We never questioned the importance of taxation”. Discussants maintained that none of the meetings organized have resulted in tangible results for combating corruption in the taxation process.

The discussants in community FGDs admitted that, whilst they understood the rationale for paying tax, it was not uncommon for people to avoid or delay their tax payments.

Several reasons were put forward for this, from the perspective of rural peasants as well as the urban business community. Rural peasants blame the wrong timing of tax collection as the primary reason for the hesitation of peasants to pay tax. In most cases agricultural income taxes and land use fees are collected between December and January. There is no practice of distributing the amount to be paid over the whole year. Such an arrangement (involving the collection of a small amount of tax from a large number of peasants) would impose a major administrative burden on the *woredas* and *kebeles*. It is therefore administratively easier to confine the tax collection to a specific period of the year.

This arrangement, however, is unsuitable for peasants. Rural peasants who live a hand-to-mouth life have to wait until they harvest their crops and sell them at the market. The harvest time for seasonal rain dependent peasants is between December and January. Thus the timing of the tax collection used by the revenue office seems perfect but actually it is not. In most cases, when they take their harvest to market and pay their tax, they experience a considerable price fall. During this time, the demand for grain falls as all the peasants are bringing their supplies to market at the same time. Thus, participants in the FGDs indicated that peasants may well be reluctant to pay their tax, in most cases, unless forced and intimidated by *kebele* officers. They also indicated that economic deprivation might also not allow peasants to pay tax.

In spite of the fact that revenue officers admit that the tax assessment process for agricultural income tax is problematic, most peasants are not critical of the tax assessment processes and procedures. They explained in the FGDs that they have never enquired about how the tax assessment processes actually work. They do not expect the *kebele* officers to explain the tax procedures because they think this is a complex process and cannot easily be comprehended by ordinary person like themselves. Though they would be happy if there is transparency in the taxation process, they do not have an intense desire to know how the process is determined. They can only judge how fair the tax was by comparing the current year tax to the previous year's assessment, as well as comparing their own taxes to those of other fellow peasants.

Discussants in the focus groups were asked if their willingness to pay tax has been affected by the level of transparency of the utilization of the government budget by the

woreda administrations. They indicated that this was not the case, since the tax they pay is seen as immaterial when compared to the amount of funds granted by higher levels of government and the donors. They did not think that it is logical to put the transparency of budget utilization as a prerequisite for paying tax. Instead they thought that it is always a requirement for citizens to pay tax regardless of the level of service the government provides.

On the other hand, urban tax payers the majority of whom are business people have different views. For them, the main reason for reluctance to pay taxes is their suspicion that the tax assessment processes are subjective, dubious and exposed to corruption. One representative from business community in Mekiet *Woreda* explained furiously “I have never complained about the tax I paid but what has always been annoying me is the amount of tax some traders pay which is less than I paid while it was apparent that they have been making better business than I did”. The first cause of such inconsistency in the amount of tax levied has to do with bias and corruption. All the participants in the urban community FGDs agreed that the assessment processes were too subjective, giving rise to biased tax assessments that favoured some businesses over others. On the other hand, the revenue officers interviewed argued that this distrust in the integrity of the tax assessment procedures was based on perceptions rather than reality. It is not because there is bias or corruption in the tax assessment that people complain about the amount of tax they pay. Rather, it is because the assessment is somewhat subjective that lets them to believe there is corruption. Thus, the revenue offices explained that it was difficult to provide strong evidence to silence the critics, as the concerns about bias and corruption were based on feelings and perceptions rather than actual facts.

In all *woredas*, tax assessment committees have been established with the intention of curbing possible corruption in tax assessment processes. These comprise members from both government offices and representatives from the business community. However, all of the discussants in the community FGDs, while acknowledging the theoretical importance of this arrangement, believed that the representatives on such committees do not have adequate information, power and dedication to prudently follow up and influence the tax assessment process. In the first place, the business community representatives are more interested in carrying out their own activities than wasting their

time in committee meetings. In the second place, there is an imbalance in information and knowledge between the business community representatives and government officers who are much better informed about taxation procedures, rules and regulations. The business community representatives therefore tend to follow whatever the officers say rather than attempting to influence decisions.

A major problem associated with the payment of business taxes relates to the high incidence of informal businesses, many of which pay little or no tax at all. This has an obvious knock-on effect on the owners of more formal businesses, who wonder why they should pay tax, when most of their informal counterparts (some of whom are far richer) get away without paying. Discussants in the expert FGDs admitted that this was a major problem. They explained that measures had been taken to encourage informal businesses to register as formal businesses, but without much success. The revenue raising efforts of *woreda* governments has been severely limited to tax such businesses, many of whom play an intermediary role in the exchange process between buyers and sellers. Their businesses do not involve storing or exchanging visible goods and services, and most also do not have physical addresses. Consequently, tracking their business and the extent of their revenue is very problematic.

This situation has brought about other repercussion. In particular it has encouraged business people in general to incline towards illegal or informal business activities. In an attempt to avoid taxation, some have defused their business to several of their family members, as well as to different shops and different stores. In turn, this has encouraged other businesses to follow a similar path. For many local businesses such practices have now become part of their business strategy to increase profitability.

Urban dwellers were also asked in the FGDs if the lack of transparency in the utilization of government money has influenced their willingness to pay tax. While mentioning the importance of transparency and their desire to know how government resources are being allocated and utilized, they did not associate this with their willingness to pay tax. They insisted that they have been paying taxes even when there was no investment from the governments. Taxation for them is just taken for granted no matter how it is utilized. They do not think that development activities can be carried only with their tax contributions, and are aware that most revenue comes from the federal and regional

governments as well as from foreign donors. They therefore do not think that transparency in the utilization of government finance has been the primary factor in their willingness or unwillingness to pay their taxes. However, this does not mean that they are not interested in getting information about budget allocation and utilization. They did indicate, however, that they would be more willing to cooperate in the taxation process if they were convinced that the taxation process is fair and free from corruption.

7.2.2 Disbursement and Cash Management

The adoption of a single pool finance system has helped to bring all resources together into a single bank account. This arrangement often known as ‘single treasury system’ minimizes the chance for the accumulation of idle funds and shortages of cash for payment. It helps also to make disbursements according to the priority and timing of expenditure needs in the *woreda*. Thus, all the participants in the experts FGDs acknowledged the benefits that have been realized from this system in the financial governance of their *woredas*. However, some of the interviewed sector office heads indicated that their power to decide on their own sectoral budgets has been hijacked to some extent by WOFED due to this arrangement, especially when WOFED tries to force them to be abide by various rules, regulations and procedures (for example the requirement that spending has to be according to cash flow plans). As noted earlier, sector offices often fail to respect such ordinances, due to a variety of planning and budgeting problems. Therefore, they think that the requirements that WOFED tries to enforce are not consistent with the existing reality. How, for example, are they to ensure that their spending is in line with cash flow plans, when annual plans and budgets have been neither carefully prepared nor followed? This indicates that their discontent has nothing to do with the single treasury system. It rather indicates their concern about deficiencies in the prerequisites that should have been in place in order for a single treasury system to deliver its benefit.

Interviewees in Bahirdar Zuria also identified a number of practical problems they have faced due to such centralized arrangements. Since most of the offices of *woreda* administration are scattered in different locations far from the office of WOFED, sometimes it has been difficult to respond swiftly to disbursement requests.

Consequently, there have been some complaints over the inconvenience and dalliance of payments.

A cash flow plan is one of the arrangements used to manage cash properly so that the *woreda* does not run out of cash whenever the need for disbursement arises. Nonetheless, as discussed earlier, the spending practices of most of the case *woredas* has been characterised by a weak link between cash flow plans and actual spending, as well as by the low levels of attention given to the role of cash flow plans. However, with the exception of Debremarkos city, the discussants in the experts FGDs agreed that this has not led to any serious cash shortages in their respective *woredas*. One reason for this, explained by the deputy head of BoFED, is the fact that BoFED has been sending at least 1/12th of the total grant each month. Furthermore, most of the recurrent expenditure in *woredas* is taken up by personnel expenditure, leaving only a relatively small amount of budget for operational spending. Even though the disbursement from operational budget tends to vary and disrupt the cash flow, the fact that it is a small proportion of the total budget means that it has not caused a major excess or shortage of cash in the *woredas*.

The budget that could have created a lot of trouble for cash management is the capital budget, particularly if it is provided by donors. However, unlike in the case of the normal budget process, *woredas* do not start projects funded by donors unless the budgeted money is secured in their bank account. This practice has saved them from possible cash management problems. However, it is important to note that this is the case only for off-treasury donor funds that have their own separate bank accounts.

This does not mean that cash flow problems do not exist in the *woredas*. A particular problem has been posed, as noted earlier in this study, by the late release of the block grant from the region. Often this is only released two months after the start of the new fiscal year. This means that only a limited amount of cash left over from the previous year is available to cover current expenditure. This therefore has to be prioritized and tightly controlled to avoid serious cash flow problems. Most of such funds are therefore targeted at committed forms of expenditure, including payroll and expenditure related to capital projects carried over from the previous year. *Woredas* only become fully functional in financial terms about two to three months into the fiscal year. The problem

becomes even worse when it comes to donor funding. As noted earlier, donor funds are often only released in the third quarter of the year. The challenge of cash shortage is handled by not commencing with the work until the funding is released.

The situation is somewhat different in the Debremarkos City Administration. The city administration has faced severe cash shortages mainly caused by the deviation between planned and actual internal revenue. When the special grant from the region started to decline, the city administration has resorted to covering the cost of construction projects by mobilizing revenue from various sources. However, as indicated in the sections above, the planned sources of revenue often proved unsustainable. This has resulted in project activities being started and their costs covered from the regular budget, with the expectation that the planned revenue would be collected in due course. However, such revenue has often not been forthcoming, resulting in serious cash flow problems. In some cases, the city administration was not only unable to pay contractors and labourers working on projects. It also did not have adequate amounts of cash to cover the normal functions of the city administration. This has caused a lot of conflict with regional government officials. This is mainly due to the use of the single pool finance system which allowed the city administration to use the cash deposited for other purposes for construction works.

With respect to cash security, there have not been serious problems. Remoteness from a bank was one of the factors that exposed their cash management practice to security problems. Mekiet *Woreda*, for instance, had no bank in their town (Flakit), and had to travel about 200 kilometres to deposit their cash in bank in Woldiya. But now, they have a new bank in their town which has resolved the problem. However, Shebel Berenta *Woreda* is still suffering from the same problem as there is no bank in their town (Yeduha). For this reason, they have to keep cash in their office beyond the allowed limit. Discussants, explained that it has been costly, inconvenient and unsafe to travel every day to the nearby town (Bichena) to deposit and withdraw from the bank. Therefore, they resorted to keeping a sizable amount of money in the office, although they expressed concern that this practice is highly exposed to theft.

The other unsafe practice in all the case *woredas* but Debremarkos is the excess cash kept by assistant cashiers deployed in different rural areas of the *woredas*. In addition to

the payment and collection made at WoFED, the *woredas* have deployed assistant cashiers who pay salary and other expenditures to teachers, health workers, development agents, police and the like who are assigned to work in these remote areas. Assistant cashiers also collect tax particularly agricultural income tax and land tax from rural peasants. Furthermore, there are assistant cashiers at rural health centres to pay salaries as well as to collect service charges and money from drug sales. Because these assistant cashiers are placed in rural areas and are therefore unable to travel every day to the seats of the *woreda* administrations to handover the cash to main cashier at WoFED, they have to keep large amounts of cash beyond the designated limit in their poorly constructed and insecure offices, or else they have to take the cash with them to their home every night. This too is an unsafe cash management practice.

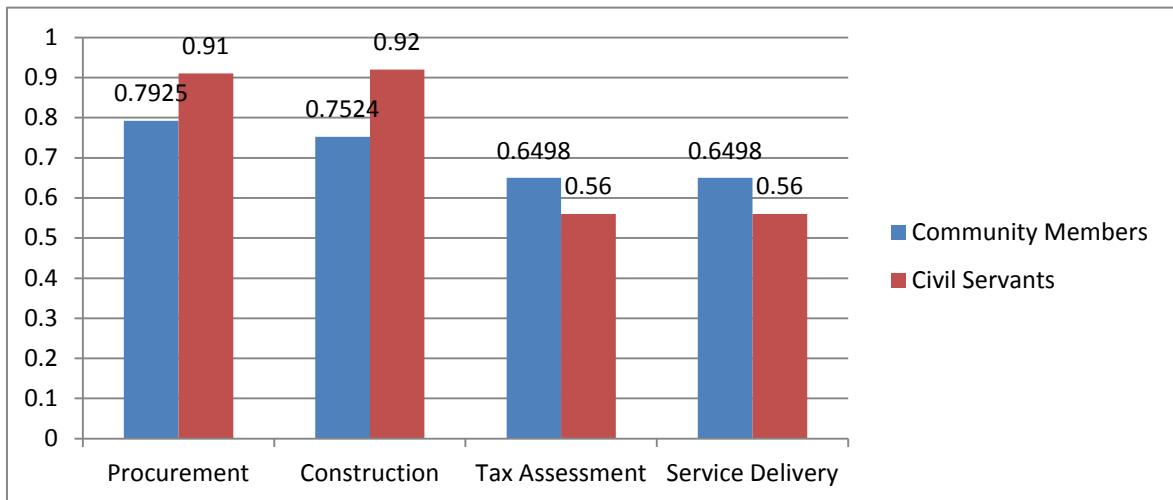
Bank reconciliation is one of the methods *woredas* are required to use in order to follow up and manage their cash properly. It is a process by which *woreda* administrations reconcile cash balance in their record against their bank accounts to check if all payments and deposits are recorded properly. Since decentralization, three of the case study *woredas* have been doing monthly bank reconciliation, and this is still the case in Bahirdar Zuria and Mekiet *Woreda*. However, in Shebel Berenta this practice has now been discontinued, due to the lack of manpower. In Debremerakos bank reconciliation has never taken place, again primarily due to human resource shortages.

The problem is worse when it comes to the case of donor funds. It is indicated in audit reports of the three audited *woredas* (Mekiet, Shebel Berenta and Bahirdar Zuria) bank reconciliation has never been done for off-treasury donor funds, irrespective of differences in manpower. This situation raises the debate as to whether donor funds should be off-treasury funds or part of the treasury funds. It has been discussed earlier that the treatment of donor funds as off-treasury funds helps *woreda* administrations to protect themselves from the possible disruption in cash management that might have been caused by unpredictable and unreliable donor funds. But at the same time it is widely accepted that a single treasury system should be inclusive and cover all funds.

7.2.3 Procurement and Construction Contracts

The evidence reveals that procurement activities constitute the largest share of government spending in most *woredas*. On the other hand, as the following graph clearly shows both community members and civil servants in the case study *woredas* suspect that procurement activities are highly exposed to embezzlement. Having a dysfunctional procurement system and construction contract administration process means exposing the biggest proportion of public money to corruption. Graph 7.1 shows that procurement and construction activities in the *woreda* administrations are perceived by both community members and civil servants to be more exposed to corruption or embezzlement than other activities such as tax assessment and service delivery. However, while community members think procurement is slightly more exposed to corruption than construction, civil servants think the other way around. The graph shows that civil servants see more chances of corruption in procurement and construction than community members do. This difference is not significant but might be due to the difference in the level of information they are equipped with. Civil servants have more access to information about their *woreda* government operations than community members. In the following sections, procurement and construction activities are discussed separately despite the link. Here, procurement refers to the process of acquiring goods and service whereas construction refers to constructions of various facilities contracted out to private contractors.

Figure 7 2: Mean response of community members and civil servants about the level of suspicion towards various government activities exposed to corruption



Source: Field Survey: 2012

Note: the possible responses include 0, 0.5 and 1, where the value 0 refers to ‘no suspicion’, 0.5 refers to ‘undecided’ and 1 refers to ‘yes’

Dysfunctional procurement systems and practices not only tend to cause corruption or embezzlement of public finance but, as indicated earlier in this study, they also contribute to low levels of budget turn-out.

7.2.3.1 Procurement of Supplies and Services

Procurement is one of the areas of financial management of *woreda* administrations in the Amhara region where reforms have taken place. In the new procurement system, procurement activities in *woreda* governments are carried out at centrally in a single unit of WOFED. Sector offices are responsible for identifying the specification of supplies or services they want to be procured and for making payments to the suppliers upon the receipt of goods and service. It is also the responsibility of the sector offices to investigate the quality of supplies and service delivered to ensure that they are in accordance with the specifications.

At the beginning of each year, the procurement unit makes a procurement needs assessment across all offices in the *woreda*. The need assessment process involves gathering information about the number and type of items sector offices need together with the time when they are needed. A procurement action plan is then prepared

accordingly. The most preferable method of procurement in all case *woredas* is the limited number of bulk procurements, although the actual number of times procurements are made varies from one *woreda* to another. Procurements in Bahridar Zuria *Woreda* are made only twice a year but four times in Mekiet *Woreda*. In Debremarkos procurement is also meant to take place four times a year. In practice, however, Debremarkos *woreda* has never stuck to this arrangement. Shebel Berenta also procures without following a specific plan. The procurement offices in Debremarkos City Administration and Shebel Berenta *Woreda* collect procurement requests from the sector offices, and procurement only takes place when the procurement requests amassed are large enough to enter into a bidding process. However, making small procurements based on individual requests is not allowed in all case *woredas*, except in exceptional circumstances.

Recently there has been a general shift in all the *woredas* from the old pro forma or direct procurement method to a new open bid method. In the old pro forma method of procurement, invitations were distributed to certain known suppliers or candidates to present their price quotation and then the best offer was selected. This method, as all of the discussants and interviewees agreed, is highly exposed to corruption, limits the pool of candidates, weakens competition and involves high transaction cost. For instance, the rural water supply office in Bahirdar Zuria *Woreda* was forced last year to reject the flag (for the event organized to celebrate with donors the annual water coverage achievements) bought through pro forma methods due to its falsely inflated price. Moreover, the rural water supply office had a dispute with the central procurement unit due to the fact that bicycle tyres bought last year through pro forma methods were not genuine.

In the new bid method of procurement, procurement tenders have to be advertised on public notice boards, as well as through broadcasts and press media. This procurement method is intended to enhance competition so as to ensure a combination of the best price, quality and delivery times, whilst at the same time minimising the possibility of corruption, as well as reducing transaction costs.

However, all of these new reforms, including single unit procurement, open bid methods and a planned procurement process, have not been without problems,

according to the interviews with the heads of sector offices. Most of the heads of sector offices complained about the quality, price and delivery time of the goods and services currently being procured. Procurement units in each of the *woredas*, on the other hand, blamed sector offices for making arbitrary procurement requests without following their procurement plan. Procurement is, of course, one of the activities causing disagreements in the relationship between sector offices and their respective WoFEDs. Sector offices feel that their power to decide on budgets by making procurements according to their specific office situation has been once again being limited through the working of the centralized single unit procurement system. Most of them currently believe that procurement activities should be restored to each sector offices. On the contrary, the procurement unit of WoFED would like more rights to make payment orders from sector office budgets for procured items, as heads of sector offices are sometimes hesitant to quickly approve the payment for the suppliers. This, as the procurement officers argued, causes delays in the payment process and dissatisfaction amongst suppliers, thereby compromising the effective operation of the future procurement process. They expressed their frustration that even a short time delay in payment easily dismays the suppliers and destroys long established relationships.

Quality of Supplies and Service

One thing that is similar across all case *woredas* is complaints over the quality of goods and items procured. This is mainly related to the difficulty in identifying genuine from counterfeit products. All of the heads of sector offices complain that some of stationery materials, spare parts and electronics procured have been found to be counterfeits that have been neither functional nor durable. The procurement officers in all case *woredas* admitted the problem and highlighted the difficulty they encountered in identifying genuine ones from fakes. They argued that the weak standardization and grading system in the country's commodity distribution has further complicated the task. Together with their own lack of experience, this has caused a lot of problems in the past in the quality of goods procured. In recent years, however, procurement officers have increased their experience in identifying counterfeit from genuine products, and in determining the details of specification of products they procure. In some of the case *woredas*, such as Bahirdar Zuria *Woreda* and Mekiet *Woreda*, use of experts is now being made at the

time of delivery of products, especially information technology experts to inspect electronic products.

However, procurement officers still continue to blame sector offices for not identifying quality problems and informing the procurement unit early. If they had, low quality items could have been returned or legal action could have been taken against the supplier. In most cases, sector offices only notice quality problems when they start to use the items for the intended purpose after they have been received and stored for some time. This is due to several reasons. As heads of sector offices argued, in the first place, counterfeit products are not easily detectable even to experts, let alone to inexperienced heads or staff of a particular sector office. In the second place, sector offices, besides their lack of capacity, do not pay due attention to the inspection of the quality of items as they think the responsibility has been already assumed by the procurement units. This is the result of lack of clarity in the relationship and orientation to sector offices about their duties and responsibilities.

Other alternatives such as legal recourses have not so far been effective in helping to correct the problem. Officials do not have confidence or know how to deal legally with such problems and secure compensation for any damage thereof. This lack of clarity creates a loophole for corruption by officers and collusion with suppliers. The involvement of officers in this process is not easily detectable.

Discussants expressed their feeling that bulk procurement through the bidding method has also contributed in an important way to problems surrounding the quality of procured products. This is because the whole of a bulk purchase may be counterfeit. Had the procurement been in smaller volume, the magnitude of damage caused by fake products would have been minimised.

As procurement officers indicated in the interviews, the problem is exacerbated by the lack of attention and capacity of the sectors to identify the specification of the products they require. Although some of the items to be purchased require detailed information about their specification, officials in the sectors are often unable to provide this due to their own inexperience. However, discussants in the expert focus group discussion at Bahirdar Zuria stated that they have been able to handle this problem by providing

support to sector offices in the process of procurement planning. After receiving the procurement plan from the sectors, the procurement officer in WOFED directly contacts the sectors to support them in the description of the specification of the product. This, they argued, has helped considerably to address quality concerns pertaining to specification problems. However, this practice has not been observed in other case *woredas*. Therefore, it can be generalized that the lack of clear accountability relationships between procurement units and sector offices pertaining to the quality and specification of goods, together with capacity limitations, has caused officials to blame each other and given rise to the existing quality problems of goods and services procured.

Price

One of the problems of the procurement process, and probably the most critical for all of the discussants and interviewees, is the falsely inflated price of procured materials. All of them agree with the opinion suggested by one FGD participant in Shebel Berenta *Woreda* that “if we let it keep going this way, anyone can expect in the near future that the entire public money will be flowing into bank accounts of corrupted suppliers in the name of payments for procured goods and services instead of being used for development activities.” There is a widespread perception among sector office heads and other staff that the price of items procured through the bid process has been highly and falsely inflated. The benefits that bulk procurement was thought to bring through the bidding process, such as better quality items at the cheapest possible price, has not been fully realized due to various contextual factors in the *woreda* administrations. This has been especially the case in relatively remote *woredas*, such as Shebel Berenta and Mekiet, where most local business people do not have the capacity to fulfil the requirements of the bid and capable suppliers in the larger cities are not attracted by the tender. This has meant that only a very small number of suppliers participate in the bid process, and the absence of genuine competition, especially on price, has resulted in the tendency of suppliers to vastly inflate the prices.

All of the interviewees stated that there is suspicion that these few suppliers know each other and collude to set prices higher than market prices and share the profits from this (bid rigging). Although they have no detailed evidence to confidently confirm this

allegation, they are certain that the price of most of the items purchased through the bidding process and delivered to their office have been much higher than the market price. The deputy head of BoFED also suspected that remote *woredas* might not be able to capture the benefits of open bidding due to such contextual problems. This practice leaves the *woreda* administrations worse-off by having to pay higher prices, while all of the competing suppliers, no matter whether they win or lose in the bid, are better off through sharing the profit they got out of falsely inflated price they charged the *woreda* administrations. Thus the bidding procurement method in remote *woredas*, far from ensuring the cheapest price and better quality, creates an opportunity for corrupt suppliers to abuse public money.

Community members in FGDs and some of interviewees insisted that this would not have been possible without backing from staff or officials in the *woreda* administrations. Such backing, they suspect, comes not just from ordinary procurement officers but also from the leadership in the *woreda* administrations. They maintained that had there not been any backing from leadership, the bidding process would have been cancelled or legal action would have been taken against suppliers, given the widespread awareness of the problem even among sector office heads. Some of the interviewees argue that cancelling the bid or taking legal recourse would not have been effective, in any case, given the poor record of *woreda* administrations in winning court cases, largely due to the inability to present adequate evidence to support the case. Thus, despite widespread awareness among officials, staff and community members, little has been done to combat price rigging by suppliers.

The deputy head of BoFED explains that in some situations *woreda* officials have been forced to accept whatever price the supplier offers, due to the fact that there was no response from suppliers to the original tender (sometimes on two or three occasions). Eventually they are forced to accept whatever proposal is submitted just to ensure that projects are started, especially given that they are often under pressure from the regional government to complete their development activities and meet their performance targets on time. However, this problem has not been as prevalent in Bahirdar Zuria *Woreda* and Debremarkos City Administration as in the other two *woredas*. This is mainly because they usually have an adequate number of bidders whenever they announce tenders. But

this does not mean that price fixing does not happen at all in these two *woredas*. Additional measures have thus been taken recently by Bahirdar Zuria *Woreda* to further combat the problem. Market assessments have been undertaken to obtain information about the maximum possible price suppliers can offer.

Despite the interest and pressure to use bulk procurements through tendering, a significant proportion of procurements that involve a huge amount of money are still made through direct procurement or pro forma methods. This has happened for several reasons. The first is due to the failure of sector offices to follow their procurement plan, according to some of the procurement officers interviewed. Most sector offices would prefer to get the needed materials instantly without careful advance planning of the type, size and time of item to be procured. But in order to use the bulk and bid method of procurement, compliance with procurement planning is required. However, all of the interviewed heads of sector offices admitted that they have not been following the plan strictly, largely because they feel that the current practise of using bulk procurement creates a lot of inconvenience in the smooth running of the activities of their offices. The head of the education office in Bahirdar Zuria *Woreda*, for example, stated that bulk procurement twice a year is far from realistic. He stated that this procurement practice has inhibited his office from smoothly undertaking activities. For instance the second procurement for last year was made just one month before the end of the year (in June). This is unacceptable and does not have any purpose except for minimizing the work load in the procurement unit. He inquires “what are they going to do throughout the year if procurements are made only twice a year”. All other interviewees highlighted the same reasons for why following the procurement plan has been impossible.

Delivery Time

Issues pertaining to delivery time have also been the cause of disputes between procurement units and sector offices in the *woreda* administrations, though most respondents agreed that this had not been as critical a problem as quality and price issues.

However, delivery time has been quite serious in Shebel Berenta *Woreda*, according to the interview with the head of the education office. Sometimes it takes as long as six

months to obtain items procured through the procurement unit. He stated that the procurement unit is “the most sluggish and non-functional unit” which prevents the office from effectively undertaking its duties. Writing a reminder letter is not adequate. The head of the education office has to go in person and remind them every now and then in order to get the required items purchased. This problem results from the fact that Shebel Berenta is the worst of all case *woredas* when it comes to the capacity to attract suppliers due to its remoteness. Besides, the *woreda* administration procurement unit is poorly staffed both in terms of experience and number. All of the procurement officers in the unit are new university graduates with little or no experience. And the three officers assigned to the procurement unit is clearly insufficient for the unit to discharge its duties effectively. The discussants in the experts FGD admitted that this procurement unit is yet to be organized effectively. There is no procurement plan. Instead the procurement unit simply collects purchase requests from sector offices and waits until the total volume of procurement requests reaches the point where bidding becomes viable. As the head of the education office explained, the time span required for the volume of procurement requests to reach that point may take up to six months. This means that the office may well have to wait until February for procurement requests made in September to be met. Furthermore, the fact that the staff members are inexperienced means that they are unnecessarily cautious in each and every move in the procurement process to safeguard themselves from any possible risk of illegal procurements. This is one of the reasons for the delays in the procurement process and annoys sector officials and suppliers. Thus the head of the education office argued that procurement could have been undertaken much more efficiently and effectively if it was left to the office itself rather than the procurement unit.

While complaints about the late delivery of required items come from the sector offices, the complaint that comes from the procurement units is that sector offices have a tendency to order instant procurements without following the procurement plan. Certain sector offices might sometimes need to get the item before the timetable mentioned in the procurement plan. When such reasons are acceptable, procurements can be made either through direct procurement or pro forma method. However, in such cases, procurement officers cannot usually give a guarantee to deliver the needed items at the

required time, as they have little control over factors that determine the delivery time of unplanned procurements.

Unplanned Procurement, Why?

As noted in the sections above, although all the case *woredas* have adopted the system of planned procurement through an open bidding process handled by the procurement units, a considerable amount of money is still spent procuring items through direct and pro forma method that are more susceptible to corruption and wasteful and ineffective expenditure.

In the interviews and focus groups with officials, several reasons were mentioned for this. The first reason, as the head of education office and health office at Bahirdar Zuria *Woreda* argued, is that a procurement arrangement of only twice or three times a year is unrealistic even for the relatively predictable procurements. The time span between successive procurements is about six months and sector offices are supposed to determine in advance the number and type of items to be used in six months. This, as the respondents argued, is difficult when uncertainties are likely to happen in their sectors. They labelled this arrangement as inflexible and felt that it did not accommodate the existing reality in their sectors. This concern was also shared, though to a slightly less extent, by interviewees in Mekiet *Woreda* where procurement is made at the beginning or end of each quarter.

The second reason has to do with the factors already discussed in the previous sections as causes for not complying with annual plans, budget plans, action plans and cash flow plans. It is to be noted that those plans have not been followed due to either impositions from the top, constraints within the internal *woreda* administrations, or problems associated with the structure and source of funds. Discussants in all the case *woredas* explained that unplanned training and evaluation meetings and workshops (most of which imposed from zone administration and were of a political nature) have been one of the main causes for unplanned procurements. Thus, stationery materials, drinks, food stuff and various entertainment arrangements needed for such functions are often procured at short notice through direct procurement methods. Interviewees indicated that other factors that contributed to the prevalence of unplanned procurement included the irregularity and unsustainable nature of donor funds, as well as changes in the

budget structure because of budget shortages to execute the budget as planned. Such unplanned procurements are not automatic, however, need to be justified and obtain approval from the chief administrator. Given the need to accelerate development activities and meet performance targets, as well as awareness about the problems with donors' funds and budget shortage, such approval is nearly always obtained.

Sometimes unplanned procurement requests can be accommodated without suffering from the risks associated with direct procurement and pro forma methods. This is through a procedure which allows 20% of the procurement to be obtained from previous suppliers at the same price (adjusted for inflation), without going through a bidding process. However, the remotest *woredas* such as Shebel Berenta and Mekiet have not been able to take full advantage of this arrangement. This is mainly due to fact that the locational distance between the seat of the *woreda* administrations and the suppliers means that it is not easy for the *woredas* to make instant procurements from their previous suppliers. For instance, in Mekiet *Woreda*, the procurement unit has not been able to make direct purchases from the previous bid winners as they are from either Bahirdar or Dessie that are more than 230 km from Flakit. The situation is worse in Shebel Berenta where almost all of their suppliers are either from Debremarkos or Bahirdar.

As stressed by discussants in the experts FGD at Shebel Berenta, there is a need for some level of relaxation within the current bid procurement methods to allow direct procurement and pro forma methods, given the remoteness of the *woreda* and the lack of an active and capable private sector to bid for tenders. Furthermore, and more generally, as reflected in most of the interviews, there is a desire amongst sector offices to take the responsibility of for procurement activities themselves, instead of the current single unit procurement method. There is also a desire by *woreda* governments to decide by themselves according to their specific *woreda* realities without being limited by the procurement directives imposed by the regional government. However, the deputy head of BoFED insists that, without such directives, procurement may well have been exposed to even more corruption and wasteful expenditure than is currently the case. There is a lack of accountability mechanisms at the moment to safeguard against such practices. Thus, he suggests that further modifications be introduced on the current

procurement directive, to address some of the problems and concerns outlined above, rather than simply disregarding it and giving the power to the *woreda* governments.

7.2.3.2 Construction

In construction, the procurement units in the *woredas* have a more limited role than they do in the procurement of goods and services. Their role is limited to providing various forms of technical support in the construction bid process. These include making bid announcements after they receive requests and bid documents from the respective sector offices; coordinating and assisting in the evaluation of bid proposals; keeping records of documents; announcing the winner of the bid; and completing the contracts with the bid winners. In the case of construction projects that are carried out largely through the voluntary contribution of the people, procurement units are also responsible for procuring the construction materials needed for the project through pro forma or direct procurement methods. However, most of the discussion below will focus on construction projects contracted out to private construction companies.

In the construction bid process, there is also involvement of representatives from the respective sector offices, internal auditors, and engineering experts. The responsibility of following up the construction process belongs to the consultant company in the case of larger construction projects, and to *woreda* site inspectors in the case of small scale projects. The respective sector offices are also responsible for following up and taking necessary measures whenever problems occur, as well as for making processing payment orders for contractors in line with the contract and the progress of the construction project. Actual payments are made by the *woreda* finance and disbursement units, who are also responsible for keeping accounting records and for producing reports on the disbursements.

The main concerns relating to construction projects in the case *woredas* relate to poor quality, the relatively high costs of construction and delays in the completion of construction projects. In most cases, these problems start right from the beginning of the bid process. Remote *woredas* such as Shebel Berenta and Mekiet rarely receive an adequate number of capable bidders in their first bid announcements. They often only get a minimum number of bidders after 3 or 4 announcements. Such bidders are often

not competent enough to complete the construction as required. In general the pool of bidders available in the *woredas* is inadequate to reap the claimed benefits of open bidding: namely lower price and better quality. As noted earlier, the evidence seems to suggest that collusion is quite common amongst competing bidders, resulting in price rigging and the possibility of poor quality construction. The fact that *woredas* are working against the clock to get the construction completed according to their plans means they often tend to accept any price and quality offered as long as there is a chance of minimum standards being met.

The problem is not only associated to the remoteness of the *woredas*. Most of the construction carried out under *woreda* administrations are small scale projects in which most of capable contractors (both in terms of technology and project management capacity) are not interested.

Problems associated with quality, price and delays are not limited to the remote *woredas* such as Shebel Berenta and Mekiet (though they are particularly intense in such areas), but also occur in Bahirdar Zuria and Debremarkos. As noted earlier in this study, delays in the completion of construction projects is a serious problem in all the *woreda* administrations, and are one of the main causes of the low level of capital budget execution. The head of the education office at Mekiet *Woreda*, for example, explained that it has become a common practice of construction contractors to stop working in the middle of the construction work when they realized that they would not get a major return from the project. The head believes that this is due to their lack of project management skills and experience. Most of the money often vanishes in the middle of the project and the construction is therefore stalled. He mentioned the interruption of the construction of a health centre in Mekiet *Woreda* after reaching 75% of its completion.

Poor quality and late completion of projects are not only caused by problems in the bid process but also by the lack of capacity in *woreda* administrations to enforce contracts in which such problems occur. To enforce contracts, *woredas* so have some supervision arrangements. However, as agreed by all the respondents, these have not been sufficiently effective to ensure that construction projects are completed according to the designated quality and time. Several reasons are responsible for this. As pointed out by

the deputy head of BoFED, the first has to do with the capacity of *woreda* administrations to supervise construction works. Shebel Berenta and Mekiet *Woreda*, for example, do not have their own site inspectors to supervise constructions works. They have to get site inspectors from their respective Zone Urban Works department. As mentioned in the previous chapter, this arrangement has been inconvenient and is exposed to corruption, and therefore does not help effectively to follow up the quality and progress of construction.

Withholding a proportion of the total cost of the construction for one year after the completion of construction is one of the arrangements that *woreda* governments have been using to make sure quality of the construction meets standards. They withhold, for instance 2.5% for water supply taps in Bahirdar Zuria *Woreda*; and 20% for building construction works in Mekiet *Woreda*. The retention fund is to be released to the contractor after one year, after checking if the constructed facility is good enough to provide the intended service. If there is any defect, the contractor is supposed to make necessary adjustments prior to getting the money. However, this arrangement has not been as successful as intended as a safeguard. In most cases it has been realized that the money held over by the *woreda* is not enough to cover the costs of correcting the problems in the construction, especially as the costs involved will have increased due to inflation. In most cases it is therefore insufficient to encourage or force contractors to return and complete the work to the original standard.

This points to the importance of having strong supervision and follow up in the construction process, to ensure that payments made to the contractor correspond to the progress of construction. Had there been strong supervision and follow up, the contractor would have been told earlier to make correction before further payments would be made.

Shebel Berenta and Mekiet *Woredas* do not have their own construction experts to supervise and follow up the progress and quality of construction. Thus, they borrow experts from their respective Zone urban works departments. As discussed in detail in the previous chapter, this temporary arrangement has not been effective due to the resulting accountability gap, which exposes construction projects to the possibility of corruption.

The problem is not limited to Shebel Berenta and Mekiet *woredas* but extends also to Bahirdar Zuria, despite the fact that some of its sector offices, notably the health and education offices, have their own site inspectors. However, the heads of both of these offices admitted in the interviews that there are still problems related to both quality and delay, as one expert cannot handle the duty of supervising all the construction works in the entire *woreda*. Unless the inspector spend all his time at the construction sites (or unless they have a resident inspector), it is impossible to make sure that contractors are progressing adequately and complying with quality standards. Close supervision on a daily basis is not possible for the *woreda*, as prevailing budget shortages do not allow it to fully cover the per diem and transportation costs of the inspector. Acknowledging this challenge, the education office of Bahirdar *Woreda* has encouraged the community surrounding the construction project to actively take part in the supervision and follow up process. School directors, *kebele* administration officials, *kebele* training board, parents and teachers association are supposed to follow up and inform the office whenever there are deviations. However, this practice has rarely been effective because the capacity, commitment and attention given by such actors have not been adequate.

Bahirdar Zuria and Mekiet *woredas* have used other supplementary arrangements to follow up the progress of construction works. A committee chaired by the head of the planning and budget unit in Bahirdar Zuria WOFED has tried to play a supervisory role but its actual engagement in the process has been erratic at best. Similarly, the planning and budgeting unit in Mekiet makes post-construction field visits annually to gather information about the status and functionality of its facilities and construction projects, by interviewing the surrounding people. They then make suggestions to the respective sector offices either for the maintenance of facilities and corrective action in the case of non-performing construction projects. However, the evidence suggests that the sector offices have in most cases done little to respond to the recommendations contained in the reports of these field visits.

7.2.4 Internal Control

Internal control systems are the formal arrangements in the financial management system that include rules, regulations and procedures, as well as defined roles and duties for various organs, in order to make sure that financial activities in the administration

are safeguarded from wastage, embezzlement, and other forms of illegal use of government finance.

7.2.4.1 Financial Rules, Regulations and Procedures

The Amhara regional government financial proclamations (Proclamation No. 18/1997, 6/1998 and 37/1999) provide a detailed description of financial rules and regulation to be respected by all government agencies in the region including *woreda* administrations. These proclamations did not recognize *woreda* governments as self-ruling government units as they were set up during the pre-district level decentralization period. Therefore, following the implementation of district level decentralization, amendments have been made, as part of the overall financial management reforms, to make the proclamations relevant and useful for the current self-administering *woredas*. However, the fundamental essence of the original financial rules, regulations and procedures remains unchanged. According to the deputy head of BoFED, only relatively minor changes needed to be made in order to adapt the proclamations to the needs of self-administering *woredas*.

7.2.4.2 Clarity of Roles and Duties

Effective financial control can happen only when there is clarity of roles and duties between the various organs and individuals that are involved in the *woredas*' financial management process. In the current financial system of *woreda* administrations, the power and duty of administering their budget is entrusted to sector offices. But their spending practices are always subject to financial rules, regulations, standards and routines. WOFED assumes the responsibility for following up and monitoring to make sure that the spending practices of sector offices are consistent with financial rules and ordinances. However, as shown in the external audit reports, WOFED has not been able to effectively enforce compliance with financial ordinances. One of the reasons for such failures of compliance, as all of the discussants in the expert FGDs agreed, is the lack of clarity in the respective roles of officers in WOFED and sector heads. Also mentioned was the fact that the finance and budget manuals prepared by the regional government are incomplete in terms of specifying dos and don'ts, as well as providing clarification on how to enforce rules and regulations, and the consequences of violating them.

Budget transfer is, for instance, one area mentioned by the interviewees and focus group discussants which demonstrates this lack of clarity. On the one hand, the power to decide on the appropriated budget is given to sector offices. On the other hand, WOFED is required to follow up and make sure disciplined financial spending by sector offices takes place. But participants asked what if the heads of sector offices insist they want to transfer their budget as many times as they wish? There is no clarity as to what extent can the WOFED office reject such transfer requests. The same applies to various requirements, such as the requirement to submit action plans and cash flow plans; the spending pattern to follow such action plans and cash flow plans; modifications in the cash flow plan prior to disbursement request if the spending pattern does not follow the cash flow plan; the requirement that budget spending should not exceed the planned budget; and the requirement that there should be no transfers from personnel expenditure to the operational budget.

Discussants in the Debreworkos expert FGD mentioned that even though WOFED announced that sector offices will not get their disbursement requests accepted unless they submit their action plans and cash flow plans, in practice it has been allowing them to use their budget without them doing so. WOFED could not stop them from spending their budget without submitting the said documents. The level of determination that WOFED is supposed to have in enforcing such requirements has been compromised by the lack of clarity in the responsibility and accountability relationship between experts and officials. The same goes for all other financial rules and regulations. Had the WOFED experts tried to be strict and halt such spending practices, they would have apparently been blamed for obstructing the development activities of the city administration. The pressure is not only from *woreda* officials but sometimes it is also from regional government officials. For instance, the letter from Bahirdar Zuria *Woreda* WOFED, in response to ARAG's audit comment about the *woreda's* excessive budget transfer, reveals that such excessive transfers had been caused mainly by pressure from the regional government officials to relax the budget transfer requirements to sector offices.

Due to such blurred relationship, officers and experts in WOFED have always been hesitant to refuse disbursement requests, especially from politicians, even if they were

aware of the illicit nature of the requests. This is because, apart from lack of clarity, there is a widespread perception among finance and budget officers that working in agreement with those politicians is considered to be more important for their current and future career than sticking closely to the financial ordinances. The finance officers admitted that at times, for genuine reasons, they have accepted disbursement requests even if they know that these are against the established financial rules and regulations. The officers maintain that rejecting such requests might not directly impact them, but certainly may have consequences indirectly for the long term career prospects of the individuals. Officials who declined to process such requests are often considered to be stubborn and obstacles to the development endeavour of the administration. This in turn risks their individual future fate in the administration and might damage their reputation among politicians. Such personal characteristics are widely perceived among local politicians as incompatible with higher level responsibilities. Thus, the individual's application for promotion would never get their attention whenever there is a chance for job promotion. In general, finance/budget officers have not had the confidence or the means to challenge illicit spending or to strictly enforce financial rules and regulations. Discussants in the community FGDs also shared concern about this problem. One of the participants stated that "accountants, auditors, and purchasers are their own, and they could make them do whatever they want to do. They do not have the courage to refuse illicit disbursements from officials, rather they might cooperate with them to cover up or help them in using the loopholes in the financial rules, regulations and procedures".

The worst thing that officers fear is the lack of clarity as to whether officers or politicians individually or jointly would be accountable for such illicit spending if such illicit spending is identified by external auditors. But they suspect that such illegal spending might make them accountable while leaving political decision-makers free (accountability without power). Discussants believe that the current reluctance to follow financial ordinances could have been solved if there were clear assignment of accountability for politicians. If political officials were made accountable, they would have required the strict following of rules and regulations as well as strong auditing and control arrangements.

On the other hand, interviewed sector officials, agreeing with the idea of lack of clarity, felt that such dubious relationship have contributed to their power on budget spending to be essentially get hijacked by finance and budget experts. This is true especially for new heads of sectors, as explained by the head of health office at Mekiet *Woreda*. The head recalled that he had been forced to consult on each and every financial activity, and had to accept whatever the WOFED experts told him to do. This was because he was new to the position and had no prior experience in such responsibilities, and had not been provided with guidance manuals or orientation as to how to handle such responsibilities. The head has only recently become aware of some of the basic financial ordinances from financial performance evaluation discussions in the *Woreda* Administrative Council as well as from repetitive correspondence with finance and budget officers.

The lack of training of *woreda* officials on budgeting and financial management has exacerbated such problems. The deputy head of BoFED maintains that the region is not providing appropriate training to *woreda* officials. The main focus of the current management development training of *woreda* officials is on developing their political capacity. Finance and budget administration issues did not receive the attention they deserve in the training organized for *woreda* officials. During an informal conversation, the deputy director of the Amhara Management Institute shared the concern that the current management development training offered to *woreda* officials should have included much more training on financial management issues.

Bahirdar Zuria *Woreda* is the only *woreda* where its WOFED has provided orientation on budget preparation to the heads of sector offices at the beginning of each year. The heads of rural water supply and education office acknowledge the modest impact of such orientation yet felt that it did not fully address the clarity problems. However, the head of the education office at Mekiet *Woreda* did stress the supportive relationship that had been developed between finance/budget officers and sector office heads in the *woreda*. Instead of focusing on clarity in authority and accountability relationships, he felt that real need was for the development of cooperative relationships between the different parties.

7.2.4.2 Sustainability of Internal Control Reforms

Another issue that has to be discussed here is the sustainability of the reforms. It is not just the suitability of the reform and its initial implementation that matters most if the reform has to bring tangible result in the financial management system. Sometimes properly designed reforms might be implemented quickly for political cosmetic purposes but might not last long. Therefore, to observe how sustainably the internal control reforms have been implemented, it is important to look at the degree of compliance of *woreda* administrations financial activities to different financial ordinances. In this case, a close look at the compliance audit reports of the Amhara Regional Auditor General (ARAG) would be of great importance. The compliance audit reports by ARAG in the three case study *woredas* (Debremarkos has never been audited) show several irregularities and malfunctions in the financial management system of the case *woredas*. Table 7.1 below shows that out of a total of 129 findings (from medium to too severe), the highest number of findings (50) were recorded in the 2008/09 audit of Mekiet, followed by Bahirdar Zuria with 28 findings, and Shebel Berenta with 26 findings. From the 2005/06 audit, Mekiet had another 25 findings.

Table 7 1: The number of audit findings and their estimated severity by *woreda*

			Woreda audited				Total
			BDZ	MKT01	MKT98	SHB	
Estimated severity of the problem	medium	Count	15	21	10	15	61
		% within <i>Woreda</i> audited	53.6%	42.0%	40.0%	57.7%	47.3%
		% of Total	11.6%	16.3%	7.8%	11.6%	47.3%
	Severe	Count	9	23	12	6	50
		% within <i>Woreda</i> audited	32.1%	46.0%	48.0%	23.1%	38.8%
		% of Total	7.0%	17.8%	9.3%	4.7%	38.8%
	too severe	Count	4	6	3	5	18
		% within <i>Woreda</i> audited	14.3%	12.0%	12.0%	19.2%	14.0%
		% of Total	3.1%	4.7%	2.3%	3.9%	14.0%
Total	Count	28	50	25	26	129	
	% within <i>Woreda</i> audited	100.0%	100.0%	100.0%	100.0%	100.0%	
	% of Total	21.7%	38.8%	19.4%	20.2%	100.0%	

Source: Own calculation from ARAG audit reports of various *woredas*

Even though the audit reports do not clearly show the causes of such non-compliance, an attempt has been made to draw the possible causes based on what the report implied. Thus, as shown in Table 7.2 below, it can be observed that 75% (97) of findings are most probably caused by negligence, of which 37% (36) could also be caused by additional capacity related problems. There is a probability of 0.3 that non-compliance could be caused by capacity problems (20, 10 and 6 findings caused by lack of skill, lack of manpower and institutional problems respectively). Twenty one percent (28 findings) of non-compliances could be caused through the intentional abuse of public resources, or collusion in such abuse, with 82% (23 findings) of these caused by also negligence. There are also a few cases of non-compliances 3% (4 findings) caused by factors that rarely happen and are beyond the control of the *woreda*. The data indicates that overwhelmingly most of the non-compliances of financial ordinances have been caused by negligence followed by capacity problem and intentional violations. Furthermore, non-compliance caused by negligence and intentional violation of financial rules and regulation, as indicated in table 7.1, equally contribute to the ‘too sever’ problems. ‘Too sever’ problems are those for which the collected evidence is strong enough to indicate that they badly constrain the capacity of public agencies to deliver the intended service.

A comparison of the number of findings between *woreda* administrations for the purpose of determining the relative level of reluctance of *woreda* administrations to follow financial rules and regulations is not easy, as the case study *woreda* are significantly different to each other in terms of volume of transactions and the amount of finance involved. However, a comparison of the two audit reports of Mekiet *Woreda* that were carried out in different years shows some ironical results. As opposed to the presumption that *woredas* will improve their financial management practice over time, the data in table 7.1 above shows that the number of audit findings increased from 25 in 2005/2006 to 50 in 2008/2009. In this situation it can be said that the sustainability of the reform processes can be called into question.

Table 7 2: Possible factors responsible for non-compliance

	Frequency	Percent
Negligence	61	47.3
Intentional	5	3.9
Negligence/Lack of training or experience	20	15.5
Negligence and Lack of adequate number of work force	10	7.8
Negligence/intentional	23	17.8
Negligence/Factors beyond the control of <i>woreda</i>	1	.8
Negligence/Organizational capacity problem	6	4.7
Capacity/Factors beyond control of <i>woreda</i>	3	2.3
Total	129	100.0

Source: Own Calculation from ARAG Audit Report of various *woredas*

7.2.4.3 Internal Auditing

One of the formal arrangements in the public sector to ensure accountability and to safeguard public resource from abuse and wastage is internal auditing. The practice of internal auditing is one of the areas that have been incorporated into the reforms introduced by the new financial management systems. Consequently, the practice of internal auditing in all public bodies of Amhara region including *woreda* administration has changed from pre-auditing to post-auditing. Therefore, as affirmed by the discussants in all expert FGDs, the role of internal auditing is to control financial transactions by examining documents presented for disbursement and financial reports through sampling, unlike the previous pre-audit transaction verification practice. Audit investigations now take the form of compliance auditing. Areas investigated include the extent to which (i) transactions are in compliance with financial rules, regulations and procedures; (ii) source documents provided for disbursement are genuine; (iii) records are kept properly; (iv) subsidiary and general ledgers are prepared properly; and (v) financial reports are prepared properly.

Internal auditing is also carried out when a request comes from sector offices, suspecting that some wrong doing is going on in their office or service delivery institutions. Procurement activities in the *woreda* are also audited, as the internal audit unit is one of the members of procurement committee. In addition, internal auditing is

expected to support and make recommendations for improvements in the work system, especially whenever officers encounter problems of implementing financial procedures, rules and regulations.

Despite these important powers and responsibilities, it is a generally known fact that due to capacity and independency problems, as will be discussed below in detail, the role of internal auditors in *woreda* administrations has been relegated literally to inspecting stores and witnessing the proper handover of properties between outgoing and incoming employees.

In general, the coverage of internal auditing practice in the *woreda* administrations is quite limited; focusing only on financial transactions to verify if the internal financial control system is functioning properly. In all case study *woredas*, as participants in expert FGDs stated, internal auditors never attempt to investigate the integration of strategic plans and annual plans; annual plans and budget allocation; annual physical performance and financial performance. This, of course, is not really possible in a situation where *woredas* follow line-item budgeting.

In terms of capacity, according to the deputy head of BoFED, internal auditing has perhaps been the weakest part of the financial reform processes. This is due to the fact that internal auditing was the last process to be reformed among the WOFED units. Therefore, the assignment of employees to internal auditing was made after the reform of other units had already been finalized. Employees with better capacity even those with auditing expertise had already been assigned to budget, procurement and accounting units and auditing was left with the lowest quality of employees. As a result it has the weakest manpower in all *woredas*. It is also short of adequate number of employees. In Mekiet *Woreda* 3 out of 7 positions and in Shebel Berenta 4 out of 7 positions in the audit section are still vacant. In Bahirdar Zurial *Woreda* 4 out of 7 positions had until very recently been vacant (though they have now been filled). In the city administration of Debremarkos, filling the internal audit positions has not been a problem.

The capacity problems are particularly important, given that auditors, more than most other *woreda* financial and sector officials, need to have an all-round knowledge about

the operations of all other units. As mentioned earlier, most of the employees assigned as auditors have no or little auditing experience. Besides, they are often employees who have been filtered out in the process of selecting employees for other units of WOFED. Some of them have been promoted from lower level jobs.

The expectation of the deputy head of BoFED that such capacity problems of internal auditing will improve through time could have been possible if effective training programmes had been developed and provided for internal audit officers. However, in practice, fewer training opportunities have been created for such officers than for officers in other departments and agencies. According to the evidence gathered in this study, none of the auditors in Shebel Berenta and Debremarkos have received any training. Only one of the auditors in Mekiet *Woreda* has been sent for training, only on one occasion, since the financial reforms took place. Bahirdar Zuria *Woreda* is better off than other *woredas* as two of the auditors have been trained on two occasions. Thus, as participants in the expert FGDs stated, most auditors have been carrying out their auditing duties based on either the experience they shared with each other or just by reading whatever manuals have been provided.

Capacity is not the only factor that determines the effectiveness of auditing in ensuring accountability. The independence of the auditors is also very critical. However, the independence of the internal audit units is questionable, largely because they are accountable in the organizational structure of the *woreda* governments to the head of WOFED. It is difficult to expect auditors, in this situation, to detect and report any financial irregularity committed by the head or his colleagues (other sector officials). One of the auditors in Debremarkos argued that their role has been limited to pointing out irregularities to the individual bodies (largely the sector offices), rather than in following-up on compliance or on reporting irregularities to the *Woreda* Cabinet or Administrative Council.

Most of the auditors emphasised the importance of working in cooperation and partnership rather than increasing their independence. One of the auditors in Bahirdar Zuria, for example, argued that *woreda* officials have become gradually aware that the role of auditing is not just one of error finding but of support. He also felt that, if the capacity of the auditors improved and their findings became stronger, realistic and

convincing, officials would be likely to accept the findings and suggestion of auditors. However, he was not certain how likely officials would be to willingly accept the audit recommendations if the audit findings were very critical of their actions.

Nevertheless, other participants in the expert FGDs did not want to rule out the importance of the independence of the auditors. Participants in Debremarkos and Shebel Berenta, for example, stated that one of the most important reasons why auditors were often reluctant to expose financial irregularities was that their independence was not effectively guaranteed or protected. They mentioned a number of irregularities that continue to take place regularly in their *woredas*. These included disbursements being made without the submission of cash flow plans and action plans; budget transfers being made without adjusting cash flow plans; the lack of bank reconciliation; and procurements being made without following procurement plans. Although there was fairly widespread knowledge about such irregularities in the *woreda*, the internal audit unit had done little to expose or correct them.

7.3 ACCOUNTING AND REPORTING

7.3.1 Accounting and Recording

Two notable reforms were introduced in 2003/04 in the accounting and recording systems of *woreda* administrations. These were the double entry book keeping system and the modified cash accounting system. The double entry accounting system has improved the preparation of reports and closing of accounts, in particular through less paperwork, fewer processing steps, greater accuracy and ease of reconciling accounts. The closing of accounts has now become more up-to-date. WOFED prepares a consolidated government financial statement annually. As the deputy head of BoFED described, *woredas* used to take a long time to prepare comprehensive annual financial statement after the end of financial year, but this has now been reduced to few months. In addition, the reform has helped *woreda* administrations to prepare complete financial statements that contain full information about revenue, expenditure, financial assets and liabilities, though transactions in donor-funded projects or extra-budgetary funds are not included in the statement. All the respondents in the expert FGDs agreed that the

adoption of the new double entry accounting system has contributed a lot towards such achievements, and can be regarded as one of the success stories of the financial management reforms.

However, it is also important to note that there were a number of limitations in the new accounting system. The first is its failure to track all financial transactions. The modified cash accounting system recognizes only cash (on hand and in bank) and advances as the assets of *woreda* administrations. It does not provide any means of recording fixed assets such as investments, or long term assets such as vehicles, machinery and buildings. In fact, *woreda* administrations do not currently have the mandate or capacity to make financial investments. However, buildings, machinery, equipment, and vehicles that *woreda* administrations have acquired are not recognized in the accounting system. According to the GAAP (Generally Accepted Accounting Principles) they have to be recorded as assets and can change to periodic expenditures according to their rate of depreciation. However, the system currently recognizes these assets as capital expenditure when they are acquired, not as assets. This kind of treatment of assets distorts the financial information by bringing into one year the expenditure that should have been distributed over the life of the asset. It also removes property administration activities from the accounting system. Thus, it is very difficult to follow up the status of these properties and to detect and correct improper conduct. Several cases of the improper handling of property assets are mentioned in the audit reports of all audited case study *woreda*, as shown in Appendix 6. Due to this weakness in the accounting systems, *woreda* administrations find it difficult to make proper budget allocations for repairs and maintenance. It is also likely that lost properties will not be noticed. Besides, the existing accounting system does not recognize contributions in kind that may come either from people or the private and NGO sectors. Since these are not reciprocal transfers and do not involve cash, they cannot be recognized in the books of accounts. Despite the fact that the labour and material contributions from people and sometimes from NGOs constitute a major proportion of *woreda* government development investments, it is not reflected in the statement of accounts. Currently, such contributions are presented by various sector offices in a varied and disorganized

manner. In this context it seems clear that the financial statements presented to *woreda* councils is not complete enough to reflect all the financial activities in the *woreda*.

Woreda administrations in the Amhara region have only two types of payments that are recorded as receivables (suspense accounts, not expenditures) namely advances to staff and purchase advances. Advances to staff are often short term advances in the form of per diem and travel allowance advances when an employee travels for fieldwork, or in the form of salary advances. WOFED might also receive and keep money on behalf of organizations or individuals for temporary custody for different reasons such as when ordered by courts or other appropriate public bodies. Furthermore, *woreda* administrations can enter into contracts with private sector organizations to purchase items, for example for constructions. But, as it has been argued in the last chapter, under the current fiscal decentralization framework, they do not have the mandate to enter into long term commitments such as debts. Given these contexts, one can suggest that the current modified cash accounting system is advisable. The modified cash accounting system enables *woredas* to treat such short term receivables and commitments properly.

7.3.2 Performance Reporting

Regular performance reporting is one of the traditional methods of enhancing transparency and accountability in the public sector. The capacity of reports to provide understandable, reliable and comparable information determines their contribution in an effort to enhance transparency and accountability. Performance reporting in all the case *woredas* follows nearly the same procedure. The WOFED in each of the *woredas* prepares monthly financial performance reports primarily to be sent to *zonal* offices. Each of the sector offices also receives its monthly budget execution and outstanding balances. Sector offices prepare their sectoral performance reports and send them to their counterparts at the *zonal* administration on a monthly basis, as well as quarterly to WOFED. After quarterly reports from the sector offices are compiled at WOFED, they are presented to the *woreda* administrative council for discussion and evaluation. The same type of reporting and evaluation is also made semi-annually and annually, but in this case the reports are presented and evaluated also by the *Woreda* Council. Despite the mandate and duty entrusted to the planning and budget unit in WOFED, such units

(with the possible exception of Mekiet) rarely make field visits to check if the reports of the sector offices are in agreement with what has been done on the ground.

Discussants in the experts FGDs mentioned two challenges that have most probably served to undermine the contribution of the current reporting practices towards effective performance evaluation. These are the failure to prepare performance reports comparing actual and planned performance, and the failure to prepare reports that integrate physical and financial performance. The discussants indicated that several sector offices have failed to prepare their performance reports which compare actual performance with that of planned. This is one of the main areas of conflict between the planning and budget unit in WOFED and the sector offices. Thus, the planning and budget unit has sometimes gone to the extent of adjusting the performance reports of some of the sector offices in the proper way, as it has been hard for such units to convince and enforce sector offices do so.

Although sector offices are expected to prepare performance report that integrate their physical performance with the amount of budget they have utilized, none of the sector offices, according to the evidence collected by this study, have so far prepared such integrated performance reports. The budget execution report is the only type of report that WOFED can produce to show the manner of spending. It is the only report that the administrative council of *woredas* looks at in its quarterly evaluation. Although this can be useful in indicating the absorptive capacity of a particular sector office or *woreda*, budget execution remains a crude measure of the manner of spending of public finance. It only shows the extent of budget spending by computing the extent of deviation between planned and actual budgets. It does not show how economic and efficient the spending is. One of the reasons for the failure to prepare integrated reports may be the fact that in the current practice, financial performance reports for all sector offices are prepared centrally by WOFED, whereas physical performance reports are prepared by the respective sector offices. This is due to the fact that, as already mentioned in earlier sections, most sector offices do not have appropriate records of their budget utilization.

Interviewed sector heads, while admitting their failure to keep adequate records of their budget utilization, also mentioned that integrated performance reporting is impractical for two reasons. The first has to do with the current budgeting system. Currently the

woredas are following line-item budgeting system that allocates budget for various items to be used by sector offices. Budgets are not allocated to the outputs expected from the offices. Thus, the allocation of most of the budget is for a pool of activities rather than for a single activity performance or program target. In this situation, it is difficult to trace the resources utilized for a particular activity or program and therefore to prepare a performance report that integrates financial and physical performance. Currently, some sector offices prepare reports of both financial performance and physical performance. But their reports show only the total amount of budget they have utilized and their performance. They do not show a systematic linkage between specific performance targets and the finance used.

The second reason has to do with the inability or failure to comply with budget plans. Interviewees argued that preparing such integrated reports would not have been possible even if they were using program or performance budgeting, due to the disruption in the budget plan caused by interventions from *zone* administrations. Due to such interference, that has been discussed in detail in the previous chapter, not only have budget structures been changed but the link between budget and performance outputs has been disrupted. In this situation it would be also difficult if not impossible to produce a performance report that integrates financial and physical performance.

Evaluation of performance takes place at various levels. Upon the preparation of the report, sector offices make their own internal evaluation. This evaluation is usually made quarterly in management committee meetings. Evaluations at the *Woreda* Administrative Council, which are considered to be the most important, are made quarterly, semi-annually and annually. Such evaluations centre on an assessment of the physical performance and budget execution of sector offices. The *Woreda* Council also makes an evaluation of the performance of the *woreda* administrations at the end of the year. *Zone* administrations also make field visits to *woreda* administrations and organize evaluation sessions.

7.4 EXTERNAL SCRUTINY

7.4.1 External Auditing

The Amhara Region Auditor General (ARAG) authority is the responsible body in the region to play the external auditor role and inspect the financial activities of regional offices as well as *woreda* administrations in the region. The external auditing practice, like that of internal auditing, is based on compliance auditing that focuses on proving the functionality of the internal control system by inspecting various revenue and disbursement source documents and financial statements. The inspection involves investigating randomly selected financial documents of a single fiscal year. Since *woreda* administrations as well as regional bureaus do not use program/performance budgeting, program/performance auditing is not yet being used by ARAG. Because of the implementation of a single pool finance system that brings all financial activities together in a single office (WOFED), the external auditors do not have to see and review the documents in the various sector offices, except for inspecting the stores that the sector offices use to stock their supplies.

Given the financial irregularities that occur in the case study *woredas*, and the weaknesses and shortcomings of the internal audit systems, it seems clear that the effective inspection and evaluation of *woreda* administrations by external auditors is critically important. The results of the survey as indicated in table 7.3 confirm the critical need of external auditing. More than 74% of the respondents agreed that the allocation and utilization of government finance in the case *woreda* administration have to be verified by an independent third party, be it an external auditor or any other organization. The Annova test (see Appendix 4) revealed that there was consistency in this respect amongst the case *woredas*, with the exception of Shebel Berenta¹⁶. However, the current limited capacity of ARAG does not allow it to cover all or even most of the regional bureaus and the *woreda* administrations in the region. In 2008/9 it was only able to cover 20 % of them, rising to 30% in 2009/10. Currently ARAG prioritizes the auditing of regional bureaus rather than *woreda* administration offices,

¹⁶ The response of respondents in Shebel Berenta is statistically different and below that of Mekiet and Debremarkos. This could well be due to their low awareness about the importance of external verification as the *woreda* administration is very remote and was only audited for the first time very recently.

and has been able to cover 75-80% of regional bureaus in recent years. However, its current coverage of *woreda* administrations may improve as it has planned to increase its total coverage of to at least 50% by 2010/111 (MoFED, 2008:57).

Table 7.3: Are you happy if the finance performance investigated by third party

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	70	22.7	25.5	25.5
	Yes	204	66.0	74.5	100.0
	Total	274	88.7	100.0	
Missing	99.00	35	11.3		
Total		309	100.0		

Source: Field Survey: 2011

There are, of course, important variations between the different *woredas* in the Amhara region in terms of the frequency of audits. Debremarkos city administration, for example, has not been audited by external auditors since decentralization. Shebel Berenta was audited for the first time in 2009/10, and Bahirdar Zuria has only been audited once in the period since decentralization, in 2006/07. Mekiet, however, has been audited twice, the first time in 2006/07 and the second in 2008/09. This clearly reveals that external auditing in the case study *woreda* administrations has not been able to fill the accountability gap created by the weak internal auditing systems currently in operation.

It is also imperative to assess the extent and nature of the inspection carried out by external auditors to explain how external auditing practices in the *woreda* administration can influence the extent of accountability. As mentioned earlier, the inspection is limited to compliance auditing. However, this practice has limitations in terms of revealing information about how effective and efficient the utilization of the budget has been in the *woreda* administrations. In fact, it can be said that ARAG can do little to improve this, for the reason that it is not possible to carry out performance auditing in a situation where the *woredas* are not following program/performance budgeting. However, there are some important aspects of financial management that could have been inspected in the current line-item budget system. These include, for

instance, the level of compliance with budget plans, cash flow plans and procurement plans; and the level of integration between the recurrent budget and capital budget. However, except for the audit report on Bahirdar Zuria, which did attempt to comment on the issue of excessive budget transfer, none of the external audits carried out in the other case *woredas* paid any attention to the above issues and the problems that surround them. Line item budgeting cannot be an excuse for not inspecting such issues and problems. Thus, it can be inferred that external audit reports are not complete enough to uncover the financial management situation of *woreda* administrations. Instead, they still stick to the old control based auditing system, despite some limited reforms in the financial management system. It can therefore be said that the external auditing practices are not compatible with the reforms in the financial management systems being used in *woreda* administrations.

Compliance auditing, if carried out properly, could still help to uncover fraud, wastage, and other irregularities in *woreda* government finance. However, a close look at the audit reports shows that all of the case *woredas* have received similar audit opinions despite differences in the nature and extent of the detailed findings. ‘Qualified except the above concerning issues’ is an audit opinion issued similarly for all case *woredas*. There are obvious concerns about this kind of audit opinion. The first concern is the generic nature of this opinion, which tends to cover up several fundamental irregularities and breaches of financial rules and regulations that should have resulted in legal and administrative action.

The following are just a few examples of the violation of financial rules and regulations that are revealed in the audit reports.

- In Mekiet, the 2006/07 and 2008/09 audits revealed respectively that payments made for procurements that did not pass through appropriate procurement procedures amounted to Birr 21,908.08 and 273,985.20; that payments that were not supported by genuine documents amounted to Birr11,301.62 and 153,101.54; and that per diems paid illegally amounted to Birr 849.95 and 36,832.50.
- In Shebel Berenta, the 2009/10 audit revealed that payments not supported by genuine documentation amounted to Birr 1,501,989.00; that payment made for

procurements that did not pass through the appropriate procedures amounted to Birr 2,900; and per diems paid illegally amounted to Birr 1,416.30

Despite findings of these serious violations in the *woreda* administrations finance system, the auditors could not suggest anything beyond issuing the generic audit opinion “qualified with exception.” While auditors knew that there were substantive violations, the solutions they suggested were not strong enough to address the problem. Common audit opinions or suggestions included “the documents to be fulfilled or if not the individual responsible for it to return the money,” or “such violations not to be repeated in the future.” No legal or administrative measures were recommended for punishing such violations or ensuring that they were not repeated in the future. This supports the assertion made earlier in this section that external auditing has had little or no impact in terms of improving the financial practices in the case *woredas*. As the two audits carried out in Mekiet reveal (as shown above), financial irregularities and violations actually increased between 2006/07 to 2008/09, despite the conventional assumption that auditing should lessen such malfunctions.

7.4.2 Consequences of External Auditing

The main purpose of auditing is not only to disclose irregularities or malfunctions in the financial system of different bodies but also to make sure that audited public bodies take the the necessary measures to correct them. ARAG does have a follow up procedure to check if corrections have been made in line with the auditors’ recommendations. However, apart from the weak suggestions given by auditors, the unsatisfactory level of response to such suggestions from the audited organizations reflects the inadequate impact that external auditing has had in terms of combating the problems in local government financial practices. According to the PEFA report (MoFED, 2008:59), only 68% of audited agencies have been able to respond to ARAG’s request to submit report on the actions they have taken to combat the problems disclosed by the auditors.

In assessing the extent to which action has been taken to address problems revealed by the external auditors, the researcher was able to obtain access to the reports sent by Mekiet *Woreda* and Bahirdar Zuria *Woreda* about the actions they have taken in response to auditors’ findings, as well as the external auditor’s comments on the

adequacy of such responses. Based on the assessment of auditors, about 52% of the measures taken by Mekiet *Woreda* administration were deemed to be unsatisfactory in fixing the problems, while Bahirdar Zuria was able to take satisfactory measures to fix only 58% of the problems. However, a close investigation of the reports shows that even some of those measures labelled as satisfactory were not truly satisfactory. For instance, the Mekiet *Woreda* merely issued a warning to the concerned offices or individuals not to repeat the violations or in some cases to return the money back. There was no effort to take necessary legal or administrative measures against individuals who were responsible for such violations. Thus, it can be concluded that the enforceability of auditors' recommendations is quite inadequate.

A further limitation affecting the impact of external audit reports is the fact that they are frequently not presented to the *Woreda* Council. Only in Mekiet *Woreda* a copy of the audit report is sent to the speaker of the *Woreda* Council who often does little beyond keeping it on file. As speakers in the case study stated during the interviews, in none of the case study *woredas* have the audit reports been presented to the general council sessions by the auditors or the speaker of the council.

7.4.3 Political Arrangement of Financial Accountability

Despite the lack of consistency in the empirical evidences, the assumption that various conventional political arrangements, such as elections and check and balance systems, can influence financial governance in a positive way is widely accepted. Even if several people question the adequacy and appropriateness of such democratic practices in Ethiopia, as discussed in chapter three, the practice of *Woreda* Council elections and the arrangements of the three branches of government at *woreda* administration level are legally recognised as parts of the district level decentralization process to ensure local financial accountability and local governance in general. A close examination of such practices at *woreda* level might help to reveal their significance with respect to the financial governance of *woreda* administrations.

With respect to the possible impact of local council elections, it proved difficult to obtain much in the way of useful evidence from the community FGDs. This was due in the main to the tense political environment in most of the *woredas*, which made most of

the respondents reluctant to express their views freely. As has been discussed earlier in the literature chapter, both *woreda* and *kebele* elections in the Amhara region take place every five years. Two or three representatives from each *kebele*(depending on the size of the *kebele*), are directly elected to the *Woreda* Council following the ‘first past the post voting system.’

However, the interest of local people in taking part in such elections and other political activities is questionable. During the survey, community members were asked about their interest in participating in different types of public meetings. As shown in table 7.4 below, people in the case *woredas* are less willing to participate in meetings called as part of local election campaigns than the other types of meeting listed in table 7.4. The response of the surveyed civil servants who are closely working and have frequent interaction with the community shows that they also believe that people are less willing to attend election campaign meetings than other types of public meetings. One of the main reasons for this situation is the political stranglehold held by the ruling party in the case *woredas*. All the seats on the *Woreda* Council in the four case *woredas* are currently held by the ruling party. As a result of this dominance, opposition parties typically do not even bother to put up candidates for the district elections. Given this, it is not surprising that citizens take little interest in election campaign meetings, as the results are essentially a foregone conclusion. It also suggests that local elections are not really an effective means of holding their local government accountable.

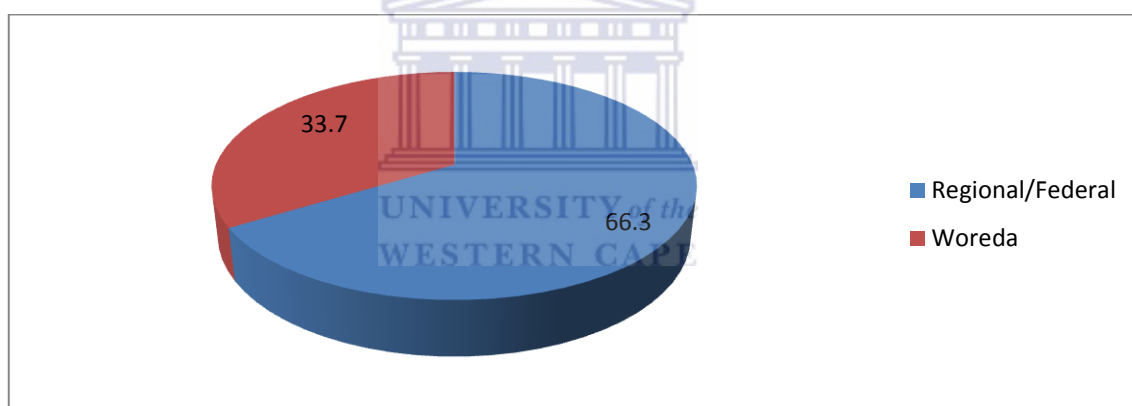
Table 7 4: Willingness of people to participate in public meetings

	Frequency		Total		Missing		Valid total		Valid percent		Rank	
	CS	Co	CS	Co	CS	Co	CS	Co	CS	Co	CS	CO
Local election Campaign	34	180	100	309	-	3	100	306	34	58.8	4 th	4 th
Expansion of schools, clinics, roads and so forth	79	287	100	309	-	3	100	306	79	93.8	2 nd	2 nd
To evaluate <i>woreda</i> government performance	39	235	100	309	1	3	99	306	39.4	76.8	3 rd	3 rd
To improve peace and security	82	288	100	309	-	3	100	306	82	94.1	1 st	1 st

Source: Field Survey: 2011

An additional explanation for the disinterest of the people in local elections, according to one anonymous interviewee, might be the fact that local elections take place one year later than the federal and regional elections. The results of these elections tend to have a major impact on the voting behaviour of people at the local government level. People feel that there is not much point in voting against the party that has already come into power at the federal and especially the regional level. The greater importance attached by voters to regional rather than local elections is demonstrated in Figure 7.3 below. This shows that two thirds of the respondents believe that people in the *woreda* are more interested in taking part in regional/federal elections than in local *Woreda* Council elections.

Figure 7 3: Percentage of citizens' preference to participate in regional and local government elections



Survey: Field Survey: 2011

As can be seen from Table 7.4 above, people are more interested in attending meetings called for evaluating the performance of their *woreda* government than to participate in election campaign meetings. This might be an indication that people are more interested in directly evaluating the performance of their *woreda* administration officials than in the election of their Council representatives. However, it has to be noted that the willingness of people to participate in government evaluation performance meetings is still lower than in other types meetings.

In assessing the effectiveness of other political accountability arrangement, in particular the check and balance systems, in supporting local financial governance, it is important to examine the workings and performance of the *Woreda* Council. Respondents were asked to evaluate the effectiveness of their *Woreda* Council in serving as a steward of the people over the *Woreda* Executive. They were asked four types of questions to evaluate the dimensions of the effectiveness of the use of *Woreda* Councils. These were the extent of contact between people and Council Members; Council Members' awareness about the preference of people and the capacity of Council Members to represent them; and clarity concerning the role of *woreda* Council Members. Their responses were averaged and are shown in Table 7.5 below. The average evaluation was 58.76 in a 0-100 scale, without statistically significant mean differences in response between the case study *woredas* (see *Appendix 5*). This suggests that the people do not have a fully clear picture of the role of their Council members or of their effectiveness in representing the views and interests of their constituents.

Table 7 5: The effectiveness of *woreda* council to channel the voice of people

	N	Minimum	Maximum	Mean	Std. Deviation
How effective are council members in channelling the voice of people	304	0.0	100.0	58.768	23.7781
Valid N (listwise)	304				

Source: Field Survey: 2011

The role of *Woreda* Councils was also discussed in the community representative FGDs. A revealing fact that emerged from these discussions was that most of the respondents were unable to name any of their *kebele* representatives in the *Woreda* Council. A much greater number were able to name their representatives in the federal and regional legislatures. This suggests that local people are unlikely to use their representative in the *Woreda* Council as an effective mediator to channel their voice in *woreda* administration.

As discussed in detail in the literature chapter, the capacity of *Woreda* Council representatives to exercise stewardship and oversight on behalf of the people is

generally very low throughout the country as a whole. The experience of the case study *woredas* is in line with this general trend, although in recent years the capacity of council members has been increased to some extent through awareness raising training. However, most members of Woreda Councils in the case *woredas* are still not fully aware of their overseeing role and power in their *woreda* administrations.

7.5 HUMAN RESOURCES FOR FINANCIAL MANAGEMENT

As already discussed in this study, shortages of staff and the lack of appropriate skills and experience has been partly responsible for failures in the implementation of financial management reforms and non-compliance with financial rules, regulations and ordinances. Hence, it is important to assess the capacity and status of the human resources involved in *woreda* financial management processes, in terms of number, training, experience, stability and motivation. Generally, as the evidence gathered from the case study *woredas* shows, there is a wide variation in the human resources engaged in financial management process in the case study *woredas* in terms of number, training and experience. Bahirdar Zuria and Debremarkos have an almost full complement of staff, with only 3 and 2 vacant posts respectively which are expected to be filled very soon. Mekiet also does not have a serious problem with staff shortages, except in audit section where 4 of the 7 positions are still vacant. But Shebel Berenta has a serious human resource shortage problem as only 35 of the 55 established positions are currently filled.

However, complaints were made by the discussants in Debremarkos and in the planning and budget sections in all the case study *woredas* that the number of established positions in the approved job structure are not reflective of the actual work load. Discussants in Debremarkos believe that their financial units have been allocated the same number of job positions as other smaller *woredas*, despite the fact that the volume of work in city administration of Debremarkosis much greater. Moreover, planning and budget experts in all the case *woredas* felt that the formal posts assigned to the planning and financial functions were not nearly sufficient for the work to be carried out effectively.

In terms of training, discussants in Bahirdar Zuria and Debremarkos felt that the training opportunities provided had been adequate. In Mekiet *Woreda*, however,

perceptions about the adequacy of training opportunity varied from section to section. Discussants from the government finance and disbursement section were relatively satisfied with the training opportunities provided, as were those from the planning and budget section (though with less enthusiasm). However, employees in the audit as well as procurement and property management sections were unhappy with the opportunities that have been provided to enable them to upgrade their skills. Employees in both sections indicated that they are carrying out their day to day duties without any training. In general, Shebel Berenta lags behind all the case *woredas* in terms of training opportunities.

As noted earlier, although all the *woredas* had suffered, in terms of staff experience, from the reshuffling of employees created by the last restructuring in the *woreda* administrations, there is still a quite wide variation in this respect between the case *woredas*. Bahirdar Zuria has more experienced employees and a relatively stable manpower situation, followed by Debremarkos. In Mekiet, there is a variation between the different sections, with the audit section having the most inexperienced employees, followed by the procurement and property management section. However the disbursement and government finance unit has relatively better experienced employees, followed by the budget and planning section. Shebel Berenta *Woreda* severely suffers from inexperienced employees. The problem has been particularly acute in the procurement unit, where none of the employees have more than one year experience, but a problem exists through the various planning, budgeting and financial units. The main reason for the lack of employment stability has been the high rate of staff turnover, which has been particularly pronounced in Shebel Berenta. Due to the remoteness of the *woreda*, most of the employees look for jobs in other *woredas* after getting one or two years of experience in the *woreda*. *Woredas* closer to urban centres, such as Bahirdar and Debremarkos, have been the primary beneficiaries of this situation.

In terms of motivation and commitment, all *woredas* have limitations. All of the discussants in the expert FGDs expressed discontent with the current compensation system. They felt, in particular, that they were unfairly treated in comparison with employees of the regional government carrying out similar financial functions. All of

the discussants, except in Mekiet *Woreda*, felt that the discriminatory compensation system had a direct effect on their performance.

7.6 SUMMARY

This chapter shows that reforms following the “getting the basics right first” approach have been introduced to improve various budget execution and control activities such as the introduction of double entry systems, modified cash accounting systems, new accounting codes, a single treasury system, open bid procurement methods, financial and performance reporting, and sample-based post auditing.

Despite such reforms, the evidence presented in this chapter reveals that the inconsistency and shortcomings observed in the previous chapter in relation to budget design and implementation have also been prevalent in the case of budget execution and control reforms.

Furthermore, the chapter reveals that shortcomings and inconsistencies in the design and implementation of planning and budget reforms have had a direct knock-on effect on the budget execution and control activities. For instance, the use of line item budgeting and incremental budgeting has created problems in the orderly implementation of the budget, reflected in the excessive budget transfers that characterise most *woreda* administrations. Without performance/program budgeting and zero base budgeting, it is rarely possible to have the proper discipline in budget execution. It is also observed that unplanned procurement has had a disruptive effect on budgets, in particular by making cash management difficult. Sector offices have not been able to produce the designated types of report that compare performance against plans, as well as financial performance against physical performance. Line item budgeting also blocks the opportunities for performance auditing. One result is that both performance reports and audit reports presented to the *Woreda* Council have not been as useful as they were supposed to be. This in turn has undermined the overseeing role of *Woreda* Council, and meant that holding officials or sector offices accountable for their performance has not been possible.

Besides the inconsistencies that have resulted from the budgeting reforms, the chapter also shows how inconsistencies in the design and implementation of budget execution and control reforms have affected *woreda* financial governance. To start with, the accounting and reporting system, and modified cash accounting system, recognises only cash and some short term advances and commitment expenditures. However, long term assets are recognised as expenditure, rather than assets, and non-finance donations and contributions are not recognised. Therefore, it is very difficult to say that the reports prepared, on the basis of such an accounting system, are complete and that the *Woreda* Council has the necessary information to play its overseeing role properly.

The failure of *woreda* administrations to comply with financial rules, regulations and ordinances laid down by the regional government has also been an important problem. Most of the case *woredas*, for example, continue to allocate budgets to contingency funds, although they are not formally allowed to do so. Audit reports show many examples of mis-recording. Some *woredas* have failed to carry out bank reconciliation. Sector offices have frequently been unable to clearly indicate the specification of the items they wish to procure. And some sector offices have failed to make procurement requests in line with their procurement plans, and have been unwilling or unable to prepare transparent and relevant financial reports.

In general, therefore, it seems clear that the financial reforms introduced as part of the financial decentralization process in the Amhara Region have not been effectively implemented. Two of the reasons for this relate respectively to human resource capacity problems on the one hand and inadequate administrative accountability arrangements on the other. Generally in all or most of the case *woredas*, sector office officials have neither the experience nor the training to properly plan and budget. Some sector offices have suffered from serious staff shortages, and most have suffered from high rates of staff turnover, as well as from the lack of experience and training.

The lack of adequate administrative accountability arrangements has also been an important contributory factor in explaining the lack of success of the financial reform processes. In the absence of effective oversight and accountability arrangements, offices and officials have tended to be negligent in carrying out their duties, in particular in diligently preparing and follow plans and complying with established procedures,

standards and rules. Although WOFED has the responsibility to enforce compliance with financial ordinances and the implementation of the reforms, in most of the case *woredas* the WOFED units have not succeeded in doing so. Officials are rarely dismissed or severely disciplined when they have been found to transgress financial rules and regulations. The situation has been compounded by the weak capacity and lack of independence of internal audit units in the *woredas*.

Nonetheless, the adoptions of a double entry accounting system and a single treasury system have been more successful. The double entry system has helped *woredas* to improve the accuracy of their recording of information, as well as to facilitate an improvement in reconciliation and timely account closing (despite some continuing problems resulting from skill deficiencies or negligence). Likewise, the single treasury system has helped *woreda* administrations to utilize their cash more efficiently.

The chapter shows that practice of both internal and external auditing has not so far promoted adequate levels of transparency and accountability. One reason for this has been the limited scope of both internal and external auditing, confined to transactions, thereby excluding the planning and management aspects of financial management. Another reason, specific to external auditing, has been the limited capacity to cover all *woredas* in the region. Currently, the external audit unit of the regional government can audit only a small number of *woredas* each year. Moreover, the external audit reports have in general not been clearly indicative of the intensity of wrongdoing, nor have the audit opinions and recommendations been strong enough and effectively enforceable to effectively address the identified wrongdoings.

The assessment of political arrangements such as local election and the operation of the *Woreda* Councils shows that both elections and the checks and balance systems have been not proved to be effective means of holding *woreda* administrations accountable. Given the dominance of the ruling party in the Amhara region, neither local people nor opposition political parties have been interested to take part in local elections. *Woreda* Council members do not seem to have been either interested or capable in encouraging popular interest and participation in debates surrounding the preparation of proposed plans and budgets. Moreover, the documents (plans, budgets and reports) presented by

officials to the *Woreda* Councils have not been sufficiently informative to enable the council members to exercise effective oversight and control.

The chapter also pointed out a number of variables and external contextual factors that have impacted the effective implementation of financial reforms. Rural *woredas*, for example, have struggled to take advantage of the potential competitive price benefits of the open bidding procurement system, because of the small number of local suppliers and contractors available. These have often colluded in price-rigging. The smaller and rural-based *woredas* have also faced internal revenue generating difficulties, because of the dispersed nature of their populations, the high proportion of informal businesses and the low tax base of the population.

Hence this chapter contends that the contribution of the reforms in *woreda* financial management and financial governance has depended on a complex interplay of various factors, such as the extent of synchronisation in the reform processes, the adequacy of administrative accountability and human resource capacity, and the extent of the separation of party and state in the *woreda* administrations. This is notwithstanding the impact of intergovernmental relations and mechanisms for the direct involvement of citizens that are discussed in the preceding and following chapters respectively.

The fact that financial management systems are systems that comprises a number of interrelated processes means that a deficiency in one process can easily cause the whole system to fail. A major conclusion emerging from this study is that the reforms in the various processes of financial management have not been effectively synchronised with each other. The findings also show that, irrespective of how well the reforms have been designed and synchronised, they are unlikely to be implemented effectively in ways that promote effective financial governance unless improvements in administrative accountability and manpower capacity are incorporated and addressed in the design and implementation of the reform processes.

CHAPTER EIGHT: DETERMINANTS OF LOCAL FINANCIAL GOVERNANCE BEYOND THE STATE REALM

8.1 INTRODUCTION

An attempt has been made in the earlier chapters to reveal how various formal arrangements in the government system, such as intergovernmental relation arrangements and public financial management arrangements, have helped to shape and determine the financial governance of *woreda* administrations in the Amhara region. Consideration was devoted in particular to important pitfalls in intergovernmental relations and public financial arrangements that have adversely affected financial governance of *woreda* administrations. At the same time it was observed that there are areas in the financial governance of *woreda* administrations that have remained problematic and could not be addressed through such formal arrangements in the government system no matter how well they are designed. This situation calls for an explanations as to why the formal government arrangements and reforms have failed to adequately address the financial governance problems in *woreda* administrations, and how such failures might be resolved in the future.

To this end, this chapter addresses two of the factors that are out of the domain of the formal government system that might profoundly determine local financial governance such as social accountability arrangements, and intra-party system and structure. Therefore, how does the extent of use of social accountability arrangements to facilitate direct involvement of the citizenry determined *woreda* financial governance and how the nature of intra-party system and structure of the ruling party influences *woreda* financial governance are the two issues to be addressed in this chapter. Consequently, this chapter has two broad components- the first is for discussing social accountability arrangements and the second is for intra-party system and structure.

The first component of the chapter consists of three parts. The first is to show the gaps in the financial management systems that the formal *woreda* administration system couldn't address but could be resolved through social accountability arrangements. The second part is to assess the experiences of social accountability approaches and identify their impacts on financial governance. The third part is to present the prospects and

challenges of the use of social accountability arrangements to promote financial governance in *woreda* administration by analysing the situation of the existing formal and informal civil society organizations.

The second component presents issues such as the nature of relations within the regional ruling party (ANDM) between the party leadership at zone level and *woreda* level influence the autonomy of *woreda* administrations to determine *woreda* financial governance; how the ruling party system and structure at *woreda* level influences the working of the formal *woreda* financial system; and how the ruling party system and interactions between party members and the people determine the effectiveness of social accountability arrangements to facilitate financial governance of *woreda* administration in the Amhara region.

8.2 SOCIAL ACCOUNTABILITY ARRANGEMENTS

The practice of social accountability in the financial management process of *woreda* administrations in the Amhara region is almost non-existent. Only the formal government system has been in use for *woreda* administrations to allocate and utilize their finance. Citizens have been totally ignored in the process. The reforms implemented to improve financial governance of decentralized *woredas* have targeted only changing the intergovernmental relations and the public financial management systems (formal arrangements). The reforms so far have not incorporated initiatives to improve the direct involvement of people in financial matters of *woreda* administrations. Efforts to create opportunities for citizens to participate have been only in unorganized and non-empowering manner. For instance, the government has set up a program named Financial Transparency and Accountability (FTA) program to promote transparency and accountability in financial affairs through the involvement of citizens. Nevertheless, the practice has not gone beyond displaying crude information of *woreda* budget allocation and execution to the people. There is also one social accountability initiative launched in a few *woredas* with the support of the World Bank but it is also still at a pilot phase. CDF projects are also following a social accountability approach to improve access to tap water in rural villages but its impact on social accountability is yet to be examined. Therefore, this component of the chapter is to document evidences about the need for social accountability arrangements and the current status of direct

participation of people in financial affairs of *woreda* administrations; and why *woreda* administrations failed to present their people with the opportunity to engage in the financial decisions as well as to present the argument, from the experience of such limited social accountability initiatives, if the gaps in the formal financial management system can be filled with social accountability approaches to serve local financial governance.

8.2.1 The Demand for Social Accountability arrangements in *Woreda* Administrations' Financial Management

In the last chapter we have witnessed the challenges that the case study *woreda* administrations have encountered in the formal financial management system. Some of the financial governance malaises have been connected with limitations in the efficacy and appropriateness of the design of formal financial management systems while others are connected with flaws in the design and implementation of intergovernmental relations between the region/zone and *woredas*. Nevertheless, several cases have been mentioned that indicate such formal arrangements in the government system couldn't address some of the problems, no matter how adequate and appropriate its design has been. Some of the cases presented were indicative of the need for alternative arrangements that allow direct involvement of citizen in financial affairs of *woreda* administrations. These cases as presented below prove not only the need for direct involvement of people but also for the social accountability arrangements that facilitate empowered and genuine participation of citizens.

8.2.1.1 Why Alternative Mechanism is Needed

Generally, in the current financial management system of *woreda* administrations in the Amhara region, there is no either formally designed arrangement or *woredas* individually initiated practice of involving people in the financial affairs of their administration. There is no arrangement to provide financial information directly to the citizens or to let people directly voice their discontent about any possible misallocation and misuse of government finance. But the question now should be has there been any thing wrong in the public resource allocation and utilization because of the absence of the direct involvement of the people? Of course, the deputy head of BoFED admitted, while emphasizing the importance of the reforms currently adopted by the government

in *woreda* financial management system, that they are not adequate to combat all possible corruptions, embezzlements, mismanagement of public resource. The deputy head stated that there are still chances for corrupted officials and civil servants to abuse public finance without violation of any of the established financial rules, regulations, procedures and processes. There are several loopholes that may allow public officials to manoeuvre public resource for their private benefits. He believes, in fact, it is unrealistic to look for a formal system that can work to address problems in all possible scenarios. Thus, he expects several wrongdoings to happen without transparency and direct involvement of citizens.

Some of the problems in the financial governance of *woreda* administrations are triggered by lack of active and empowering engagement of people in public financial affairs. Starting with planning, the main reason for failure of the practice of bottom up planning in the *woreda* administration, as discussed in detail in the earlier chapter, is lack of arrangement to ensure direct involvement of people in planning process and in holding experts at service delivery institutions accountable. The problem, in fact, was not limited to lack of involvement of people but also has connection with *woreda* impositions. However, had there been active involvement of people in plan preparation and evaluation of performance of service delivery institutions, there would have been pressure from below to create a balance between targets imposed from the *woreda* and preference of the local people. Therefore, it can be inferred from this case that having informal arrangements that can allow direct engagement of people might support even the effective functioning of formal arrangements.

Another area of financial decision making that clearly show a gap in the formal arrangements that can possibly be filled with direct involvement of people is location decision of various infrastructures and service delivery units. The issue of location decision of various infrastructures is often highly contentious and if taken without involvement of people often leads to conflict among groups of people and misuse of resources. An example of how decisions made without involvement of people can cause devastating problems is an incident that has happened in Yeduha town of Shebel Berenta *Woreda*. Discussants of community FGD in Shebel Berenta *Woreda* stated that the wrong location decision for the site of stadium and publicly owned residence houses

made by *woreda* officials concealing it from the public have caused damages in public resource. Two open sites were identified when the *woreda* administration made known its decision to construct one stadium and resident houses to address some of the house problem of the people. Choices had to be made to determine which of them had to be constructed on one site and which one on another place. For some reason some influential individuals wanted the stadium to be constructed on the site closer to their resident area and the publicly owned residents houses on another site. However, this was not the interest of the majority of the people of the town and the people wanted it to be the other way around. The main reason is the people knew that if the houses constructed on the site chosen by those influential individuals, it would be closer to the source of water that supplies the entire town and the liquid wastage that come out of the houses would contaminate with the water. Despite such conflicts of interest, the *woreda* administration has made the decision behind closed doors, as discussants believe, just to make decisions in the interest of those influential individuals. Nevertheless, within months after the construction was completed it was realised that the liquid wastes of these houses including from their toilets went to the water well. Thus, the *woreda* administration eventual ended up with the decision to block the water well. Discussants explained further that the current water supply shortage in the town is partly the consequence of such wrong location decision by the *woreda* administration. This is an indication of the fact that the formal systems in the government office alone can never be reliable to result in a decision that is viable as well as reflective of the people interest.

Another case is about how non-participative budget allocation decisions lead to non-responsive budget allocation. As already discussed in the last chapter, discussants both in community as well as in experts FGD agree that had there been an empowered and meaningful involvement of citizens, the allocation of the budget in the *woredas* would not have been made just to reflect the political interest of the ruling party. Allocations would have been made not only to expand new services but also to ensure quality and sustainable services. Participants believe that citizens would force officials to allocate adequate budget for improving the poor conditions of the already existing schools, health posts and water supply points.

One of the challenges that the case study *woreda* administrations have faced in the endeavour to increase access to various pro-poor services is their sustainability mainly due to the community's misuse of services coupled with problems in the quality of constructions and materials used. Attempts to mobilize adequate funding from the community for maintenance cost have not been as effective as intended due to lack of economic capacity or willingness of the community to contribute. Furthermore, several water points do not supply water during summer season as they have been constructed in unsustainable water reservoirs. Due to lack of careful study by geologists from *Zone* administration or inadequate consultation with the surrounding community, some of the water points are constructed on a water springs and shallow wells which often dry up during summer seasons. This has been common in countless water supply point projects executed by WASH program in various rural areas as opposed to those constructed under CDF approach in Bahirdar Zuria *Woreda*. The main contributing factor for such difference between two approaches is the degree of involvement of people in the projects. In the WASH programs the involvement of community members has not been as organized and genuine as in CDF program (this will be discussed in detail in the forthcoming section).

One of the issues mentioned in the last chapter as a reason for late completion and poor quality of construction projects in the *woreda* administration is lack of construction experts to follow up the progress and quality of constructions. All of them except Bahirdar Zuria have no the required expert to do so. The attempt to borrow experts from zone urban construction office has not been viable as well as exposed to corruption. Even Bahirdar Zuria and Mekiet *Woreda* administration whose education office and health office respectively have their own construction experts has not been relieved from such concerns. Making sure the quality and progress of construction projects are in line with the desirable standard and pace could have been possible if only the experts did their following up construction projects on daily basis which was practically impossible and not viable. That is why both education office and health office heads still have concern over the quality and pace of constructions going on in the *woreda*. It can be understood from this fact that the situation could never be easily turned around without active and organized involvement of the surrounding community in the constructions.

Another problem, perhaps the most concerning adverse issue in the procurement process for all discussants and informants, is the falsely inflated price of procured items and services. The implementation of the new procurement method which is based on open bid procurement and planned bulk procurement for practical reasons hasn't safeguarded the case *woreda* administrations from such uneconomical procurements. The planned bulk procurement method has not been practically possible due to some unplanned activities carried out in offices, nonexistence of adequate number of supplier to bid and the small size of purchases. Even when it was applied, the existing small numbers of suppliers in the *woreda* colluded and offered prices even higher than market prices. Therefore, the reform in the procurement process has not been effective to realise the intended benefits or to safeguard wastage of government resources in the procurement process. There is adequate evidence to indicate that there are gaps in the formal procurement process that could be solved if citizens are allowed to be involved in the procurement process.

Revenue assessment and collection is one of the areas that required the involvement of citizens. It has been observed from the earlier chapter that the main factor that contributed for business community tend to evade tax is the lack of credibility on the tax assessment process. The fact that business activities in the case *woredas* are dominated by small scale informal traders that do not keep record of their financial turnover makes objective, consistent and transparent tax assessment difficult. Furthermore, the *woredas* failed to bring illegal traders into legal system. The attempt to involve business community representatives in the assessment process didn't help to lift its credibility as their involvement has not been as genuine and empowered as needed by the business community. Therefore, community members still demand empowered involvement of active, dedicated and informed representatives in the assessment process as well as to convince illegal traders to pay their fair share tax.

The credibility of performance reports prepared by various sector offices has been subject to question somehow except in Mekiet *Woreda* as the planning and budgeting division in WOFED that is supposed to verify the reliability of these reports through field visits have not been doing so due to some practical problems such as budget shortage, lack of capacity and power imbalance with sector office heads to openly give

their feedback about the credibility of the report and enforce the change in the report accordingly. Even in Mekiet *Woreda* administration where planning experts do field visit of various works of sector offices do not dare to openly criticise their report. It can be said that had there been empowered involvement of citizens in the process of performance report preparation, its credibility wouldn't have been in question.

In the last chapter, it was mentioned that the legal complexity in general and the difficulty of producing evidence in particular has made holding those suspected officials and contractors accountable very difficult. One of the reasons why people have been tolerant to corrupted behaviours and not dare to expose it is the formal legal system that discouraged them from doing so by demanding them to provide tangible legal evidence. Even if they have information ordinary citizens might not have the capacity or the desire to put them-selves in to the complex procedure of producing legal evidence. The legal complexity was the reason also for *woreda* administrations not to go for legal way outs when contractors and suppliers failed to meet the contract. Thus, all participants in the community FGDS believe that had there been a system that allows them to involve in the evaluation of officials, contractors and suppliers, they could have at least publicly embarrassed them even if they couldn't hold them legally accountable.

Therefore, we have seen thus far that the specific cases that reveal how the lack of citizen involvement in the *woreda* financial management process could lead to undesirable decisions and financial consequences. The following section is just to see how the current limited and non-organized manner of involving citizens have been practiced in the case of *woreda* administrations.

8.2.2 Citizen Participation, Financial Transparency and Accountability

8.2.2.1 Participation and Nature of Citizen Participation

One of the issues posed in the FGDs was about the nature and extent of citizen participation in the planning, budgeting, follow up and controlling process. Participants speak in one voice that the involvement of people in government financial management process would be extremely important to facilitate effective and efficient allocation and utilization of public finance. They didn't forget to mention that such community participation is not to replace the role of the government but to work in partnership with

government so that to ensure efficient and effective allocation and utilization of financial resources. This is to mean that *woreda* government should handle the bureaucratic, professional and technical responsibilities of administering the finance while allowing citizens to have saying in the determination of their priorities and budget allocation, follow up and controlling its utilization. The role of distributing budget to different sections of community should remain with the *woreda* government as the participants see the tendency that every community wants to develop their own surrounding at the expense of others' and compete for limited budget. *Woreda* administration officers can facilitate citizen involvement in the follow up and evaluation process by enhancing financial transparency through availing clear, reliable and understandable financial information to the public. This can be done effectively particularly for small projects their benefit is limited to a particular community. But participants noted that this might not be effective for larger projects their benefits extend across the *woreda* as the community in a particular village or neighbourhood could not have information to follow up and control the utilization of its budget. Participants in the experts' FGD also support the essence of citizen involvement stating that officials would be embarrassed when their wrongdoing in the government finance is uncovered in public evaluations than in administrative or political evaluation process that takes place in the government formal system.

How the current participation of citizen in government finance system looks like was also one of the issues discussed. Generally, their views reveal that there has not been any case where people invited for and discussed on issues of any financial matter. Neither in planning, in priority identification and in budget allocation, nor in follow up and controlling have they been involved.

The willingness of people to participate in meetings called by government is also questionable. The willingness of people to participate in such meetings is extremely low as confirmed by discussants in both experts' and community representatives' FGDs. The surveyed civil servants also have similar perception about the willingness of people to participate. As table 8.2 reveals the willingness of people to participate in the meetings according to their belief is far below average (mean=0.2952). Even the response of the surveyed community members about their own willingness, as table 8.1

shows, is only a little far from average (mean=0.679). Annova test (Appendix 5) shows that there is no statistically significant mean difference in the response of both community members and civil servants between the case *woredas*.

Table 8 1: Willingness of people to participate in the meetings called by *woreda* administration (community members)

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
					BDZ	62		
Mekiet	88	.693	.2978	.0317	.630	.756	.0	1.0
Shebel	70	.650	.3110	.0372	.576	.724	.0	1.0
Markos	84	.726	.2504	.0273	.672	.781	.5	1.0
Total	304	.679	.2871	.0165	.647	.712	.0	1.0

Source: Field Survey: 2011

Table 8 2: Civil servants' perception about the level of willingness of people to participate in the meetings called *woreda* administrations

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
					BDZ	45		
SB	16	.375	.2887	.0722	.221	.529	.0	1.0
DM	15	.367	.2289	.0591	.240	.493	.0	.5
MK	24	.542	.2041	.0417	.455	.628	.0	1.0
Total	100	.465	.2952	.0295	.406	.524	.0	1.0

Source: Field Survey: 2011

Several reasons are identified for the lack of peoples' willingness to take part in such meetings. The first reason is, as stated by discussants, the type of public meetings that have been organized by their local governments didn't go along the preference of people. They mentioned four types of meetings where they have been called for a meeting by *woreda* administration. The first is for election campaign by ruling party when the next election approached which most people are not interested to attend. The second is when monetary, labour or material contribution from the people is needed for various purposes sometimes for development works of the surrounding. The third is the

meeting called to announce or disseminate a particular new policy, proclamation or new legislation passed from top (region as well as federal government) for its implementation. Fourthly, there are irregularly held meetings of people called by government to discuss about general development activities in the surrounding. Discussants believe that these are meetings organized just to elicit information about the view of the people. Since they are irregular no one knows when they to be held. They are more of general discussions that are not systematically organised where people reflect their view and finished without any satisfactory response or reaction from government side. These are the most common types of meetings held between people and government body.

On the other hand, as presented in chapter seven, table 6.4 showed that elections and political related meetings are among the least preferred types of meetings that people like to attend. They prefer to attend pragmatic meetings that are organized to discuss overcoming their problems, such as the improvement and expansion of schools, health services, water supply, peace and security and so forth. Moreover, the kind of result people expect from the meeting influences their willingness to take part in the meeting. The surveyed respondents were asked which of the expected results of meetings would attract them to participate if they were invited for a budget allocation and utilization discussion. Their response reveals that they would be willing to participate first in a meeting that they expect to improve various public services, second is a meeting that they expect they will influence the budget decision; and third the meeting they expect they will be heard. However, they give the least importance to the private gain that the meeting would bring to them.

On the other hand, respondents were asked if they would be discouraged from participating in budget discussions because of various other factors such as, individual inconvenience; lack of information about how the government system works; lack of technical knowhow in budgeting and finance; and the assumption that they don't have the mandate to discuss about government finance. However neither of these factors are important for them to determine their willingness to participate.

Thus, it can be concluded that the current low level of willingness to participate is attributed to the attitude of 'no result expectation' that the people have towards public

meetings. Nonetheless, discussants pointed out also the legacy of forced participation that the last regime used as contributing to the low level of peoples' participation. In the *Derge* regime, people were forced to attend any meeting organized by the government through intimidation and threat of fine and imprisonment. Thus, people had been attending public meeting without their willingness and had developed a negative attitude towards meeting in general. Several discussants believe that this adversative mind-set has not changed.

Discussants stated that public meetings organized by *kebele* administrations at grass root level are, except in few occasions, attended often only by powerless, poor and less informed section of the people who became ruling party members just seeking job or support in any other form from the government. Nevertheless, those sections of society who have information and can challenge government body in most cases do not attend such meetings. For instance, in Debremarkos city relatively more informed, educated and influential section of people, such as civil servants working in various government and non-government offices as well as business community reside. However, they have rarely attended the meeting organized by *kebele* administrations. Thus, discussions in such meetings are between two imbalanced bodies and, as already mentioned earlier, official use them only to dictate, inform and elicit information from the people.

In order to address the issue of low level of local participation, the government has recently devised an innovative method called a one-to-five networking. In this arrangement residents in every *kebele* are supposed to organize themselves in to a team consisting of five members. Any form of basic public service and government policy is promoted and reach the people through this network. Though it is now at early stage, the government has a plan to use the network as a prime means of involving all people in the local development works. However, as the Ethiopian Reporter (Yemane, 2013), a weekly newspaper, commented that the use of such network is being extended beyond local development purposes. The ruling party is using it as a means of garnering local people's support for the party. It is commented that each team is being led by the ruling party cadres who are in charge of promoting party ideology and seek support from the people. Thus, a shift in the purpose of the team is being witnessed as the team leaders force members to evaluate each other based on the level of loyalty and support they

have towards the ruling party. The attachment with the ruling party might harm genuine participation as there are people who begun to cease participation when they realized that the team is being used for party purpose and ideas and views different from the ruling party ideology and line are considered anti-development and unwelcome.

8.2.2.2 Community Contribution

As explained earlier briefly one of the methods of involving people in financial management process is just by asking them to contribute in the form of labour, material or money ‘voluntarily’ for the project proposed to be constructed in their surroundings. According to the discussants such practices of mobilizing resources from the local people through voluntary contribution are a new phenomenon. In the past, financing public services has been regarded as the mere responsibility of government. But since the last few years, following the emergence of a spirit of competition not only among the officials but also the people of *woredas* or city administrations as people got information about the development activities carried out in other areas particularly through media, they have become motivated and willing to contribute what they can afford for the development of various infrastructures in their surroundings. This could be in the form of money contribution particularly in urban areas as well as in labour and material contribution. People, business community in urban areas in particular, participate actively in fund raising events such as bazars organized by *woreda* or city administrations for raising fund for various development activities. Rural *woredas* such as Mekiet, Bahirdar Zuria and Shebel Berenta have mobilized resources for the construction of primary schools and health posts (about 75%-85% of the resource) and water supply facilities (about 15% of the resource). City administrations such as Debremarkos and towns in rural *woredas* (Mekiet and Shebel Berenta) also raised a significant amount of resources through bazar for construction of paved road, libraries and cultural centres in the city.

Furthermore, discussants in community FGDs mentioned that efforts of the government to develop infrastructures in the last three or four years has also inspired people to contribute voluntarily. However, they mentioned also people could have been more willing to contribute resources, had the *woreda* or city administration involved them at the initial planning stage of such development efforts. Discussants in Debremarkos

stressed on lack of consultation with the people in the planning stage and lack of effort to create broad awareness. In all remaining case study *woredas*, people have been consulted or informed about the project or activity to be carried out only when the government wanted contribution from the people. That is why it is very difficult to say all the contributions in the rural *kebeles* for the construction of schools and health posts have been made voluntarily. Kebele officials attempt to force people to contribute through different means. Discussants explained that it is not affordable for them to refuse to contribute. Due to resistances from the people, some rural *kebele* administrations resort to cover the money expected from the people selling some publicly owned natural resources such as eucalyptus trees. Thus, lack of *woreda* administrations' effort to involve people at planning stage of the project is the primary factor for such resistance from the people even though participants explained their economic problem might also contribute its part.

Such discussions should result in the priorities of people being addressed in the planning process. People are more willing to contribute if the proposed project activities can address the priorities of people. For instance, participants who came from Yinessa *Kebele* in Bahirdar Zuria *Woreda* explained that they would be glad to contribute willingly all they can if their *woreda* administration starts any project to construct water supply facilities given their existing sewer water supply problem. Moreover, discussants explained that the magnitude of their willingness to contribute boosts when the benefits of the proposed projects or infrastructures for their surroundings become visible or tangible.

Nonetheless, discussants explained also the failure of local officials to provide adequate information to the people about the manner in which the contributed resource has been utilised might in the future affect the willingness of people to contribute. Discussants mentioned that they have observed that unlike in the previous time people became keen to know and start to discuss with each other how the money they contributed is used for the intended purpose. FGD participants in Mekiet and Debremarkos explained that they have never been invited in any meeting organised by *woreda/city* administration to discuss or explain the utilization of the money despite the widespread rumours of embezzlement by officials. Even the responses given by officials of Debremarkos city

administrations in public meetings have not been adequate and lacked clarity. As a result people couldn't take a position about the effectiveness and efficiency of its utilization. Discussants believe that this might hamper future efforts of mobilizing resources from the people. They ask "how the people would be willing to contribute in a situation where the proper use of the money is doubtful". People apparently need convincing clarification about the proper use of the money they contributed if they should contribute voluntarily. Unlike the kind of information government body currently presents about the use of finance from government source, people need clear, specific and understandable financial information if they should be convinced about the proper use of finance and contribute voluntarily to future development endeavours in their localities.

8.2.2.3 Accountability

The participation of people is not just in the form of involvement of people in development works and contribution of resources. But people's direct involvement of people in holding officials accountable for misallocations, mismanagements and embezzlements is also always of importance. The first issue is the attitude and reaction of the local community towards corrupted officials and their act. Discussants in community FGD were asked to explain the extent to which people are concerned for illegal use of government money. All of them admitted that peoples' concern for embezzlement of public money is declining. Stealing money that doesn't belong to one is generally a condemned act in the society. Despite the difference in intensity the same had been true in the past for embezzling public money. Since some time now, however, as discussants at Mekiet contended, the tendency of citizens to condemn individuals for embezzling public money is declining. In the past they were likened to thieves but now their action is being regarded as a business. In fact, corrupted behaviour of officials is not a recent phenomenon. Local officials in the past had been abusing their power to their own personal benefits. But much of the corruption had been in the form of taking bribes from individuals and it was considered to be their right as the popular Amharic saying goes 'he who did not benefit when promoted, would regret when demoted'. But they argue that there was no visible behaviour of embezzlement of government finance as there had not been significant amount money involved at local level. As the matter of

fact, citizens had no awareness or information or interest to know about public resource allocation and utilization as the role of government in their every day to day life had been very insignificant until recently. Therefore, it was in the interest of higher level government to investigate and expose if the small local public money used by local officials is deemed to be inappropriate. If they are caught and exposed, however, not only the punishment from the higher government body had been harsh but most importantly the individual would have been disregarded by the society.

Discussants stated several reasons for the decline in the magnitude of social sanctions against such corrupted local officials. One elder participant in Debremarkos explained that the reluctance that higher level government official have shown in several public money embezzlement cases for various reasons, such as lack of adequate evidence has discouraged people from disregarding such acts. As he described it

in the past if government official embezzled government money and higher level government knew about it, the individual would definitely be punished for it. However, now we hear every now and then about several embezzlement cases and I guess higher level government officials are also aware of it but they don't take any action. They tell you there is no enough evidence to take legal action. What else they need if the people knew about it. How could the people condemn this individual if the government itself doesn't care about its own money.

There is a belief among discussants that the legal complexity that doesn't threat corrupt local official because of shortage of legal evidences could be discouraging for the local people to be concerned about public resources. In fact, this was an issue of debate in community FGDs but most of them still believe that there should have been a mechanism to hold officials accountable even if adequate evidence is not available.

Another reason could probably be related with the popular Amharic saying mentioned by one of the discussants “you can abuse a belonging of thousands but never mess up with a brother (relative) of thousands”. This conception has just similar connotation as the concept of ‘the tragedy of commons’ that reflects the widely held misconception among people that public finance is a common resource that is no one’s resource and no one takes care of it. People do not have sense of ownership to public money. Generally, as discussants in the FGDs contend that the initiative of citizens to hold *woreda* officials accountable for any wrongdoings in the financial administration is diminishing. But

now, the question is besides such attitude related problems what else does prevent citizens from holding *woreda* officials accountable. Several factors might be responsible for this.

Firstly, even if people might have the initiative discussants stated that political and legal complexities might prevent them from exposing illicit use of public finance. All of participants have explained that, despite the declaration of *woreda* self-rule, they still present their complaint following the hierarchical government structure. First to a head of the particular office, then to chief administrator, then to zone administration then to regional administration and so on. None of them have mentioned anti-corruption offices, *woreda* courts, *woreda* police, or *Woreda* Council members. One participant at Debremarkos mentioned that their *kebele* administrations in the city has recently launched anti-corruption unit to entertain such complaints from the people. But none of the participants except him was aware of even its existence. One community representative in Mekiet *Woreda* revealed his fear that legal recourse such as reporting to police and court cannot be useful and it even might backfire on the individual. The required strong evidences for court and police are hardly available to an individual citizen. Even if such evidences were available, he doesn't believe that *woreda* police and court are independent and able to convict *woreda* officials. They believe that the only reason if *woreda* officials do not abuse public money should be because they fear their higher level officials. Thus, they believe that it is only benevolent higher officials who care for the people can stop any possible corrupted acts of *woreda* officials. Besides, as already explained earlier in the last chapter, no one takes *Woreda* Council members seriously to use them as a reliable checking mechanism of the *woreda* administration officials' power.

Therefore, whenever they felt that *woreda* government finance is being embezzled by individual *woreda* officials, they only resort to expose it to the next level of government in the hierarchy. Nonetheless, exposing it using this mechanism is not always convenient for ordinary citizen particularly to the people of rural *woredas* that are far from zone offices as well as regional offices. Participants at Bahirdar Zuria and Debremarkos explained that they have relatively better access to zone or even to regional government as their *woreda* is closer to it. Thus, this mechanism is not being

used by the majority of people but only by few individuals who are courageous and determined to expose it.

Furthermore, participants revealed their fear of retaliation they might face from *woreda* officials. They suspect that *woreda* officials are more likely to be protected by *zonal* or regional officials and measures might not be taken against them as they are connected through their political party system. One participant expressed this beautifully

why should I complain to zone or regional authorities when I know they would reject my complaint just for lack of legal evidence. How could I risk myself by exposing woreda officials to zone or region officials while I know it is enough just to label me as member of one of the opposition parties for him/her to imprison me.

Discussions believe that *woreda* officials are protected by their next level officials as long as they obey the ruling party ideology and work to eliminate opposition party support by all means. Whatever accusation of embezzlement or wastage of *woreda* government finance reported on them *woreda* officials would avenge the complaining individual just by attaching him/her with one of the opposition parties. One participant at Shebel Berenta imagined a situation where the moment he came back from zone or regional office he went for exposing the corruption committed by one of the *woreda* officials he just found his home “surrounded by local militias and his family members being intimidated”.

But this does not mean there has not been any attempt by citizens to account *woreda* officials. As explained earlier, especially if the fund is from the contribution of the people, people often enquire information about its utilization. For instance, even though there has been no formal enquiry so far, people in Mekiet *Woreda* are concerned and at least talk and discuss with each other about the whereabouts of the money collected in the bazar for various development purposes. People in Debremarkos have even gone further to raise questions related to the utilization of the money collected in the bazar in every public meeting organized for other various purposes. They have been complaining every now and then whenever there was public meeting seeking explanation for the delay of the construction of city road and for the rumour of embezzlement of the budget by city administration officials. This case can tell that

people are more concerned and tend to hold local officials accountable if they make contribution.

The contribution was made by the people of Debremarkos city for the purpose of constructing various infrastructures in the city. Much proportion of the fund for the construction was from government and small proportion of it from people contribution. As participants in community FGD stated the fact that people have contributed money for it makes them to be curious and ask officials persistently. Nonetheless, officials responded that the accusation of embezzlement was full of lies and the only reason for the delay of the construction was the decline in the transfer from regional government. The city administration officials pointed out that the money they expected from the region wasn't transferred. This situation left the people in dilemma to accept or reject the explanation as they didn't have any idea as to how and how much money the regional government was expected to transfer, and gradually weakened peoples' determination to hold officials accountable. This case can be an indication that intergovernmental financial transfers tend to be obscured to the people and affect accountability through direct involvement of the people. In addition, the case manifested that citizens tend to not to ask about the use of finance if its source is mainly from higher level government or donors as they think they have no the mandate or power to ask for information. They think higher level official have more interest to control how it is utilized than the citizens do. To change such attitude, WOFED in Bahirdar Zuria very recently set up a Financial Transparency and Accountability (FTA) committee to promote the awareness of people in the *woreda* so that they would seek information. But its outcome is yet to be seen.

Despite the existing difficulties, participants at Bahirdar Zuria and Shebel Berenta also insist that people still have the courage to expose corrupt activities. Participants at Bahirdar Zuria mentioned the case of Meshenti Peasant's Cooperation officials who charged the people extra money beyond the standard price when they bought improved bee hives and sheep breeds distributed through the cooperative. Thus they managed to get the extra money paid back as they organized themselves and complained to the *woreda* administration. Participants at Shebel Berenta also mentioned the case of *kebele* officials who used the money that supposed to be distributed for the people for their

private use. After people had several challenging fighting, they were able to expose it and as a result to get them put in jail. These two particular cases can show that peoples may actively involve in exposing embezzlement if the money embezzled is felt directly by individuals and perhaps if individuals are not powerful. The researcher still wonders to what extent such efforts by people could have resulted in punishment if the accused individual were one of the *woreda* officials.

Even though not in an organized manner, people had also few chances to voice their complaint on the allocation and use of government money through various public meetings. Participants mentioned that few individuals still have the courage to expose any wrongdoing in public meetings. However, their efforts have not been turned into effect as such meetings were organized irregularly just to hear what the people were saying. This is just to say that citizens' effort to expose such wrongdoings have been stalled by the poor quality of participation. Participants explained that instead of addressing the complaint, *woreda* officials tended to criticise and attack the individual. Any critique has been seen as a threat to the ruling party. Particularly since the 2005 election crisis in the country, political labelling has been one of the problems that hampered people from voicing. Any criticism voiced by citizens has been given political meaning and the individual would be intimidated just labelled as opposition party member. If the pressure from the people becomes strong, officials might admit and pledge to correct the problem. But if there is next meeting, those officers who pledged to correct the problem might not come to the meeting and the new ones would make the people to discuss the same issue as a new agenda. Consequently, it has been common to discuss over and over the same issue without any tangible solution.

Thus it can be indicated from the earlier discussion that, given the abovementioned difficulties reduced, people would be interested to expose and hold corrupted officials accountable. The surveyed respondents were asked if they dare to expose misuses and wastages by government officials given that they had adequate information and were involved in an empowering type of meeting. As shown on table 8.3, their mean response confirms that they would be more likely (mean= 0.821) to expose such corrupted activities. Their response has been tested for variability and the result shows that there is no statistically significant mean difference in respondents' response between case

woredas. Therefore, it can be inferred that if all obstacles of accountability addressed properly, citizens would not hesitate to hold their local officials accountable.

Table 8 3: Respondents' tendency to expose abuse and misuses of government resource if they participated in a meeting organized for such purposes

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
					BDZ	63		
Mekiet	87	.805	.3988	.0428	.720	.890	.0	1.0
Shebel	68	.926	.2629	.0319	.863	.990	.0	1.0
Markos	84	.774	.3674	.0401	.694	.854	.0	1.0
Total	302	.821	.3684	.0212	.779	.863	.0	1.0

Source: Field Survey: 2011

8.2.2.4 Financial Transparency

The other most important factor that limits financial accountability has to do with financial transparency. Transparency is always at the heart of the accountability of financial management system. However, transparency of government financial affairs directly to the citizens is the least addressed element of financial governance in *woreda* administrations of the Amhara region. All the discussants in the community FGDs have expressed that they would be pleased if their *woreda* government could provide them with information particularly about the budget allocated and utilized for projects carried out in their *kebele*. They were asked also if they had information about the finance allocated and used when different development projects such as schools, health centres and so forth built in their surroundings. Let alone getting information about the finance allocated and utilized for the projects carried out in their surroundings, they received no information about the plan for new project to be set up through the formal channel from *kebele* administration or any other source. They said “we hear rumours from those who are closer to *kebele* administration officials that a lot of things were going to be constructed. But such gossips, in most cases, have been lies only few of them have been true”.

It has been a tradition that *kebele* officials called people for a meeting and explained about the development project to be constructed only because they needed contribution

from the people either in the form of labour or money. Even in such cases, officials didn't come back to the people to explain about the utilization of the money. This is clearly observed in Debremarkos and Mekiet where the administrations have mobilized a remarkable amount of money by organizing bazar events. In Mekiet *Woreda*, there have been rumours spreading among the people in the *woreda* that the money raised in the bazar is embezzled by officials. But strikingly, there has not been any discussion held with the people to clear the rumour and explain about the whereabouts of the money collected in the bazar. The discussants revealed their concern that this situation might affect future resource mobilizing efforts that people would never be willing to participate in the same events anymore. Officials in Debremarkos city administration were reluctant to give information. But the immense rumour sprawling among people put pressure on them eventually to call a meeting and give the people a chance to reflect their views and ask for explanation about the whereabouts of the money and its utilization. But the response officials gave not only lacked clarity but also was unsatisfactory.

Realizing the need for arrangements of providing financial information directly to the citizen besides the formal reporting systems, BoFED has launched a program to promote financial and budget transparency and accountabilities in its *woreda* administrations. Even though the deputy head of BoFED expressed that the program consists of several initiatives that facilitate transparency of information about the allocation and utilization public money by *woreda* administrations, only limited of these initiatives are so far put in place. Displaying information concerning the allocation and periodical execution of budget on public notice boards is part of this program currently being in practice in the *woreda* governments. In all case *woredas*, the notice boards are thought to be accessible and visible to the general public as they are placed either at squares or closer to *woreda* administration offices. It is also sent to *kebele* administration offices to be displayed on notice boards. This information is also distributed to each of the council members and solicited to give their feedback on it. The information posted on notice boards include the approved budget allocation to pro-poor sectors indicating budget category as capital budget and recurrent budget as well as budget sources as from regional transfer, from the *woreda* and from donors. At the end

of each quarter and the year, the execution of budget using the same format is displayed as well.

This practice is appreciated by the discussants in experts' focus group discussion in all case *woredas* as a good start to promote transparency. However, the feedback they received from the people as a result of such efforts is so limited condemning lack of the initiative of citizens to involve or seek information about government financial performance. The response of surveyed respondents shows also the practice doesn't seem to bring substantial effect in terms of financial transparency. Table 8.4 reveals that respondents have lower level of information (mean=0.2583) about the financial performance of their *woredas* where as they highly suspect (mean=.8817) that the financial resource of *woreda* administration might be abused or utilized for personal use.

Table 8 4: Respondents' response about their level of suspicion for corruption and their level of information about *woreda* financial performance

	N	Range	Minimum	Maximum	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
The level of suspect for corruption	300	1.00	.00	1.00	.8817	.01586	.27462	.075
The level of information about <i>woreda</i> financial situation	300	1.00	.00	1.00	.2583	.01851	.32058	.103
Valid N (listwise)	292							

Source: Field Survey: 2011

Table 8 5: ANOVA analysis

		Sum of Squares	Df	Mean Square	F	Sig.
The level of suspect for corruption	Between Groups	.265	3	.088	1.173	.320
	Within Groups	22.284	296	.075		
	Total	22.549	299			
The level of information about financial performance	Between Groups	.517	3	.172	1.689	.170
	Within Groups	30.212	296	.102		
	Total	30.729	299			

Source: Field Survey: 2011

Some of the discussants, particularly in Debremarkos and Shebel Berenta, insist that such practice of providing information to the general public cannot be effective way of ensuring transparency and accountability given the illiteracy, lack of initiative and the complex nature of financial information reported by the *woreda* administration. They suggest, thus the *Woreda* Council is the only means as representatives elected by the people are more educated, informed and dedicated to shoulder such responsibilities. Discussant, however, admit also that they are not sure to what extent the financial information presented to *Woreda* Council help the council members to scrutinize and oversee the financial performance of *woreda* administrations on behalf of the people. Besides, because the reasons discussed in the earlier chapter *Woreda* Councils have not been effectively playing their role.

With this in view, the WOFED in Bahirdar Zuria *woreda*, for instance, very recently has set up a FTA (Financial Transparency and Accountability) committee for the purpose of promoting the awareness of people in the *woreda* about government budgeting and finance so that they would be interested to seek information and hold *woreda* officials accountable. The impact of the committee is yet to be seen. But it is so hard to expect such initiations from the government office to have a substantial result in providing independent support and to genuinely mobilize people to challenge *woreda* officials.

However, one thing that all discussants agree on is that the failure of such public displays of financial information is due to two reasons. Firstly, citizens had limited interest towards publicly displayed financial information as they think that it is difficult to comprehend for ordinary people like themselves. They think that the financial information displayed is too broad and it is impossible for an ordinary citizen to understand and evaluate how effective and efficient the financial practice has been. They explained that, no matter how educated and familiar the person is about finance, the information displayed on public notice boards is not adequate to know how effectively and efficiently the government finance has been utilized. The information displayed is crude and does not attract the attention of the people. They indicated that such crude information can only cover up the possible corruptions and abuses that might take place in the office rather than showing the reality. They said “we don’t expect them

to display the amount of money they have loaded to their pocket”. In this situation there could be only rumours. Even if citizens are determined to ask officials based on rumours, officials would not have difficulty of defending to such rumour based accusations.

Furthermore, discussants said they are not interested to see information about the allocation and execution of budget the way it was presented on the notice board, but their interest is to know whether the amount they put on the report is really used for the development of the *woreda*. They argue that “*how can we know for sure if what is reported and posted on notice board is not true*”.

Therefore the second reason is related with the relevance of the information displayed to show the people how proper the utilization and allocation of money for the service in their surrounding has been. Discussants ask “*how could it be possible for an individual to know the use of money which is to be distributed for the benefit of the entire woreda population. How could people in one village know the utilization of public money somewhere else in the woreda*”. Thus, they believe that financial transparency can be maintained if detailed information about the money allocated and used for each project and in each *kebele* is presented.

8.2.3 The Prospect of Traditional Community Associations and Formal Associations to Harness Financial Transparency and Accountability

It has been a long-standing experience in all *woredas* that communities organize themselves along neighbourhoods or in traditional associations such as *Edirs*¹⁷ and build various kinds of small scale infrastructures such as churches, bridges and so forth. Discussants in all community FGDs confirmed that the relationship and administration of such associations is largely based on social values, trust and consent. The participation and contribution of community members in such traditional associations is purely on voluntary basis and the return is not only the service they get from what is constructed but also the social benefit they get from the community.

¹⁷*Edir* is a sort of religious burial association organised by local people to share individual households burdens when close relative die. Members contribute regularly in order to cover the expenses of funeral ceremonies, food and drinks needed.

Community members participate and involve actively in any kind of activity initiated by such traditional associations. Discussants were asked to compare the participation of people between in the projects or any activities initiated by government body and such traditional associations. They described the difference in the level of willingness of people to participate in between government body and traditional associations as “incomparable”. They explained that people are rarely interested to participate or attend the meetings called by government body unless they are forced or they expect some private benefit out of it.

They were also asked why such variation in participation of people has happened. Firstly, these associations work in the areas that are most valued by the society. In a society that is religious and culture bounded, funeral services are highly valued. There is nothing else embarrassing than being alone during funeral services of family member. Secondly, they have pointed the nature of relationship among members and with the leaders of associations. The regulation and ordinances that determine relationship between members are clearly stated and mutually agreed. It is an agreement between parties who have balanced power. Thus, the members are confident that those rules and regulations will apply similarly to all members. Leaders of such association elected by members are often respected and trusted elders by the people. Most leaders in traditional associations are known to have the initiative and dedication to promote social goods and concerned about the orderly social relationship in their surrounding than their private gain. These are people who value being respected and trusted in the society than their own private benefit. Therefore, whenever one member fails to attend the events or meetings or to pay monthly contributions, the consequences are clear. They are often required to pay small fine. Nevertheless, refusing to pay fines would result in not only expulsion from the association but also rejection from the community that one cannot afford. There is a popular saying that “closer neighbours are always much better than distant relatives”. In rural community, security in the rural neighbourhoods is preserved often by the neighbours than by police officers. But it has to be noted also that the rules and regulations are tolerant as long as the reason for not complying the rules and regulations are acceptable. This is with the presumption that no one wants to withdraw from such association unless forced by factors that are beyond his/her control. Generally, such community based traditional associations work effectively based on

trust, cooperation and common understanding as opposed to formal government system that constitute strict implementation of rules and regulations.

One of the issues raised during the discussion is what if the traditional associations such as, *Edirs*, elders (*Shimagles*)¹⁸, and religious leaders¹⁹ involved in the planning, budgeting and controlling of government finance allocated for various development projects carried out in their surroundings. All the discussants agreed that *Edirs* leaders and elders in particular are respected and trusted by the community that they will prioritise and are dedicated to social benefits than their personal interests. Nonetheless, they are hesitant to accept the proposition that they should assume a role in government finance management and control. The response of the surveyed respondents is also consistent with this opinion. As it has been presented earlier in chapter five, table 5.6 shows that local elders and religious leaders are the least preferred body by the respondents to involve in the role of controlling and following up the use finance being utilised for various development activities to be carried out in their surroundings. Discussants stated that this is mainly for two reasons: lack of capacity and the prospect of losing their independence.

They explained that such traditional arrangements have been used only to address social problems and issues as opposed to economic issues. They have little experience in running and administering complex projects the likes of projects carried out by government that involve huge finance. They perhaps have involved and mobilized their community for the construction of few small-scale bridges, church, road and the like. Besides, most of the leaders in the traditional association do not have more education beyond read and write. It would be difficult for them to follow up and control the complex government finance system operated by somehow fulltime employed professionals. In light of this situation it is hard to expect they have the capacity to challenge the governments officials or officers. And finally, the discussants mentioned that traditional associations work only based on trust, mutual respect and cooperation

¹⁸In most part of Ethiopia, elder age is accorded a high socio-political value in the local community. Elders (*Shimagile*) councils are frequently used to settle local disputes (over land or grazing rights, for instance), and it is always the elder men who are first heard in community meetings.

¹⁹Religious leaders, Christians (Priests and Deacons) and Muslims (Sheiks) have power to define appropriate social behaviour and conduct, a capacity that, for instance, severely limits the social space of women in Ethiopia.

but do not have organized structure that can support them to handle such complex and huge administrative and controlling responsibilities.

But they stressed, most importantly, on the tendency that these traditional organizations likely to be contaminated by the self-centred, untrusted, party power struggle, discriminatory features of government system. All of them would be happy if government stays away from such associations. Given the current political structure they don't expect such associations to have the power challenge either *kebele* or *woreda* officials rather the influence will be the other way around. For them these efforts means just an attempt by *woreda* officials to capture traditional associations so that to make sure that they work under their domination. *Woreda* officials perpetuate their dominance over such associations by presenting them small rewards in exchange for loyalty. At least, they would pay them per diem whenever they call them for a meeting. Discussants mentioned that currently they have seen few indications that the social quality that existed for long in the community is degrading due to such government interventions. They expect that with increasing intervention from politicians that the social qualities such as trust, cooperation and mutual understanding are losing from the community leaders. They heard a rumour that some respected elders and *Equib* leaders are becoming de facto members of the ruling party. In this situation it is so hard to believe that such institutions can safeguard public finance from corruption and embezzlement by government officials. Such leaders would not have the courage to challenge whatever wrongdoing they observe. Community members now start to frustrate and lose their confidence on such leaders as they become more attached with the ruling party seeking personal gains. The response of surveyed respondents also shows that there is a tendency that such traditional community association to be captured by the ruling party as several of these association members belong to the ruling party. As shown in table 8.6 below, there is statistically significant correlation, even if not strong, between ruling party membership and the tendency of being a member in various informal associations. That means ruling party members are likely to be members in more number of informal associations than non-party members do. It goes without saying that if party members are also members in informal associations than non-party members are, it is highly likely that such associations be captured by the ruling political party.

Concerning religious leaders, generally, discussants' stand is against the involvement of religion leaders in such financial management. They all agreed that religious leaders should stay away from management of government finance. They want them to do only their own roles in the society, i.e. religious role. They don't think these two roles are compatible. Rather their concern is the recently increasing involvement of religious leaders in government and political activities. They mentioned that there is a rumour that some religious leaders become ruling party members. Therefore, instead of challenging the government representing the people, they would be dominated and manoeuvred by *woreda* politicians and may leave their spiritual mission behind for their personal benefit from the government.

Participants were asked also to evaluate the participation of people by comparing between traditional associations and formally organized associations such as women association and youth association. Generally, as all discussants agreed, that people's participation in formal association is far below than required. Some of the leaders of such associations who participated in the FGDs admit that they have faced a challenge to mobilize people and get their participation. Most people participate in the associations only as long as their membership helps them to get job opportunity or else they are willing to participate if only they are paid per diem. Discussants indicated that when their neighbours see them going for meeting called by youth association or women association, they shouted them "don't you have any work to do? Why are you wasting your time to attend such a useless meeting? Please let us know whenever there is a meeting that pays per diem." Discussants themselves admit that they participate in those associations because they believe that someday they will get some benefits from *woreda* government. As most members are high school complete looking for lower level office jobs or poor women who hope to get office jobs in the *woreda* administration or credit facilities to start small businesses.

Discussants have two different views about the reasons for low level of participation of people in such associations: lack of awareness about the use of such associations and the widespread perception that the associations are not independent bodies. Leaders assert that citizens do not have the awareness that they can promote their right by organizing themselves in such independent organizations. They believe that there is an

overwhelming practice of acting individually than in organized manner such as these ones. According to their believe it is a matter of time and effort that in the near future people become aware of their right and the benefit of working together in an organization to promote their right.

On the other hand, the primary reason for low level of participation in such associations, for majority of the discussants, is the perception widely held by the people that they are just an alternative body of government that work under the dominance and control of the *woreda* government. They are organized and supported by the *woreda* government. Despite their formal recognition as separate bodies that work for the right and socio-economic development of youth and women, they are widely seen by the people as the youth and women wing of the ruling party. Of course, it has been observed during the discussion that majority of the discussants failed to demarcate the boundary between membership in ruling party and in such associations. The leaders of those associations who participated in the discussion, while maintaining the belief that the associations work independently, admit that they have been organized by the support of *woreda* administration. Given the fact that civil society organizations are non-existent coupled with members' lack of willingness to contribute, they still expect more financial and technical support from *woreda* administration. Thus, unlike the view of the associations' leadership, there is a widespread belief that such associations could never serve as independent bodies to challenge the government. The result of survey also points to the same proposition. As table 7.6 shows there is statistically significant correlation, even stronger than the case of informal sectors, between being member in political party and the number of formal associations the respondent to be member. That means party members are likely to be members in more numbers of formal associations than non-party members. Thus, it is unrealistic to assume, in this situation, that formal association work independently.

Table 8 6: Correlations between respondents' informal association membership, formal association membership and party membership

		Membership of respondent in informal associations	Membership of respondents in formal associations	Membership of respondents to political party
Membership of respondent in informal associations	Pearson Correlation	1	.418**	.191**
	Sig. (2-tailed)		.000	.001
	N	292	292	292
Membership of respondents in formal associations	Pearson Correlation	.418**	1	.384**
	Sig. (2-tailed)	.000		.000
	N	292	293	293
Membership of respondents to political party	Pearson Correlation	.191**	.384**	1
	Sig. (2-tailed)	.001	.000	
	N	292	293	295
**. Correlation is significant at the 0.01 level (2-tailed).				

Source: Field Survey: 2011

8.2.4 Some Limited Social Accountability Practices in Woreda Financial Governance

The practice of social accountability approaches in the financial management processes of *woreda* administrations in the Amhara region is uncommon. But two projects are launched where some level of its application has been observed despite their limited scope and time span. These are the Ethiopian Social Accountability Program and Community Development Fund (CDF). Therefore, the following sections are for discussing their practices and challenges they have faced.

8.2.4.1 The Ethiopian Social Accountability Program

The Ethiopian Social Accountability Program which is one of the components of the Protection of Basic Services (PBS) project²⁰ that have been in place in Ethiopia since June 2006. The program is designed to enhance the engagement of citizens and civil society organizations in the basic service provision process and their financing. The

²⁰PBS project is commissioned jointly by Ethiopian government and several international development organizations for the purpose of supporting government's endeavor of meeting Millennium Development Goals (MDGs). The project works to ensure that basic services such as primary education, health care, water supply and sanitation and agricultural extensions are adequately financed.

program is primarily supported by the World Bank with GTZ-International Services taking its management responsibility. The program is being implemented in all regions of the country but is yet at pilot phase.

The Amhara Development Association (ADA) assumed the responsibility of implementing the program in the Amhara region. ADA taking the leading role also partnered with other three organizations, namely Amhara Women's Association (AWA), Green Belt Integrated Community Development and Pact-Ethiopia for its implementation. With the involvement of these four organizations, the pilot project of the program had been implemented in four *woredas* (three *kebeles* in each *woreda*) for eighteen months between February 2008 and June 2009). One of the case study *woredas*, Debremarkos city administration, had been included in the pilot project. The pilot project implemented two of the tools of social accountability such as Community Report Card (CRC) and Participatory Planning and Budgeting (PPB) focusing on primary education and health care services (ADA, 2009).

Nonetheless the focus here is on the implementation of PPB as it is directly connected with involvement of citizens in finance matters. PPB had been implemented in two *woredas* (Debremarkos and Farta) to promote involvement of citizens in budgeting decisions: in prioritization, determination of budget needed, implementation of the budget and its follow up and evaluation. It involved a multi-step systematic process of sensitization workshops to various stakeholders, such as regional officials, *woreda* officials, *kebele* level officials and communities; capacity building trainings to the project staff, officials at various levels and focus group facilitators; baseline survey to determine the existing status about budgeting practice and citizens involvement that will have used for measurement of the impact of the project; and identification of service delivery problems and their prioritization in budget allocation through multi-step focus group discussions; preparing budget proposal accordingly; interface meeting between community members and service providers based on the budget proposal; and signing contracts and forming a committees that will be responsible for implementing and following up its sustainability (ADA, 2009).

The problems that were identified in the FGDs to be prioritized in budget allocation are mainly connected with quality and sustainability problems of services which are

consistent with what has been already discussed in the last chapter. It has identified problems such as shortage of books, qualified teachers, combined desks, poor class rooms, poor buildings, absence or poor sanitation of the latrines and lack of library and laboratory were facing primary schools. In health care services, shortage of drugs, health professionals, shortage of delivery beds, blankets and bed sheets, ambulance, absence or poor sanitation of toilets were the main problems identified (ADA, 2009). The project, then, attempted to move to address these problems through the involvement of the community.

The evaluation report by an independent organization (Mela Development Training and consultancy Service Co.) shows that the project has succeeded in mobilizing both the community and government officials at various levels. Through series of sensitization and awareness creating workshops and panels, the project had been able somehow to gradually change the attitude of people towards direct participation in government budget decisions. It is a success for the pilot project that not only government officials identified their responsibility but also communities were able to realize that they have important roles in the process of overcoming the service delivery problems. Nonetheless, there still much more left to be done to improve the existing lack of awareness and confidence of both community members and officials (ADA, 2009). Thus, one of the lessons that the pilot projects have left for future implementation of social accountability projects is not only about the challenges social accountability initiatives could face to improve awareness and confidence as well as solve capacity problems but also the role that civil society organizations could play in overcoming such problems.

Nonetheless, it can be understood from the report that the tangible results of the PPB are limited just in the areas of community mobilization and awareness creation, as its implementation is limited in scope. It is even hard to say that because of the PPB that the quality and sustainability problems of services came to the attention of officials. As discussed in the last chapters, officials at all level are well aware of the existing quality and sustainability problems in the services. They are also aware that the people in their jurisdiction are discontent about this and believe that it has to be addressed during budget allocation. However, it has not been easy to do so as long as the interest in the

ruling party is yet to increase access to services. Thus, without undermining the importance of citizens' involvement in priority identification for budget allocation, it can be argued that more tangible contribution of such social accountability initiatives could have been achieved if the execution of the project had extended up until the allocation and implementation of the budget proposed. But here, it is hard to make an opinion on the success of the project in changing the budget proposal in to practice. Since the project has phased out after preparing budget proposal and making agreement, there is no evidence as to whether the priority areas agreed up on were actually addressed in the *woredas* budget allocation. There is no any evidence to witness to what extent the contract between government officials and communities had been enforceable. In fact, one participant in Debremakos community FGD mentioned that one additional health centre and new class rooms for one primary school are constructed in their *kebele* which are according to the priority they agreed up on. However, neither the community members nor the FGD facilitator involved in the PPB were aware of the progress that the *woreda* government has made in implementing the agreements. This can make the participating community members to lose confidence on the importance of civil engagement.

Even if we assume that problems identified by the people had been addressed in the budget and implemented accordingly, the replicability of the pilot project to other *woredas* is also questionable. If we tend to scale up the implementation of the PPB project to full scale in all *woredas*, *woredas* would need a huge capital budget. Almost all of the priority areas proposed by the community to be addressed in the budget allocation are related with the existing service delivery quality and sustainability problems. Improving the quality and sustainability of service requires huge capital investment. This might be possible only for four *woredas* (only three *kebeles* in each *woreda*). However, given the existing *woredas* inflexible budget structure where, as already explained in chapter six, about 85% to 90% of the budget is allocated for recurrent budget of which salary takes major proportion, the idea of allocating huge capital budget to address those priority areas is unrealistic. Currently *woredas* cannot increase their capital budget unless additional grant is obtained from the regional government or the donors. Or else *woreda* administrations need to lay off their large

number of employees. Both of these scenarios wouldn't be both politically and administratively possible.

Another most important concern is connected with the implementing organizations of the project. The leading organization chosen for the implementation of the project was ADA. However, a close look at the nature of ADA can tell the prospect of the project to succeed in mobilizing people to challenge the financial decision of *woreda* government officials. ADA, as already described earlier in chapter three, is the ruling party affiliate development organization. It is largely seen as the CSO wing of the ruling party. Furthermore, one of the partnering organization, Amhara Women's Association (AWA) to implement the project, though is formally an independent association, as already discussed earlier is also largely perceived as the women wing of the ruling party. Besides, the association is being financially supported from government at various levels. Though there is no evidence about the independence of the other two partnering organizations, one can guess that they are not expected to have the desire and power to work against the interest of their leading organization. In view of this fact, it is unrealistic to expect that these organizations will work independently when government budget allocation is made to reflect the interest of the ruling party while becoming in conflict with socially desirable budget allocation propositions.

8.2.4.2 Community Development Fund (CDF)

CDF is an approach being used by donor funded program that works for provision of rural water supply in rural *woredas* of the Amhara region. One of the case study *woredas*, Bahirdar Zuria *Woreda* is the beneficiary of this project. It is an approach that applies the essence of social accountability in financing and management of the construction and operation of water supply points (hand dug wells and spring developments), contrary to the direct fund support approach that gives financial management responsibility to *woreda* administrations. Unlike the PPB the involvement of people in the financial management process is not limited to initiating and preparation of the plan. But here people are involved and responsible in managing both the finance and operation of the project throughout its implementation. Community water management committee (WATSANCO) consisting of members 'democratically' elected by the people assumes all financial management responsibilities including

preparing the proposal, contracting with contractors or local artisans, making procurements and disbursements, collecting initial contribution (at least 15% of the project cost) and water fee from the people and financing operational and maintenance costs. In doing so, the WATSANCO has its own fund kept in a bank account transferred from the *woreda* account in three to four instalments once the proposal is accepted. The *woreda* water board retains roles such as appraisal and approval of communities project proposal; approval of disbursement requests; and supervision and technical guidance role. In order all of them to play their role properly, appropriate capacity building trainings have been provided not only to the WATSANCOs and *woreda* body but also to local artisans (Rural Water Supply and Environmental Programme in Amhara Region, October 2006).

Despite the need for detail information to assess about the success of the approach, some of the performances reported by IRC–International Water and Sanitation Centre are clearly indicative of the successes of the CDF approach. The successes is not only in terms of mobilizing resources from the people and diversified sources, reducing the completion time of projects, reducing the procurement time, securing adequate finance for operation and maintenance costs but also in terms of helping people get empowered to shoulder the responsibility of managing and raising finance for the project. Just to mention some of the tangible results of the approach shown in the report, the average number of water points constructed per *woreda* per year through direct fund support approach was between 20 and 30 but now with CDF approach this has increased to between 50 and 60 water points. The average time needed for construction of water points decreased from 60 days to between 28 and 35 days (Rural Water Supply and Environmental Programme in Amhara Region, October 2006). Thus, based on the experience of the CDF, it is safe to say that if communities are empowered (devolving power to finance as well as capacity building activities), they can use and mobilize financial resources for efficient and sustainable provision of public resources.

As suggested in the report the approach is replicable to several of donor funded projects that are going on in the *woreda* administrations of the region. The approach is instrumental in addressing the problems of donor funded projects as majority of them are now using direct fund support approach. Those projects, fearing misuse and wastage

of the fund by *woreda* administrations, have resorted to give a patrol role to the regional administration which in turn has created a lot of problems in the use of the fund. However, the experience of CDF showed how donors can make sure their fund is utilised properly and efficiently just by decentralizing financial responsibilities to the communities. Nonetheless, the fact that the project has been fully supported by donors earmarked only for development of water points, it can be said that the approach deals more with problems in the implementation of budgets not with the problems in budget allocation. But one of the main challenges *woredas* has experienced in their financial management system is at the budget allocation phase. As mentioned before, even if *woredas* needed more capital investment to solve their current service delivery problems, they have not been in a position to shift the current recurrent expenditure dominated budget structure given the current inflexible budget structure. And it has to be noted that it is at this phase politicians attempt to manoeuvre budget allocation to be reflective of political interest that sometimes might be against the preference of people. But the experience of CDF doesn't suggest any mechanism of addressing these allocation problems. Thus, the replicability of the approach to government treasury funded projects or development activities is quite limited.

8.3 INTRA-PARTY SYSTEM AND FINANCIAL GOVERNANCE

This is the second component of the chapter to present how party system and structure of the ruling party in the Amhara region influence the financial governance of *woreda* administrations by affecting the self-governing status of *woreda* administrations; by weakening the efficacy of public financial management systems; and by limiting the practice of direct voicing of citizens in financial affairs of *woreda* administrations.

8.3.1 Political Party and Intergovernmental Relations

Another important issue in the discussion about intergovernmental fiscal relations between *woreda* administrations and the regional government, besides the design and implementation related problems of the district level decentralization discussed in chapter five, is the role of political party structure and system either in sustaining domination of the regional government over *woreda* administration or in promoting further autonomy of *woreda* administrations.

As discussed in chapter five, the regional government through its structure in the zone administrations controls the affairs of *woreda* administrations. *Woreda* administrations have been forced to accept employees hired by *zone* administrations without them making necessary budget provision as observed in Bahirdar Zuria health office and Shebel Berenta education office. The autonomy of *woreda* administrations to prepare and execute their own local socioeconomic development plan has been eroded by zone administrations through strict guidelines that dictate *woreda* administrations for each and every target and through successive plan review and approval process. This process has sustained top-down planning process as *woreda* administrations have to follow regional government guidelines than the wish of people that comes through *kebele* administrations or grass root level service delivery units (at least theoretically, people have been supposed to engage in plan preparation though the participation of people is questionable and has to be studied). The intervention is mainly in the plan preparation evaluation process but *woredas* have also been subject to accomplish activities imposed from zone administration abandoning activities instinct to their plan approved by their *Woreda* Council. It has been already seen in chapter five also how such practice of eroding the autonomy of *woreda* administration has created difficulties and disruptions throughout the *woredas*' financial management process.

Now the question is why are *woreda* administrations still under the influence of the regional government/*zonal* administration while they are formally empowered to undertake those activities autonomously. Is it just because the design of decentralization doesn't clearly and exclusively grant power to *woreda* administrations that they are still subject to regional government overseeing? Is it because *woreda* administrations wouldn't like to exercise autonomous power over their jurisdiction and they willingly submit themselves to the control of regional/*zonal* administration? Is it because *woreda* officials are forced to accept the order and instruction of regional/zone administration through other political means?

From the discussion in chapter five it can be understood that of course there are a lot of gaps in the design of decentralization that could create a chance for such interference of regional government. Lack of piece of legislation for assignment of functions, lack of exclusivity in the assignment of power, excessive dependence on block grant, lack of

adequate revenue raising power and source, lack of clarity in the administrative and legislative power could be said to have contributed for *woreda* administrations loss of autonomy. However, the current district level decentralization at least provides *woreda* administrations with political power to exercise self-administration by which to mean *Woreda Council* is the highest political body in *woreda* administrations to oversee the performance of the executive body of *woreda* administrations (article 86). Accordingly, the executive body of *woreda* administrations is accountable to *Woreda Council*. That means *woreda* officials have the chance to reject any imposition from the regional/*zonal* government unless it is endorsed by their *Woreda Council* as long as their action is not in violation of federal/regional government policies and laws. However, it has been observed in practice that in all cases the changes initiated by the regional/*zonal* administration have been accepted without any endorsement from the *Woreda Council* and without following the formal constitutional procedures. Neither of the interventions has been just to ensure compliance of regional policies and laws. The plans approved by the *Woreda Council* to be implemented in the upcoming year had to be modified in the middle of the year just because of the instruction from regional or *zonal* government. Therefore, the design of decentralization cannot be the only factor to be blamed for the interventions rather the intra-political party relationship within the ruling party between regional/*zonal* and *woredas* party leadership that could contribute to instil central dominance (power imbalance). Thus, the following section is to see how the nature of political party structure and system operate to influence on decentralization process and local financial governance.

8.3.1.1 Political Party structure and System and Fiscal Decentralization

As already discussed in chapter three, even though Ethiopia has been following multi-party system, Ethiopian Peoples' Revolutionary Democratic Front, EPRDF (a partnership of four ethnic political parties where all of them have, at least formally, equal status) partnering with its affiliated parties have exclusively ruled the country since 1991. Therefore, analysing intra-political party relationship and structure of the ruling party can help to probe whether this relationship has been inhibiting or promoting decentralization process. Paulos (2007) has provided a detail presentation on how the intra-political party relationship within the ruling party between central leadership and

regional leadership which he refers to clientelistic relationship crippled the regional level of fiscal decentralization. It is stated also this relationship could extend to *woreda* and *kebele* level.

He cited a number of manifestations of the existence of patron-client relationship between central and regional party leadership. Accordingly, the relationship between central and regional leaders of the ruling party is reciprocal where the centre (patron) needs loyalty and obedience from regional and local party leaders to sustain their power and seeking electoral support to secure maximum vote good enough to form government and the regional and local party leaders in exchange get posts and promotion in the political or administrative career in the regional and *woreda* administrations structure.

This relationship is based on inequality and power differences. This power imbalance between party members at different levels is sustained by the party internal system. The party follows a central democracy system by which lower organs of the party are obliged to implement, unquestioned, decisions from higher bodies which have the right to cancel, amend and change decisions made by lower organs. This arrangement, in fact, grants party members the right to discuss the agendas presented freely, to oppose, to support and critically comment. However, they have no the right to mobilize others against decisions passed by central political party leadership. Furthermore, members cannot lobby on issues of interest or attempt to gather support from formal discussions. Any attempt to create factions or any other grouping in an open or hidden manner would be major discipline breaches.

Party evaluation system is another arrangement of regularly checking loyalty and commitment of lower organs and members to party lines and to instil central dominance. It is clearly stated in the party program that it doesn't entertain any different views from party line. Any opposition to party program and policies can result in expulsion from party membership. Despite the nominal objectives of party evaluation to self-educate, reduce corruption and encourage performance, it is ironical that the system has been tolerating anti-democratic acts and undesirable behaviours because of

allegiance to the top political leadership. This unbalanced and central dominance relationship is extended not only to *woreda* level party organs but also to *kebele* level.

Given this condition in the political arena, it is not hard to imagine how such intra-party relation has crippled the self-rule power of *woreda* administrations. The focus of this section is mainly about the structure and working system of the ruling party in Amhara region and its interaction with the extent of self-administration power of *woreda* administrations. The main reason to focus on the ruling party is, as explained earlier in detail, the current ruling party Amhara National Democratic Movement (ANDM) has been exclusively in power in the Amhara region since 1991.

8.3.1.2 Clientelism and the Role of Zone Administrations

The revised constitution of the Amhara regional government, as mentioned several times earlier, denies zone administrations the power to control *woreda* governments. *Zone* administrations are just agents organized by the regional government which assume the responsibility of supporting and coordinating the self-administering efforts of *woreda* administrations. They might also exercise the power granted by the regional government by way of de-concentration. That means, aside from their supporting and coordinating role, they assume the responsibility to follow up and supervise the activities of *woreda* administrations just for compliance of federal/regional laws, policies and standards. However, in practice, the intervention of *zone* administrations has been far beyond these mandates. All of the interventions of the regional government in the affairs of *woreda* administrations discussed in chapter five would not have been possible without the involvement of *zone* administrations.

Zone administrations have effectively served as agents to hijack the constitutional power of *woreda* governments, though in the eyes of the deputy head of BoFED this role is important role in facilitating the relationship between region and *woreda* government. All of the informants in all case study *woredas* agree invariably that zone administrations have been excessively intervening in *woreda* administrations affairs. They feel that their *woreda* become distant from the regional government because of the presence of *zone* administrations. The chance to present cases which need attention from the regional government officials by bypassing the zone administrations has now

become minimal. Moreover, during the course of the study, the researcher had the chance to observe how the regional government loses touch with *woreda* governments. In an endeavour to find financial information of *woreda* administrations in the region, it was not possible for the researcher to find relevant data about *woredas*. All financial information of *woreda* governments available at BoFED are organized along zone administrations. It is hardly possible to find data about a particular *woreda* budget. Sadly, most of the regional reports are organized along *zonal* basis not on *woreda* basis. *Woreda* level data is not readily available and analysis of socio-economic and government budget is made at *zonal* level not at *woreda* level. The regional government has no chance to see *woredas* that need special attention as the reports are organized amassed along *zones*. There is no *woreda* level analysis of such data. This creates distance between the *woredas* and their region. Informants state that there is nothing changed in the relationship between *woreda* administrations with *zone* administrations because of district level decentralization except *zone*'s role of distributing grant to *woreda* administrations has been kept aside to the regional government. Thus, there is sufficient evidence to conclude that the relationship between *woredas* and regional/*zone* administrations has been effectively hierarchical.

Of course, there has been resistance from *woreda* administrations though that doesn't reach to a point that causes serious conflict with each other. Nevertheless, the deputy head of BoFED doesn't accept this resistance and still insists that without the involvement of *zonal* administrations it is not practically possible for the regional government to handle the burden of coordinating and supporting the existing several number of *woredas*. The informants from the case study *woredas*, without opposing its nominal coordinating and supportive role as well as its responsibility to follow up the compliance of regional policies and laws, do not agree with its excessive interventions in the *woredas*. They argue that the current intervention in the form of dictating plan preparation and amending plan targets, sometimes hiring employees for *woredas*, ordering *woredas* to make budget allocation for particular activities, evaluating the performance of *woredas* on services which clearly belong to the mandates of *woredas*, making assignments of various activities arbitrarily that are not instinct to their *woreda*

plan, and so forth is by no means along with the essence of the district level decentralization framework of the region.

Contrary to its nominal role, as discussants in the experts' FGD believe, the role of *zone* administration to provide technical assistance and supervise the effective compliance of regional financial ordinances and policies has declined after the first phase of the implementation of financial management reforms. Discussants in Debremarkos, in particular, blame *zone* administration bodies for turning a deaf ear to violation of some financial rules and regulations. *Zone* administrations were basically organised just to support and coordinate autonomous *woredas* without intervention in their mandate whereas, in practice, their role has been in the other way around. This happens because *zone* administrations have been overly burdened with dictating, closely controlling and evaluating the activities of *woreda* administration than supporting and providing technical guidance to *woreda* administrations. Besides, the region/*zone* administration authorities have not been strictly following up and regulating the compliance of *woreda* administrations to those policies, regulations and standards for the reason that they knew compliance to those rules and regulations and standards sometimes negate their political interest. For instance it is the responsibility of the regional government or *zone* administrations education offices to make sure that schools and health institutions in *woreda* administrations meet the required standards and facilities. But this is apparently against the expansion policy of the regional governments. It is also the responsibility of the regional government/*zone* administrations to ensure the compliance of *woreda* administrations financial activities with financial rules and regulations. But as the regional government or *zone* administrations knew that some of the irregularities in financial management have happened due to their interferences, they often tend to be reluctant.

Therefore, this fact supports the critic that the strengthening of *zone* administrations despite their no constitutional recognition reflects the regional government's lack of political commitment to grant *woreda* administrations genuine self-administration power. It is just because the regional government realized that it couldn't shoulder the burden of closely dictating and controlling several *woredas* by itself that it has created

zone administrations rather not to strengthen the self-administering capacity of *woreda* administrations.

Then, the question may be why *zone* administrations have been able to exercise control over *woreda* administrations without having constitutionally recognized political power? This question leads us to the discussion about the structure of the ruling party and nature and extent of patron-client relationship between *zonal* and *woreda* level party organs and its impact on decentralization. The structure of the regional ruling party (ANDM), as discussed in detail by Paulos (2007), follows a chain of hierarchical structure that forms a pyramidal shape from top down to lower level leadership stretching from the centre to *kebele* level. Officials assigned in *zone* administrations are not only members but also constitute ANDM leadership at *zone* level. The same holds true for *woreda* administrations. In all *woredas*, not only the members of *Woreda* Council but also all officials in the executive body are from the ruling party appointed mainly because of their political loyalty and commitment. These officials are leaders of *woreda* ANDM organ as well. That means *woreda* administration officials are accountable to *zone* administration informally through their party hierarchical structure. This relationship is the result of the centralized system of the party where, as stated earlier, the *woreda* level party organs have the obligation to implement decisions and instructions from the centre through *zone* party organ. To make sure this central dominance and their loyalty, the appointment of *woreda* officials is subjected to approval of *zone* ANDM leaders.

The periodic party evaluation system is one of the methods to make sure that *woreda* party leaders and the *woreda* administrations are in compliance with ANDM ideology and policy. Their political career highly depends on this evaluation. Lack of commitment and loyalty might mean expulsion from the party means that would also cost *woreda* officials their position in the *woreda* administration. This loyalty might sometimes reach the extent of building allegiance to individual party leaders. In this situation it is unrealistic to expect *woreda* officials to withstand the imposition from *zone* administration. They prefer to follow the regional level/*zonal* targets undermining the interest of their community.

As it was discussed in the forgoing chapter, even though *woreda* officials claim to have partnership and cooperative relation with high level officials, we saw also that they had modest disputes but accept the order of *zone* authorities just because they are their superior in the party structure. But discussants in experts FGD in all case study *woredas* expressed that the dispute between experts at *woreda* level and *zone* level is, unlike that of between politician officials, a bit fierce. For instance, financial rules, regulations and standards are one area of conflict. This arises when financial experts at *zone* level on behalf of the regional bureau try to enforce compliance to financial ordinances. But participants in Bahirdar Zuria indicated that they would not accept any imposition from *zone* experts unless it is convincing enough. They express that even if they knew that experts from the *zone* administration have expert authority over *woreda* administrations' experts, they would not accept their instruction.

One of the issues that auditors in the Amhara Region Auditor-General authority (ARAG) often complained about is *woreda* administrations' reluctance to take the required actions in response to the problems auditors found out during audit investigation. Auditors at the ARAG Authority are tasked to examine the financial activities of *woreda* administrations if they are in line with financial procedures and standards. But there are often disputes between *woreda* administration officials as well as experts and auditors over the audit findings and opinions. During informal conversation with public relations officer of ARAG Authority, he stated that even if the regional audit body has formal authority it has been so hard for it to enforce audit suggestions in *woreda* administrations. He stated that *woreda* administrations, in many cases, do not take auditor recommendations seriously and the regional audit body has not been able to enforce such suggestions. It becomes more difficult especially if the findings are against *woreda* politicians. Therefore, it can be said that relationship between *woredas* and *zone* administration is determined not by formal government authority but by the relative position in the ruling party structure.

However, the question is how far can all these kinds of disputes continue? One participant mentioned that a brief telephone conversation by *zone* sector office authority with *woreda* sector office head would be enough for any ordered changes from *zone* administration experts to get accepted by *woreda* administration experts. Take for

instance the case of disputes over plan targets for primary education (enrolment rate), the head of education office at Bahirdar Zuria noted that they eventually accepted it “*after a brief discussion with zone authorities*”. He stated that *zone* authorities told them “*let you put the targets in your plan and do your best to attain it, it doesn’t matter if not achieved*”. It is very clear that there is no choice for experts than to accept it if it comes through the head of their office. Thus, it can be said that such disputes between experts have been settled through the relationship between politicians at *woreda* level and *zone* level. This is because the relationship between officials at *woreda* and *zone*, unlike between experts, is based on dominance that is determined by their relative position in the party structure.

The same would apply to other kinds of disputes between experts. However, this process of influence by *zone* administration depends on the level political interest *zone* authorities have on the issue. They tend to dictate *woreda* administration only in the areas of their political interest. In many instances, as discussed earlier, they don’t have interest to influence *woredas* over other issues such as financial rules and regulation or service standards as they know that compliance to financial rules, regulations and standards may sometimes be at the expense of their party interests. That is why the ARAG authority, as discussed earlier, struggled to force *woreda* officials to make necessary measures in response to audit opinions. Such short of power of *zone* experts or ARAG auditors to influence *woreda* administration experts or officials has made them reluctant in their assistance and follow up role. In fact, the complaint of participants’ at Debreworkos experts’ FGD, unlike the earlier case, is over the low level of interest of experts from regional and *zonal* level to support and follow up local governments financial practice to ensure if they are in line with financial rules, regulations and standards. This case clearly illustrate how the ruling party system and structure influenced the involvement of the *zone* administration to shift from its supporting, coordinating and regulating role to interfering in the affairs of *woreda* administrations.

8.3.2 Political Party and Local Government Relation and its Impact on *Woreda*

Administrations Financial Governance

In the previous section an attempt has been made to uncover how political party structure and system has determined the level of autonomy of *woreda* administrations. Nevertheless, the pressure that the ruling party system exerts is extended also to touch *woreda* administrations' financial management system. This doesn't mean only the financial management difficulties that it causes to happen indirectly by inhibiting the self-administering power of *woreda* administrations. It is rather the direct influence it triggers in the financial management system of *woreda* administrations. Thus, in order to analyse this it is imperative first to begin with describing the interaction of the ruling party structure and system with *woreda* administrations system.

Generally, the relationship between the ruling party and the *woreda* administrations said to be intermingled where the informal ruling party system dominates while formally established government system remains to have only a nominal role. It is to be noted from chapter five that all of the officials of the executive body at *woreda* administrations are political appointees who have dual responsibility (political responsibility and managerial responsibility). The primary considerations for their assignment are related with their political commitment and loyalty and even sometimes their allegiance to individual party leaders. Their political responsibility is to implement unquestionably the decisions that come from the centre as the party follows central democratic system. In order to make sure loyalty and commitment to the party lines and policies, *woreda* officials' appointment is subject to *zone* level party leadership approval and their performance is subject to regular and irregular party evaluations (*gemgema*). These evaluations are not necessary meant for accountability rather to make sure that officials are still working for the party. Furthermore, reportedly there have been attempts to lure staff members in the *woreda* administrations to join the party with the intention of ensuring total control of the state function by the ruling party. Promotions and assignment of staff members to various positions have been reportedly based on loyalty and commitment to the ruling party. There are reports that indicate party evaluations have been systematically combined with formal administrative evaluations to be used even for evaluation of staff members that is purposely designed

to instil loyalty to the ruling party. Besides, there are reports that indicate the successive reshufflings and staff turnover thereof in the *woreda* administrations have happened by design for the reason of instilling loyalty and commitment to the ruling party as the popular saying goes “being in a position of EPRDF (the ruling party) government is just like sleeping on a tree branch”. As many agree the reassignment of staff members to various positions during the reshufflings have been made based on their result in the evaluation that is made to reflect party interests.

Given these facts, it is very difficult to fully blame the design of financial management reform implemented in the *woreda* administrations for all the flaws in the financial management discussed in chapter six and seven. There are number of cases in the financial management which cannot be necessarily attached with weakness in the design of financial management reform. Rather, some of the difficulties are related with problems in the implementation of the reform caused by the intervention of the ruling party system and structure in the *woreda* administration systems. Thus, it is imperative to pinpoint implementation problems that are caused by the attempt to use formal administration system for political benefits taking advantage of the blurred relation between state and party. From the previous sections, the consequences of the interference of the ruling party system and structure in the case study *woredas* formal financial administrative systems can be seen in four categories.

The first is the financial management difficulty caused by decisions in the planning and budgeting process made just to the interest of their political party but might be at the expense of managerial targets. One best case example here is, as pointed out in chapter six, officials tend to allocate budget for expansion of services at the expense of quality and sustainability of services just to show their loyalty and commitment to their ruling party. *Woreda* officials have been well aware and convinced of peoples’ concern over quality and sustainable of the available service delivery facilities. However, they didn’t dare to make responsive budget allocation as they had to comply with centrally established party policies and goals.

The second problem is the compromise of desirable financial management practices, standards procedures and rules just for political party interests. As discussed in chapter

six and seven, one of the problems in the financial management systems of the case *woreda* administrations is the reluctance of *woreda* officials in the plan and budget preparation process that triggered several cascading undesirable consequences in the implementation. The deviation between strategic plan and annual plan, between strategic plan expenditure estimate and actual, between cash flow plan and actual cash flow, excessive budget transfers, unplanned procurements among others are partially caused by the reluctance of officials in the planning and budgeting process. It goes without saying that there is no possibility to meet managerial targets with such undisciplined management of resources. Nevertheless, officials have been less concerned about managerial standards and techniques in the preparation of plans and budgets as they knew that the important factors for them to stay in their position eventually are connected with their loyalty to their party by meeting political targets than compliance to formal managerial targets. Furthermore, the fact that officials have been overburdened with political duties meant their main managerial duty of preparing, following up and evaluating plans and budgets relegated to secondary level.

Reluctance of officials, of course, might not be the only factor responsible for the flaws in planning and budgeting but it was also officials and staff members lack of skill and experience as well as turnover that have exacerbated the problem. Nevertheless, these capacity limitations in one way or another are connected with the influence of the ruling party system and structure. As discussed earlier, successive reshuffling and turnover of officials and staff members made in the name of reforms have been politically motivated to make sure that they remained loyal and committed to party lines. But this frequent turnover of employees has another repercussion. As discussants at Debremarkos experts' FGD noted, most of the accountants and budget officers are novice to their job and are not familiar with financial rules, procedures and standards. As a result, they don't have the confidence to refuse illegal disbursement requests from officials. They do not internalize the ethics and values of accounting and budgeting standards. Thus, they don't care for the violation of these values and ethics (professionalism) as long as that doesn't cause discontent of their officials (boss). Thus, these discussants blame the current reshuffling for causing illicit and undisciplined financial activities.

It has been discussed also that officials have never got any training related with planning and budgeting. All of the trainings they got so far are intended to strengthen their political leadership capacity. It is clear that the main purpose of these kinds of trainings is to instil compliance to centrally established party policies and strategies but at the expense of skills required to undertake their main managerial duty. Therefore, there is enough evidence to believe that capacity building efforts have been targeted to instil party loyalty and commitment but at the expense of the capacity needed to handle financial management responsibilities.

Most of the desirable financial management practices (standards, rules, procedures) that were designed for economic use of resources have been compromised due to party interests as well as the imbalance power relationship among officials and experts instigated by the ruling party system. Experts in the financial management system, such as accountants, budget officers, purchasers and auditors who are supposed to oversee the financial activities of *woreda* administration and to safeguard the compliance of established financial standards, rules and procedures have remained silent to non-conforming financial activities. This has happened due to the infiltration of party system in *woreda* administration. It has been observed that these experts have lost their administrative power to stop financial activities that did not comply with established standards, rules and procedures such as disbursement or refund requests without adequate supporting documents or procedures, disbursement requests without submitting cash flow plan, budget transfers requests without fulfilling necessary prerequisites, excessive budge transfers, unplanned procurement requests and so forth. They understood that evaluation of their performance have not been in terms of the accomplishment of those responsibilities but by the evaluation system that are designed to instil party loyalty. They understood that their career depends not on the level of accomplishing such expertise responsibilities but their allegiance to the party and its leaders. For this reason, most of these experts are not concerned about the non-conformance of financial activities to established ordinances but they just follow whatever instruction and order that comes from officials and act accordingly. The only concern experts have, as understood from the experts' FGD discussions, is the lack of clarity in accountability between the officials and themselves in case such abuse of

ordinances are identified by regional auditors. However, the demand for clarity in the role and power in financial process might not be necessarily emanated from their need to exercise independent autonomy to oversee the financial activities of officials. But it may be because they are afraid of being eventually fully responsible for it as they think officials get protection from higher level party leaders.

Administrative accountability arrangements within *woreda* administrative offices are predominated by politically motivated evaluation systems characterised by lack of clarity about administrative or legal consequences on experts or officials for breaching regionally established financial management ordinances. Furthermore, the accountability relationships between staff members within the offices are determined by the degree of loyalty and closeness of the individual to the party or party leaders rather than the formal expertise or administrative structure.

On paper, officials are accountable to the *Woreda* Council. Nevertheless, in practice, such check and balance system has not been fruitful to hold officials accountable. This is mainly due to the imbalance of power between the executives and council members. As opposed to commonly held view, the evidences in this study shows that such imbalance of power is created not necessarily by lack of *Woreda* Council's independence or the capacity problem of council members as well as that of the *Woreda* Council institutions but more importantly it is the influence of the ruling party system that has resulted in the legislative body to be dominated by the executive.

In order to analyse the power relationship between the *Woreda* Council and *Woreda* Executive, it is important first to understand the relative position and role of *Woreda* Council members and cabinet members in the formal government and party structure. Council members are just par time politicians and ordinary party members who are in most cases at lower level in the party structure. They are leading their life engaged in different walks of life. They are peasants, civil servants or small scale traders. Being a council member does not get them any benefit except the per diem they get paid whenever they participate in the regular council meeting. They take part in the party and in the council just hoping future career promotions or other forms of small benefits. In

order this future dream come true, they have to show their loyalty and commitment to their party leaders.

On the other hand, cabinet members are full time position holders in the *woreda* administration who enjoy both economic and career benefits. They hold these positions because of their higher rank in the party structure. That means cabinet members are either in the leadership or closer to the leadership in *woreda* party organ. Thus, even though, cabinet members are formally accountable to the *Woreda* Council, the accountability works the other way around due to the party structure. Council members who are ordinary members in the party structure are accountable for cabinet members who form the *woreda* party leadership. In this situation, it is unrealistic to imagine that *Woreda* Council members would challenge cabinet members whenever improper financial performance they noticed in the *woreda* administration. Ironically, there is reverse accountability relationship. Council members have to attend and participate actively in the regular meetings to show their loyalty to the party. Otherwise they have to face the danger of expulsion from party membership. Thus, the discussions in the *Woreda* Council take the form of feedback gathering or cabinet members use it to enhance council members' awareness about the party directions and policies.

Therefore, from this discussion, it can be assumed that the formal administrative and political accountability arrangements of the *woreda* financial management system are twisted to the interest of the ruling party by the imbalance of power generated due to the overwhelming overlap of the ruling party system with formal *woreda* administrations system.

8.4 SUMMARY

This chapter was set up based on the findings of the preceding chapters that financial governance of *woreda* administrations is determined not only by formally arranged intergovernmental relations and financial management tools but also other informal arrangements such as social accountability mechanisms and contextual factors such as political systems and structure of the ruling party. The chapter attempted to reveal several gaps in financial governance where the formal arrangement of financial management in *woreda* administrations failed to address. While some of the gaps

indicate the need for an alternative approach that allows direct involvement of people is the appropriate arrangement others indicate political context that determines the intergovernmental relation and under which *woreda* administrations operate hinders *woreda* financial governance.

To begin with the assessment the practice of social accountability arrangements in the financial management process, the findings in the case *woredas* show that social accountability arrangements has been the most neglected aspect of the reform. The opportunities for citizens to participate have been either rare or unorganized or not empowering citizens. Citizens also found to be having little interest to participate for the reason that such public meetings organized by government body either have not been in the areas of people interest nor with meaningful participation of people and tangible result. On the other hand, it is observed that citizens in the *woreda* administrations have been willing to participate when they were invited to get involved in solving tangible service delivery problems in their surroundings. For instance, urban residents in particular have been willing when they were asked to contribute for development of infrastructures and expansions of services in their surroundings. In this case decentralization might take the credit for enhancing participation of people as it was observed that residents have been more enthusiastic to contribute voluntarily when they knew that it was for their own surrounding development.

The finding on the assessment of peoples' tendency to expose and challenge corruption shows that people do not dare to account officials when they are frustrated with weak administrative, legal and political arrangements of accountability. But at the same time, they more tend to expose and challenge local officials for corruption when its impact directly and visibly affects them and impacts the service delivery in their surroundings. That is the more contribution people make in the fund the more they tend to be concerned and hold officials accountable. On the other hand it is observed that public investment dominated intergovernmental transfer financing undermine downward accountability that people do not tend to account officials.

Assessment was also made on the possibility of using civic organizations for facilitating direct engagement of people for accountability. Traditional associations such as *Edirs* found to be effective in mobilizing mass people albeit they have capacity limitation and potential danger of being captured by political party to operate independently in the process of direct voicing. Formal associations, in general, have had minimal role in mobilizing people due to their alleged lack of independence caused by blurred boundary between the associations and *woreda* administrations.

Despite the limited practice of social accountability, an attempt has been made to assess three initiatives of social accountability arrangement that have been put in place in the *woreda* administrations. The experience of displaying information about budget appropriation among sector offices along with sources of funds and regular budget execution on public places shows that the practice has been futile to facilitate financial transparency at least for two reasons. The first reason has to do with capacity of ordinary people to comprehend such information. The second is related with the crudeness of the information which doesn't really show the manner of spending. The third is its inability to attract the attention of citizens. Local people are more interested in disaggregated information particularly about the fund utilized in their surrounding than such *woreda* wide budget information.

The pilot project of Participatory Planning and Budgeting (PPB) has proved that citizens can have meaningful role in *woredas* financial management process. People taking part in the PPB were able not only to articulate their priorities but also to formulate the budget needed for it. But it was observed also that there are daunting challenges especially in creating adequate awareness and building capacity of local people to make sure they participate in an empowered manner. This indicated that civil society organizations have a crucial role to play in facilitating direct involvement of citizens. But this is without forgetting to mention that lack of the independence of civil society organizations is the concerning issue. The CDF approach that is being in use by donor funded projects that are working to improve rural water supply in *woreda* administrations has also used social accountability approach where citizens have been involved throughout the implementation of the project and management of finance. This

approach has provided an important lesson that direct engagement of citizens in the administration and control of finance will result in economic use of resources, timely completion of projects, and sustainability of the services despite the fact that its replicability is limited only to donors' fund.

The assessment of the influence of the ruling party system and structure indicates that the interference of the regional government through its structure in the zone administrations that constraint the spending autonomy of *woreda* administrations is not necessarily caused by shortcomings in the design of decentralization or the implementation limitations mentioned earlier. But it is the ruling party system and structure that facilitated for regional government/zone administration authorities to directly intervene in the affairs of *woreda* administration. This chapter argues that the centralized system and dominance relationship between members at different position in the structure of the ruling party have forced *woreda* officials to be subordinated to unconstitutional tier of governments. Even though zone administrations are meant for following up and regulating *woredas* activities just for compliance of federal/regional laws, policies and standards as well as for supporting *woreda* administrations to strengthen their self-administering capacity, they are actually controlling and dictating *woreda* administrations without having any constitutional power but informally through party hierarchical structure. However, zone administrations have been neither capable as they are overburdened with the duty of dictating and controlling *woreda* administrations activities nor interested to follow up the compliance of financial rules, regulations and standards as they sometimes negate their political interest of the ruling party.

The assessment in this chapter addresses also how the ruling party system and structure interacts with formal public administration systems to determine *woreda* financial governance. It is indicated that the boundary between the ruling party system and *woreda* administration systems is blurred. This led to the dominance of the informal party system over the formal administration system. This is guaranteed by the appointment of party loyal cadres in *woreda* executives' positions who are subject to periodic party evaluation and reshuffling. They have neither the training nor the experience to discharge their managerial role. This also extended to staff members in

the *woreda* administration. It is indicated, therefore that there have been chances for party system to override the formal administrative system.

Due to this fact *woreda* officials have been making budget allocation decisions that reflect party interest but at the expense of administrative standards. *Woreda* officials couldn't properly undertake their managerial duty like planning, budgeting and evaluation because of their overburden with political duties. They didn't give attention to planning and budgeting preparation and their implementation as they knew that their evaluation is based party loyalty and commitment than these managerial duties. WOFED staff members failed to force officials to comply with financial management standards, procedures and rules. Even though, formally the duty and responsibility of safeguarding the violation of these administrative ordinances is given to WOFED and its staff, the accountability relation is inversed to be in the other way around due to the dominance of party system. It is discussed also that the existing manpower deficiency in *woreda* administrations is associated with party system dominance as the successive reshuffling and assignment of officials and employees to new positions is party driven for the purpose of instilling party loyalty of staff members. The reason for officials' lack of skill in planning and budgeting is caused by the current management development program that is designed just to teach party ideology and maintain party loyalty. Party system is also the factor for limiting the overseeing role of *Woreda* Council. It is observed that there has been reverse accountability relationship between *Woreda* Council and executives where *Woreda* Council members are accountable to executives through party structure despite their formal power to hold executives accountable.

The chapter also attempted to portray the influence of the regional ruling party system and structure in determining the contribution of social accountability arrangements in promoting *woredas*' financial governance. It was observed that the ruling party chain of control that extends from the region to community level and from government level to civil society and community associations level undermines not only the chance of the people to challenge the financial allocation and utilization of decision of *woreda* officials but also the independence of civil society organizations and community associations to challenge *woreda* officials representing the community.

All in all, the chapter confirmed that the effort to improve *woreda* financial governance can succeed if only the reforms to overhaul the intergovernmental relations and financial management systems are supplemented by social accountability initiatives but also depends on the political context.



CHAPTER NINE: SUMMARY AND CONCLUSION

9.1 INTRODUCTION

In this final chapter, a brief review of the thesis and synthesis of its different chapters is to be presented in order to clearly address the research objectives and answer the research questions. The thesis sought to examine the link between fiscal decentralization and local financial governance and intervening factors in *woreda* administrations of the Amhara region in Ethiopia. The district level decentralization program pioneered by the Amhara regional government, along with three other regions, to reorganize *woreda* administrations into self-administering local governments has devolved not only political and administrative powers but also the power to collect and spend government finance for financing local public services. The expressed aim of devolving fiscal power to *woreda* administrations is to enable *woreda* administrations to deliver local public services through the efficient, effective, transparent and accountable raising and spending of public finance, as well as through the active participation of local people. However, as in other developing countries that have followed the path to devolved forms of decentralization, the evidence from this study reveals that it is doubtful if the decentralization program in the Amhara region in Ethiopia will be to deliver its financial governance promises, given that the program has faced a variety of important challenges, including the unclear and inadequate devolution of power, problems in the system of intergovernmental relations, incomplete financial management reforms, dysfunctional democratic arrangements, weak citizen and civil society involvement, and the dominance of a centralized ruling party system.

The theoretical framework developed in Chapter 2 (based on the four different perspectives), as well as the comparative experience of fiscally decentralized countries, suggest that the endeavour to achieve local financial governance benefits through fiscal decentralization is not only a matter of devolving fiscal power and making necessary reforms in financial management systems, but also requires a range of carefully designed multifaceted efforts such as social accountability arrangements and the

provision of an enabling environment. The theoretical perspectives suggest that having clear and adequate assignment of powers and functions helps to ensure accountability and effective forms of financial management at the local level. The inadequate and unclear assignment of functions, finance and powers provides insufficient motivation for local officials to act responsibly, makes it difficult for local people to know who is accountable for what, and can easily result in the unpredictable and inadequate availability of resources. Furthermore, complete and appropriate reforms in the public arrangement of decentralization can help to ensure effective, efficient and financial management, to facilitate financial transparency by providing complete, reliable and relevant information, and to ensure that officials and civil servants are administratively accountable and executives are politically accountable to local legislators and the people. Moreover, it is suggested that no matter how well they are designed and practiced, such public arrangements might not *ipso facto* adequately lead to effective and strong accountability. Instead, new forms of social accountability mechanisms, which enable the direct engagement of citizens in government, should complement public accountability mechanisms. In addition, it is important to recognize that the political environment in which fiscal decentralization, public arrangements and social accounting reforms are implemented can play an important role in influencing how effective decentralizing reforms work in practice. In democratic countries that have a single dominant party, it is suggested that the intra-party relationship of the ruling party at the different levels of government can play a particularly important role. In short, the theoretical and comparative practical experience suggests that local financial governance is best served when these various elements are used in combination in an enabling political environment.

In view of this argument, the overarching question that this thesis attempts to address is how the incomplete and mixed initiatives of the Amhara region's district level decentralization program in a centralized single party dominant system have combined to influence district level (*woreda*) financial governance. Before answering this question it is imperative first to address three other specific questions. The first is how adequate and appropriate have been the decentralization and public financial management reforms undertaken under the decentralization framework. The second is to identify

those areas of decentralized financial management and governance that could not be adequately addressed by the decentralization reforms, and which therefore need to be supplemented by other alternatives such as social accountability mechanisms, as well as to assess the opportunities for the effective introduction of such mechanisms. The third is the extent to which the political environment, and specifically the intra-political party relations of the ruling party, has served to promote or inhibit the genuine devolution of power and the introduction of effective and accountable forms of financial governance at the district level.

In an attempt to answer these questions primary and secondary data was gathered from four different *woredas* in the Amhara region. It was believed that answering these questions would help to identify the gaps in the design and implementation of district level fiscal decentralization and to determine what additional interventions are needed to reap its promised financial governance benefits. However, before attempting to answer the questions, it is necessary to present a summary of the study's key findings in relation to an assessment of the effectiveness of the intergovernmental relations system, the adequacy and appropriateness of the efforts to empower *woreda* administrations, the reforms in the public arrangements for fiscal decentralization and financial management, the existing mechanisms for citizen involvement and the influence of political party system and structure.

9.2 SUMMARY OF KEY FINDINGS

9.2.1 Intergovernmental Relations

The assessment of the district level decentralization framework was designed to determine the level of autonomy afforded to *woreda* administrations, as well as the supportive and regulatory role to be played by the regional government. According to the revised constitution of the Amhara regional government, *woreda* administrations are autonomous political units mandated to undertake a range of functions for which they can also raise and spend funds. These include the formulation and implementation of socio-economic plans, and annual plans and budgets. Nonetheless, neither the constitution nor other legal instruments clearly specify all the functional competencies

devolved, resulting in a lack of clarity on the precise and exclusive roles of the *woreda* administrations.

In particular, the *woreda* administrations have not been devolved with significant power to raise their own revenue, for example through borrowing. Although the urban administrations are better empowered to raise their own revenue from municipality services, most of the rural based *woredas* (which are the vast majority) have a very low tax base. Currently, therefore most *woreda* governments are highly dependent on transfers from the regional government for both their recurrent and capital expenditure, as well to a more limited extent on donor funding for capital development projects. As most of the regional transfers are delivered on an unconditional basis, this in theory would suggest that the *woreda* governments still have a significant level of discretion in deciding on their spending plans. However, in reality the discretionary power created by the unconditional block grant has been cancelled out by the unit cost approach that is used to determine the volume and distribution of the grant. This effectively compels the budget allocation by the *woreda* governments to reflect regional government interests and priorities.

More fundamentally, however, the constitutionally recognized spending autonomy of *woreda* governments in the Amhara region has been severely compromised by the interference of the regional government through its zone administration structures. As noted in the study, the various sector offices in the *zone* administrations interfere on a regular basis in the planning and budgetary preparation of *woreda* sector offices by dictating what goals and targets to include. They do this through the provision of planning guidelines and the evaluation of the performance of the *woreda* sector offices, as well as in some cases in dictating what employees to hire, and ordering *woreda* officials to engage in and allocate budgets for unplanned activities. As will be seen later in this section, the *zone* administrations are able to exercise such levers of control on behalf of the regional government primarily because of the political dominance exercised through the intra-party operations of the ruling party.

Although the *woreda* administrations have been able to achieve some success, particularly in terms expanding access to services, reducing red tape, and mobilizing local resources, far less progress has been made in areas such as involving of people in local financial allocation and utilization decisions, availing financial information to citizens, engaging people in holding local officials accountable. In many ways, therefore, the findings of the study indicate that actual practice of decentralization in the Amhara region therefore has exhibited many of the features of decentralization by de-concentration than decentralization by devolution.

9.2.2 Public Arrangement of Reforms in *Woreda* Financial Management

Generally, the study finds that almost all of the public arrangements in the financial management systems of *woreda* administrations have been overhauled, as part of the decentralization process, in line with the ‘getting basics right first’ approach. In the first place, and with respect planning, *woredas* have been required to link their annual plans and budgets with the required policy outputs through strategic planning. They are required to link their annual plans and resource allocation not only with such medium term policy outputs but also with the preferences of people at the grass root level through bottom-up rather than top-down planning. Moreover, they have been provided with new budget codes that have been helpful in analysing the budget from different dimensions, as well as in allocating budgets to programs. A new budget calendar has also been introduced to provide the *woredas* with sufficient time to analyse and allocate their budgets properly and prudently. Procedures that should be followed and the various actors who are involved in the process of allocation, appropriation and approval have been clearly established. In order to ensure an orderly and disciplined implementation of plans and budget, sector offices have been required to prepare and follow action plans and cash flow plans. The old single entry recording system has been changed to a double entry system, which has helped all the case *woredas* to improve the accuracy of recording, easing reconciliation and closing accounts. The old cash based accounting system has been also replaced by the new modified cash accounting system that recognizes short term advances and takes commitment expenditures into account. A single treasury system has also been introduced to replace the old fragmented cash management system. This pulls all funds together into a single bank account introduced in the place of the old fragmented cash management system.

Procurement also has gone through reform. The previous unplanned and fragmented system has been changed to a planned and centralized procurement system. Direct/pro forma centred procurement practices have been replaced by open bid procurement with the aim of reaping ‘value for money’ benefits. Reporting in the *woreda* administrations has been also overhauled to facilitate greater transparency and accountability. *Woreda* administrations and their sector offices are now required to prepare their reports by integrating their financial performance with physical performance, as well as by comparing their planned and actual performance. Auditing has also been reformed to strengthen its role of facilitating transparency and accountability. The previous verification centred pre-auditing practice has been changed to sample based post-auditing.

Decentralization has also resulted in new political systems at the district level. Multi-party elections have been introduced for the *Woreda* Council, with a separation of powers between the elected representatives and appointed officials. The *Woreda* Council is composed of democratically elected representatives who collectively have the power (at least in theory) to appoint the *woreda* administration executives and hold them to account.

Nevertheless, the findings of the study demonstrate that such reforms have not been a complete success. In the first place, the evidence suggests that the practices of strategic planning and bottom-up planning have not delivered any meaningful results. Strategic plans in the case *woredas* are often unrealistic and have little or no connection with annual plans and budgets. Similarly, the ‘bottom-up’ plans prepared by *kebele* administrations and service delivery institutions are often rejected or only included in the *woreda* plans following major modification, largely because they include targets that are unrealistic. This means that the intention to base planning on a bottom-up approach has not been realised in practice. In practice, the annual plans and budgets of the *woredas* have tended to be based much more on the achievement of regional government priorities than on the needs of communities and the declared preferences of the people.

Budgets have not only not been linked to strategic plan policy outputs. They also have not been systematically tied to annual performance targets and outputs. Allocations rather have been made to inputs and estimations made based on the availability of funds. This, in turn, has resulted in budget appropriations among the sector offices often being subject to manipulation and misappropriation. In short, budgets have failed to reflect both policy outputs and citizen preferences. These problems in planning and budgeting have also had a domino effect on other financial management activities. Budget implementation has often significantly deviated from the plan, resulting in the excessive use of budget transfers.

In addition, due to such disruptions in the plans and budgets, *woredas* have been unable to put into action and realise the benefits of planned procurement. This also helps to explain why the auditing practices of *woreda* administrations have been limited to compliance auditing. Budget reporting and evaluation has been forced to rely on budget execution information that does not clearly reveal the efficiency and manner of their spending. In fact due to the intensity of disruptions in the plan and budget, sector offices have experienced difficulty of preparing a report that compares actual and planned performance.

With regard more specifically to procurement, the introduction of an open-bid system has not in most cases realised the envisaged benefits in terms of competitive pricing and quality. This has especially been the case in the rural-based *woredas* that make up a majority of the *woredas* in the region. Many of these have not been able to capitalize on the competitive price benefits of the new procurement system as they have only a small number of suppliers or contractors to compete in the bid. This situation has permitted suppliers to collude with each other and rig the prices. Due to the shortage of suppliers and contractors, tenders often have to be issued several times before they attract any response, thus leading to delays in the commencement of infrastructure projects. Where no responses are achieved at all, *woredas* have often been forced to resort to more traditional methods of direct procurement, with the attendant dangers of nepotism and price rigging. The lack of experienced and capable suppliers and contractors has also

had an adverse effect on the quality of construction projects and their timely completion.

Moreover, though the double entry system has brought improvement in accuracy and facilitated recording and closing processes, the modified cash accounting system's failure to recognize in-kind donations and contributions, as well as its treatment of asset acquisitions as expenditures, has meant that financial managers do not full control over all their assets, also resulting in incomplete financial statement. Despite its generally positive effect on financial management, the single treasury system has sometimes resulted in cash management difficulties through the incorporation of unreliable and irregular funds.

Auditing practices have tended to be limited to disbursements, collections and accounting statements, and auditing in general has suffered from the lack of coverage of all aspects of *woreda* finances. The main activities of financial management: planning, budgeting and implementation have generally been excluded from both internal and external auditing. In addition, the limited number of *woreda* that are covered by the external auditors, due to capacity constraints in the regional auditor general's office (ARAG). The lack of effective controls through the internal and external auditing systems, together with the limited types of discipline or punishment dispensed to identified offenders, has provided an atmosphere in which corruption and fraud can thrive.

At the same time, two important changes that would have undoubtedly contributed to the financial reform processes, namely performance/program budgeting and zero based budgeting, have not as yet been embraced.

Another problem is that the political arrangement of elections and check and balance systems have not in general served to ensure financial accountability. Opposition parties have shown little interest in participating in *Woreda* Council elections, with the result that in all the case *woredas* the ruling party occupies all the seats in the Councils. Citizens have also shown little active interest in participating in the elections. In

addition, the *Woreda* Councils have generally failed to effectively oversee plans, budgets and performance, and to *woreda* officials to account, largely due to their lack of capacity and interest. Typically the plans, budgets, and reports prepared by the *woreda* officials have not been sufficiently understandable, relevant and complete to facilitate a critical analysis. External audit reports are also not usually presented for *Woreda* Council scrutiny. In a nut shell, the role of the *Woreda* Councils has in many ways been little more than rubber stamping the activities of the *woreda* executive. Again, as will be seen later, this tendency has been reinforced by the operation of the party system at the *woreda* level.

Another important problem has been the considerable variation in the actual implementation of the decentralized financial reforms between different *woredas*, as well as between different sector offices in the same *woreda*. This has been due in the main to variations in the levels of manpower, as well as to variations in the quality, skills and commitment of the officials employed. Although there has been a shortage of manpower in most of the rural *woredas* (the situation is somewhat better in the urban areas), some *woredas* have been more successful than others in filling the posts available.

In general, however, human resource capacity problems have continued to plague most of the *woredas*, particularly in terms of planning and finance staff in the sector offices and WOFED. There is a general shortage of qualified and experienced staff, as well as the lack of training opportunities to build capacity. In addition, many financial officials have only been in their jobs for a very short period of time. One of the main reasons for this is the constant reshuffling of staff that has taken place, resulting in high levels of turnover.

At the same time, the findings of this study reveal that skill deficits have frequently been accompanied by a lack of commitment on the part of officials to carrying out their work efficiently and with integrity. Officials and staff members in many cases do not seem to have been seriously concerned with the effective implementation of budgets and plans. The situation has often been more serious with respect to procurement. Those

officials who are supposed to supervise compliance with rules, regulations and ordinances have often been found to have breached them themselves.

One of the main reasons for such negligence by officials and staff members is related to the failure of WOFED to effectively enforce compliance with financial management procedures, standards and rules. There is little clarity on the extent of power afforded to WOFED to enforce such ordinances. At the same time, the consequence of breaching such ordinances is not well known or understood. There is therefore no adequate administrative accountability relationship between WOFED and other *woreda* sector offices, or between senior officials and their staff members. Therefore, it can be generalized that administrative accountability has been one of the major missing elements in the financial reform processes. This has adversely affected the implementation and sustainability of the reform processes, and led to an increasing trend towards negligence, mismanagement and corrupt breaches of the financial rules and standards.

In general, therefore, despite some successes, it can be concluded that the administrative and financial reforms introduced as part of the decentralization reforms have failed to lead effectively to responsive planning and budget allocation, the sustainable delivery and quality of services, efficient procurement with competitive prices, the timely completion of projects, improved forms of revenue assessment and collection, and the introduction of effective forms of administrative accountability.

9.2.3 Social Accountability

Given the weaknesses and gaps in the formal administrative arrangements for decentralized financial governance, the study examined the role that social accountability arrangements have played in improving this situation. The findings reveal that the practice of social accountability has been one of the most neglected aspects in the reform of the planning and financial management systems of the *woreda* administrations. In general civil service organizations and media have been too weak to play a major role in holding the *woreda* administrations to account. Citizens have generally shown little interest in participating in the formal meetings organized by the

woreda and *kebele* administrations to solicit the views of the people. One of the main reasons for this has been that most of the meetings have focused on issues, such as election campaigns, that are of little direct concern to citizens. If meetings and forums were called to discuss the provision of local public services, the community representatives surveyed in the study indicated that they would be genuinely interested in participating, especially if they were convinced that their issues and concerns would be positively taken into account.

One form of public participation that has taken place is that of community contributions to development projects. *Woreda* administrations and urban administrations in particular, have been able to mobilise resources, in money or in kind, from citizens for the development and construction of various types of small-scale infrastructure projects. This is an indication that decentralization can indeed enhance the participation of people if such participation is meaningful and helps to solve problems in their immediate surroundings.

With respect to the issue of popular oversight and accountability, the findings of the study reveal that there has been little or no opportunity for citizens to hold their officials effectively to account. There have been two main reasons for this. In the first place, there are no simple and convenient mechanisms for expressing their grievances and complaints, or exposing wrongdoings. The local administrative, political and legal arrangements for doing so are complex and inconvenient for ordinary citizens and in many ways serve to protect *woreda* officials from public scrutiny. In the second place, the unsatisfactory ways in which official information about district level finances are currently disseminated has meant that the public have little or no access to information about how government finances are being used.

Despite such difficulties, citizens have been courageous in challenging illicit spending on some occasions, especially where the funds misappropriated have been raised from their own contribution, and where the mis-utilization has been visible and has directly impacted on service delivery in their surroundings. However, the impact of such actions on the overall accountability of *woreda* administrations has been very limited, largely

because community contributions form a relatively small proportion of the total funds used by the *woreda* administrations for development activities and projects.

The study also included an assessment of the possibilities of using traditional and formal associations as a channel for people to voice their opinions and concerns in ways that hold their *woreda* administrations to account. In general it was observed that traditional associations such as *Edirs*, local elders and religious organizations have a greater capacity to mobilize people than the formal associations. However, most of the activities of traditional associations are targeted at the social benefit of people, based on trust, cooperation and mutual understanding. Little focus has been placed on administrative, financial or economic issues associated with the work of the *woreda* administrations. This has been due partly to the traditional associations' lack of skills and capacity in the area of government planning and finance, and partly due to the fear of being captured by local politicians if they started to enter into the political and administrative arena. In general, therefore, it is clear that such associations have played a very minimal role at best in holding local officials to account. The role played by formal associations, such as women's associations and youth associations, was also found to have been limited in this respect, largely because they have been captured and co-opted by the regional party structures.

Despite the limited practice of social accountability, an attempt was made by the researcher to assess a number of initiatives in the area of social accountability that have been put in place in the *woreda* administrations. These included the government's Financial Transparency and Accountability (FTA) program that displays budget information in public places; the Participatory Planning and Budgeting (PPB) program (which is a component of the national Social Accountability Program); and the Community Development Fund (CDF) program. The experience of displaying financial and budgetary information on public notice boards, it was found, had not played a significant role in creating public interest and awareness, or in promoting greater financial transparency, for a number of reasons. The first has to do with capacity of ordinary people to comprehend such information. The second was related to the crudeness of the information which, because it provided little or no information on the

effectiveness of the spending. The third was its inability to attract the attention of citizens. Local people are more interested in disaggregated information particularly about the funds utilized in their immediate surroundings, rather than *woreda* wide budget information.

The PPB program was one component of the Ethiopian Social Accountability Program (ESAP) which has been in place in Ethiopia since June 2006. The ESAP program is designed to enhance the engagement of citizens and civil society organizations in the provision and financing of basic services. The program is primarily supported by the World Bank and the GtZ (now GiZ). The pilot project of the program was implemented in four *woredas* between February 2008 and June 2009, and included the Debremarkos city administration as one of the pilots. Focusing on primary education and health care services, the PPB program was designed to promote the involvement of citizens in budgeting decision making (prioritization and the determination of the budget needed), in budget implementation, and in budget follow-up and evaluation.

The experience of PPB pilot project shows that people can have a meaningful participation in forcing *woreda* administration officials to be responsive to their interests if they are empowered and their capacity is built. The citizens taking part in the PPB were able not only to articulate their priorities but also to help formulate the budget needed for them. However, given that this was a pilot project that has now come to an end, there was no opportunity to evaluate whether the actual outcomes of the project conformed to the planned priorities, or whether the budgets were executed as planned. As the program was funded by outside donors, there also seem to be limited opportunities for scaling it up to all *woredas*, especially with the limited government funds available for capital development projects.

A third initiative covered in the study was the Community Development Fund (CDF) program. The CDF approach is being used in selected *woredas* by donor funded projects that are working to improve rural water supply. The CDF used a social accountability approach whereby citizens were involved throughout the implementation of the project and in the management of finance in particular. This approach has

provided an important lesson that the direct engagement of citizens in the administration and control of finances can result in the more economic use of resources and the more timely completion of projects. However, its wider replicability is limited by the reliance on donors' funds.

9.2.4 The Role and Influence of the Ruling Party and Intra-Party Relations

Although Ethiopia embraced a multi-party system of democracy following the downfall of the *Derg* regime in 1991, the country has been exclusively ruled since then by the Ethiopian People's Revolutionary Democratic Front (EPRDF). The EPRDF is an umbrella organization of four ethnically based parties that rule their respective ethnic regional states. Accordingly, the Amhara National Democratic Movement (ANDM), being one of the founding members of EPRDF, has ruled the Amhara regional state since 1994, and has come to monopolise all of the seats in most of the elected *Woreda* Councils, including the four case *woredas* surveyed in this study. The internal structure and operations of the ANDM is based on an extremely hierarchical form of democratic centralism, extending from the regional government to the *zone*, *woreda* and *kebele* administrations, as well as to the community level.

The findings of the study demonstrate that the overwhelming dominance of the ruling party in the Amhara region, together with its centrally dominated hierarchical structure, has in a number of important ways served to seriously undermine the self-governing autonomy of the *woreda* administrations granted to them in the regional constitution. In the first place, the regional government has used the influence of the party hierarchy to significantly expand the role of the *zone* administrations and their power to interfere in areas that are strictly within the mandate of the *woreda* administrations. Such interference has in many ways served to weaken the ability of the *woreda* administrations to devise and implement their own plans and budgets in accordance with the needs and priorities of their own constituents. At the same time, the legitimate role of the *zone* administrations in providing support and oversight has tended to decline in importance.

In the second place, and more generally, the blurring of the relations between party and state has led to the dominance of the informal party system over the formal administration system in the *woredas*. This has been guaranteed in particular by the appointment of loyal party cadres to posts at all levels within the *woreda* and *kebele* administrations, particularly at the senior and executive levels, whose loyalty and positions are subject to periodic party evaluation and reshuffling. Many of these senior officials have neither the training nor the experience to discharge their managerial roles effectively.

The result has been that *woreda* administrations have tended to align their development plans and budgets to the politically determined priorities of the regional government, rather than to the expressed interests and needs of the communities they serve. Another and associated outcome has been that *woreda* officials have not been effectively held accountable by the regional and *zonal* authorities for their compliance with the financial regulations, rules and standards laid down by the regional government, providing they continue to display the appropriate level of political loyalty.

In the third place, the operation of the hierarchical party system has also been a factor in limiting the oversight role constitutionally allocated to the elected members of the *Woreda* Council. The fact that executive leaders of the *woreda* administrations usually occupy more senior positions within the ruling party than most of their elected counterparts has served to foster an inverse accountability relationship between *Woreda* Council and the Executive Cabinet, whereby the elected Council members are essentially accountable to the appointed officials through the party structure.

In the fourth place, the ruling party chain of control, which extends from the region to the community level and from the government level to civil society, has in many ways served to undermine the independence of civil society organizations and the ability of the people to hold their *woreda* administrations to account. The Amhara Development Association, for example, is controlled by the ruling party, and most of the civil society associations, such as youth and women's organizations are dominated by ruling party activists.

9.3 CONCLUDING OBSERVATIONS

Despite the many challenges mentioned in the chapters and sections above, most of the case study *woredas* have nevertheless been able to make some limited progress, particularly in areas such as the expansion of access to services, the more economic use of resources, increases in administrative efficiency by streamlining bureaucratic processes, and the mobilization of local resources for development purposes. However, none of the case study *woredas* have showed signs of achieving the most important claimed benefits of decentralization, in particular the establishment of an efficient, effective, responsive, accountable and participatory system of local governance and administration, in which plans and budgets for service delivery and infrastructural development are designed, implemented and monitored in a participatory manner, in line with the expressed needs of local communities. As the findings of this study show, there has been little involvement of citizens in local financial allocation and utilization decisions, and few opportunities for citizens to hold their elected and appointed leaders and officials to account.

With respect more specifically to the administrative and financial management reforms introduced as part of the decentralization process, the evidence suggests that, despite some successes, they have largely failed to lead effectively to responsive planning and budget allocation, the sustainable delivery and quality of services, efficient procurement with competitive prices, the timely completion of projects, improved forms of revenue assessment and collection, and the introduction of effective forms of administrative and financial accountability.

This study has identified a range of factors that have been responsible for the weaknesses and shortcomings that have characterised the decentralization process in the Amhara region, and in particular the operation of the financial governance and administration systems that have been put in place as a key part of the process. These include the lack of clarity in the constitutional and legislation framework for decentralization, the serious human resource capacity constraints that face the vast majority of *woredas*, and the low tax base that comprises their revenue raising capacity.

However, in many ways the most important constraint in the decentralization reform process has been the role played by the ruling party hierarchy in maintaining and consolidating its influence and control over all the levels of governance in the region. Through its control of the elected *Woreda* Councils and its ability, in particular through the activities of the *zone* administrations, to ensure that party loyalists are appointed to the senior positions in the *woreda* administrations, the ruling party has ensured the development of a client-patron relationship at the district level that has seriously constrained the self-governing autonomy of the *woreda* administrations. At the same time, the lack of demarcation between the party system and *woreda* administrative system has served to undermine the formal accountability relationships within the *woreda* administrations; and the political capture of citizens and civil society organizations has lessened the independence of civil society organizations and the active involvement of citizenry.

The result has been a system of decentralized district government that is essentially top-down rather than bottom-up in its approach, and characterized in many ways by the features of decentralization by de-concentration rather than genuine devolution. According to the more cynical observers, this illustrates that the original decision by the federal and regional authorities to embark upon a process of district level decentralization was motivated more by a desire to consolidate the control and reach of the ruling party than a genuine desire to promote autonomous forms of self-government at the local level.

Whether or not the decision to decentralize was prompted by such cynical motives, what does seem clear is that, unless the ruling party at the regional level is prepared to loosen its tight control over the governance and administration of the *woredas*, the prospects for the realization of genuine forms of autonomous and participatory financial governance at the district level will continue to be remote.

The study further highlights a symbiotic relationship among the determining factors of local financial governance. The relationship between the degree of devolution of fiscal power and the public financial management arrangements suggest that devolution of power without proper public financial management arrangements and vice versa could

not bring any tangible result in the *woreda* administrations financial governance. Therefore, it is possible to suggest that the symbiotic relation between the intergovernmental relations caused by the decentralization process and the public financial management arrangements in *woreda* administrations of the Amhara region led to the partial reform to have no tangible impact on *woreda* administrations' financial governance. This relationship is further complicated by the cascading relationship between financial management processes.

This symbiotic relationship is also extended to social accountability arrangements. Findings reveal that arrangements of direct engagement of people could strengthen fiscal decentralization to community level and supplement the formal financial management system to fill some of its gaps. But in order to have genuine and productive direct involvement of people, it is suggested that adequate devolution of power and proper public financial management arrangement are very important. The evidence also reveals that the effect of these factors on local financial governance is determined by the structure and system of the ruling party.

9.4 RECOMMENDATIONS

The evidence compiled in this study clearly shows that the link between the devolution of powers and resources to local governments and the establishment of effective forms of local financial governance is not automatic. There are a range of intervening variables that influence the ability of fiscal decentralization to deliver on its financial governance promises. In essence, fiscal decentralization not only has to be accompanied by effective and accountable governance and financial management mechanisms but also by an enabling political environment. The empirical evidence from the experiences of the case study *woredas* reveals a range of weaknesses and shortcomings in these respects.

Given the capacity and other constraints that most developing countries have typically experienced in their attempts to decentralize functions and powers to sub-national levels of government, it might be argued that the shortcomings and challenges identified in

this study are essentially problems that will be resolved over time. Decentralization, after all, is a gradual and iterative process, not an event. This argument might hold water if the district level decentralization process in the Amhara region was on continuum towards the further devolution of power and full-fledged financial management reform. However, the reality is that in many ways the district level decentralization of the Amhara region has not been a process. Rather it was a one-time measure that took place in 2001. Few positive changes have taken place in the period since then. Therefore, the overarching recommendation of this study is that, for decentralization to achieve its intended benefits, the reform measures of 2001 will need to be accompanied by a much more concerted, proactive and continuous process of refinement and improvement, designed to address the many problems and challenges that have limited the ability of *woreda* administrations to exercise their self-governing powers of financial governance in ways that are efficient, effective, accountable and responsive to the needs of the communities they serve.

The ultimate objective will be to work towards a framework that complies with the accepted principles of subsidiarity, namely that basic government services should be delivered, wherever possible, by the level of government closest to the people; that such levels of government should be assigned clear and exclusive powers and functions to carry out their work effectively; and that they should be equipped with the necessary revenue raising powers to do so. Administrative shortcomings and capacity problems at the local level should not provide an excuse for the retention or reclamation of powers by higher regional or central levels of government. Where local level administrations lack capacity, this can be more effectively addressed through forms of intergovernmental collaboration in which the higher levels of government provide support not only in the process of delivering services but also in building the self-administering capacity of *woreda* administrations.

In moving towards a more effective system of decentralized financial governance in the Amhara region, a number of important initiatives will need to be undertaken. In the first place, the regional legislative framework for decentralized district level governance will need to be reviewed and revised to address the serious weaknesses and gaps revealed by

this study in the original design process. Particular attention should be placed on clearly specifying the respective powers and functions of the regional and district organs of government, including their 'own' powers, over which they have exclusive jurisdiction, as well as concurrent powers and responsibilities. These need to be set out in specific legislation, together with the procedures for further revision or amendment, as well as mechanisms for the fair and objective resolution of disputes surrounding the powers and functions. The need to encapsulate the respective powers and functions clearly in legislation is important to put an end to the current practice of making changes in the operation of intergovernmental relations through executive decrees of the regional government. Particular attention will need to be paid in the legislation to the role and responsibilities of *zone* administrations. These should be confined, as originally intended, to support and oversight rather than the kinds of direct interference in the day-to-day affairs of the *woreda* administrations that have been all too prevalent in the past.

In the second place, serious attention will need to be given to improvements and reforms in the recruitment, promotion, retention and remuneration of staff, as well as in the quality, relevance and accessibility of staff training. This is to ensure that *woreda* officials and staff have the necessary knowledge, skills, experience and attitude (i.e. competence) to carry out their work efficiently, honestly and accountably. Appointments and promotions must be based on merit rather than political loyalty. The constant reshuffling of staff at the behest of the regional and *zonal* administrations should be curtailed to ensure greater stability and a reduction in the current high levels of staff turnover. And incentives should be introduced to encourage qualified staff to work and stay in the more remote *woredas*. At the same time, the opportunities for officials and staff to improve and update their qualifications and skills, through training, mentorship and other forms of human resource development, should be vastly expanded by the regional government, particularly in areas of great skill shortage such as financial management. In general, improvements in staff training and development should also focus on officials and staff in the regional and *zonal* offices of government, as well as those in the *woredas*. These should be designed to strengthen the capacity of the regional government and its *zone* administrations to more effectively support and

monitor the work of the *woreda* administrations, as well as to increase their self-administration capacity.

In the third place, with respect to financial management reforms, measures should be taken to move forward towards fully-fledged NPFM reform. These would include replacing line item budgeting and incremental budgeting by program/performance budgeting and zero base budgeting; modified cash accounting by modified accrual accounting; execution reporting by performance reporting; and compliance auditing by performance auditing.

In the fourth place, the current limited revenue raising powers of the *woreda* administrations will need to be addressed and improved. Devolution of adequate power to *woreda* administrations to raise their own revenue would not only enhance *woredas'* own revenue generating capacity and effort but also results in more responsive and proper utilization of finance as many of the respondents surveyed during the course of this study indicated that local citizens would be more likely to be interested in challenging undesirable allocation and utilization by local officials if they were paying taxes or contributing to the financing of public services. Another approach of increasing revenue raising power could be to relax the current restriction on borrowing, providing this is accompanied by clear and enforceable guidelines covering the circumstances under which borrowing could take place. Amongst other things, this would enable the *woreda* administrations to cover shortfalls in capital expenditure that were delaying the implementation and completion of development projects, resulting from delays in the transfer of regional or donor funds. At the same time, efforts should be made to reduce such delays in the transfer of funds, as they have had a serious adverse effect, as this study shows, on the ability of the *woreda* administrations to plan and implement their developmental and infrastructural projects in an effective way.

Equally if not more importantly, the *woreda* administrations need to take measures to increase their local tax base, improve the collection methods, and close the current loopholes that give rise to quite high levels of tax avoidance and evasion (especially by informal or illegal traders). An important *quid pro quo* in this respect will be to device

mechanism of genuine and empowered community involvement in the tax assessment process and in the process to fighting tax evasion by informal and illegal traders.

In the fifth place, efforts will need to be made to promote much more effective forms of top-down and bottom-up accountability in the *woreda* administrations. At the top-down level, this will involve, amongst other things, improvements and reform in the monitoring and reporting carried out by the *zone* administrations on behalf of the regional government, as well as by the *Woreda* Council and by WOFED. As revealed in this study, the *zone* administrations have tended to neglect their legitimate oversight role in favour of more direct forms of interference in the day-to-day activities of the *woreda* administrations. This situation needs to be reversed. At the same time, the capacity and commitment of the *Woreda* Councils needs to be enhanced, so that they can play a more effective role in holding their appointed officials to account. Likewise, the accountability relationships between WOFED and the other sector offices, as well as between officials and staff members within such offices, needs to be clarified and strengthened.

With regard to bottom-up or social accountability, this leads naturally to the sixth main type of reform initiatives required. These relate to the need to promote more genuine and effective forms of direct citizen involvement in the governance of the *woredas*, and particularly in the financial affairs of *woreda* administrations. This should take the form of participation in the design of development plans and the allocation of budgets, to ensure that they are aligned to community needs and priorities, as well as in social accountability mechanisms to ensure that plans and budgets are implemented effectively in line with the agreed priorities. Direct citizen involvements also must take the form of community participation in tax assessment and in bringing illegal and informal traders into formal system. Traditional and formal associations should be encouraged and supported to actively engage in mobilizing people to become involved in the execution and monitoring of participatory financial decision making processes. This could be along the promising lines demonstrated by the Participatory Planning and Budgeting (PPB); and Community Development Fund (CDF) programs, outlined in earlier sections of this study. Such programs have so far been funded as pilots by donor partners. Given

their success in the pilot areas, consideration needs to be given to expanding such programs on a more sustainable basis (i.e. with regional government support) throughout the region.

Finally, and most importantly, for these recommended reform initiatives to succeed, there will have to be the political will on the part of the federal and regional authorities to reorient the political landscape that currently governs the operation of the decentralization process in Ethiopia. A key finding of this study has been that the overwhelming dominance of the ruling party in the Amhara region, together with its centrally dominated hierarchical structure, has served in a number of important ways to seriously undermine the self-governing autonomy of the *woreda* administrations granted to them in the regional constitution. The ruling party's concern with maintaining its tight control over the affairs of the *woreda* administrations has in many ways resulted in practice, if not in theory, with decentralization through de-concentration rather than through genuine forms of devolution. Unless this situation changes, it is likely that little serious consideration will be given to the reform efforts detailed above, and that the establishment of genuinely autonomous, responsive, accountable and participatory forms of financial governance at the district level will continue to be an unfulfilled promise.

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Appendix 1: Budget calendar for woreda administrations in ANRS

Budget cycle	Date in ethiopian calendar
Preparation of formula for woreda grant	February 18
Budget call and notification of temporary budget ceiling to woreda	February 18
Notification of the actual budget ceiling	May 17
Approval of the woreda grant by regional council	May 22
Preparation of budget request by the offices	July 8
Approval of the recommended woreda budget by the woreda council	July 8
Proclaiming of the budget	July 18
Notification of the proclaimed budget to the offices	July 25
Implementation of the budget	July 25-june 30 of next year
Closing of annual account closing	July 1

Source: Budget preparation and management training manual (2003)

Appendix 2: Perception of respondents if allocation of budget fits preference of people

Perception of respondents if allocation of budget fits preference of people					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	98	31.7	32.3	32.3
	I don't know	165	53.4	54.5	86.8
	Yes	40	12.9	13.2	100.0
	Total	303	98.1	100.0	
Missing	99.00	5	1.6		
	System	1	.3		
	Total	6	1.9		
Total		309	100.0		

ANOVA

Perception of respondents if allocation of budget fits preference of people

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	1.270	3	.423	4.158	.007
Within Groups	30.454	299	.102		
Total	31.724	302			

Appendix 3a: Perception of people about the existing constraints in service delivery institutions

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
Poor construction quality	Between Groups	.881	3	.294	2.893	.036
	Within Groups	30.557	301	.102		
	Total	31.438	304			
Limited service capacity	Between Groups	1.495	3	.498	2.501	.060
	Within Groups	59.781	300	.199		
	Total	61.276	303			
Lack of skilled personnel	Between Groups	.178	3	.059	.458	.712
	Within Groups	38.939	300	.130		
	Total	39.118	303			
Lack of timely maintenance	Between Groups	.283	3	.094	1.075	.360
	Within Groups	26.427	301	.088		
	Total	26.710	304			
Lack of facilities, equipment and furniture	Between Groups	.173	3	.058	.781	.505
	Within Groups	22.177	301	.074		
	Total	22.349	304			

*the mean difference is significant at the 0.05 level

Appendix 3b: Perception of civil servants about the existing constraints in service delivery institutions

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
Poor construction quality	Between Groups	531.652	3	177.217	1.887	.137
	Within Groups	9013.696	96	93.893		
	Total	9545.347	99			
Limited service capacity	Between Groups	540.695	3	180.232	1.902	.134

	Within Groups	9095.632	96	94.746		
	Total	9636.328	99			
Lack of skilled personnel	Between Groups	526.557	3	175.519	1.863	.141
	Within Groups	9042.683	96	94.195		
	Total	9569.240	99			
Lack of timely maintenance	Between Groups	504.496	3	168.165	1.786	.155
	Within Groups	9037.652	96	94.142		
	Total	9542.147	99			
Lack of facilities, equipment and furniture	Between Groups	518.735	3	172.912	1.839	.145
	Within Groups	9026.112	96	94.022		
	Total	9544.848	99			

Appendix 4: People's interest to get the financial performance of woreda administrations investigated by independent party

Multiple Comparisons							
Dependent Variable: Are you happy if the finance performance activity investigated by third party							
	(I) Woreda the respondent resides	(J) Woreda the respondent resides	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
LSD	BDZ	Mekiet	-.00642	.07410	.931	-.1523	.1395
		Shebel	.22250*	.08025	.006	.0645	.3805
		Markos	-.03152	.07601	.679	-.1812	.1181
	Mekiet	BDZ	.00642	.07410	.931	-.1395	.1523
		Shebel	.22891*	.07255	.002	.0861	.3718
		Markos	-.02510	.06783	.712	-.1586	.1084
	Shebel	BDZ	-.22250*	.08025	.006	-.3805	-.0645
		Mekiet	-.22891*	.07255	.002	-.3718	-.0861
		Markos	-.25401*	.07451	.001	-.4007	-.1073
	Markos	BDZ	.03152	.07601	.679	-.1181	.1812
		Mekiet	.02510	.06783	.712	-.1084	.1586
		Shebel	.25401*	.07451	.001	.1073	.4007

*. The mean difference is significant at the 0.05 level.

Appendix 5: Willingness of the people to participate in meetings organized by woreda administrations

ANOVA					
Willingness of people to participate in the meeting called by woreda government					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.418	3	.139	1.704	.166
Within Groups	24.561	300	.082		
Total	24.979	303			

*the mean difference is significant at the 0.05 level

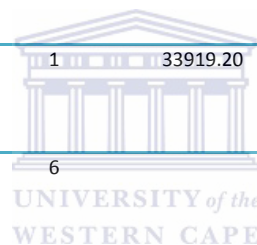


Appendix 6: Summary of Audit Findings in the Three Case Study *woredas*

Finding	Area of operation	Reason	Number of Cases	Amount	Severity	Possible Outcomes
Bahirdar Zuria Woreda (2005/06)						
1.Inappropriate Recording	Cash	Lack of skill or negligence	3		Medium	Inadequate information for controlling and accountability/ not auditable
2.Unsafe Cash keeping	cash	Negligence	1		Medium	Exposed to robbery
3.Timely unsettled advance pay	Accounting	Negligence	8	8,475.00	Medium	Cash mismanagement, open for wastage (creates cash shortage)
4.Inadequate Recording	Accounting	Negligence/lack of experience	2	27,646.6	Medium	Financial statement doesn't reflect the accurate finance and inappropriate use or cash management in bank
5.Unsafe cash keeping	Cash	Negligence	6	10,536.43	Medium	Exposed to robbery and inefficient cash management
7.Inadequate recording	cash	Negligence/intentional	1		Sever	Frauds and abuse of public finance cannot be identified
8.Inadequate recording	cash	Negligence/capacity problem			Severe	Inadequate information for follow up
9.Incomplete supporting documents	cash and Acct.	Negligence/intentional	1	56.90	Severe	Unable to identify fraud and abuse of public finance
10.Incomplete supporting documents	Cash and acct.	Negligence/intentional	1/344	23,875	Sever	Unable to identify fraud and abuse of public finance
11.Inappropriate recording	Revenue collection and acct.	Negligence/lack of training	5	16,479.9	Sever	Financial statement doesn't reflect the correct asset
12.Incomplete supporting	Revenue collection and	Negligence/intentional	1		Sever	Unable identify frauds, wastages and abuses and

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documents	acct					exposed to abuse of public finance
13.Inadequate recording of advance payments	Accounting	Negligence/lack human resource	6	4,195270.33	Medium	Unable to follow up and enforce timely reimbursement (creates cash shortage)
14.Payment made without adequate supporting documents	Accounting and sectors	Negligence/intentional	1	3,178.00	Sever	May be abused by individuals
15.Disbursement recorded without adequate supporting document	Accounting	Negligence	2	173948.81	Medium	Exposed to corruption
16.Payment made without adequate supporting documents	Accounting/p rocurement	Negligence/intentional	1	104088.6	Medium	Exposed to fraud of public finance
17.Disbursement recorded without supporting document	Accounting	Negligence/lack of skill	1	33919.20	Medium	Exposed to fraud and financial statement not reliable
18.Procedures for disbursement not followed (lack of formats to be filled, signatures, etc	Accounting	Negligence/intentional	6		Medium	Controlling is difficult and exposed to fraud
19.Excessive budget transfer	Budget	Negligence	1		Medium	Misuse and no link between planned budget and execution
20.Inadequate recording of payables	Accounting	Negligence/lack of skill	1	1762208.38	Medium	Inadequate information for managing payables
21.Lack of budget discipline	Accounting/b udget	Negligence	2	25392.52	Low	Misuse and no link between planned budget and execution
22.weak budget execution	Budget/Secto r office	Negligence/practical reasons such as failure of the bureau to procure and provide the material on time	2	499,270.57	Medium	Ineffective utilization of capital budget



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23.Discrepancy (shortages/excesses)	Property management	Negligence/lack of control or follow up	1	212.00/40.00	Sever	Wastage of public resource.
24.Discrepancy of receipts (excess)	Disbursement and accounting	Lack of appropriate transfer from outgoing to incoming/follow up, negligence	1	250 pages/serial numbers	Medium	Expose to fraud
25.Inappropriate handling (vehicles)	Property management	Negligence and lack of follow up	1		Sever	Can cause wastage management
26.Property management procedures not followed	Property management	Negligence	3		Medium	Difficult for follow up and management
27.Lack of control (fuel)	Property management	Negligence/intentional	1		Sever	Cannot identify if any fraud or abuse
28.Inadequate control of vehicles (no use of formats)	Property management	Negligence/intentional	1		Medium	Can cause misuse of public vehicles
29.No surety/guarantor for cashiers	HRM	Negligence	5		Medium	Accountability is not guaranteed
Mekiet Woreda (2008/09)						
30.Lack of periodical balancing	Cash	Negligence	1		Medium	Difficult to control cash wastages
31.Lack of bank reconciliation	Cash	Negligence	4 NGO accts		Medium	Difficult for cash management (cash balance is unknown)
32.Unrecorded settled advance payments	Cash/accounting	Negligence	1		Medium	Unable to follow up unsettled advance payments
33.Cash shortage not recorded properly and not yet returned	Cash/accounting	Negligence	1		Sever	Public finance remained wasted/fraud
34.Revenue collected not supported by adequate	Cash/accounting	Negligence	?		Sever	Public resource abused/fraud



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documents						
35.Inadequate recording of receivables	Accounting	Negligence	10	5697999.4	Medium	Inadequate information to follow up and enforce payment
36.Procurement not follow the procedures	Procurement/accounting	Negligence	2	17,830.12	Medium	Exposed to corruption
37.Uneconomical construction	procurement	negligence/intentional	1	30,622.2	Too sever	Enough evidence for corruption
38.Payment without following the procedure	Procurement/accounting	Negligence/intentional	8	123,014.72	Sever	Payment could have been made without satisfactory completion of construction
39.VAT payment without adequate supporting document	Accounting	Negligence/lack of skill	2	19,121.26	Sever	Causes government tax to be collected may be used by individuals
40.Excess payment than the amount of work completed	Procurement/accounting	Negligence/intentional	3	47,469.24	Sever	Exposed to wastage
41.Disbursement without adequate document		Negligence/intentional	3	153,101.54	Sever	Exposed to fraud and abuse
42.Perdium paid illegally	Accounting/sectors	Intentional	11	36,832.50	Too sever	Adequate evidence for abuse of public finance
43.Lack of procedures (signature, seal, formats, indications of payment, records	Accounting/cash	Negligence	4		Medium	Exposed for fraud, abuse and double payment
44.Inadequate recording of payables	Accounting	Negligence/lack of skill	19 accts	4391470.32	Medium	Lack of information for follow up and management, report unreliable
45.Inappropriate recording of receivables	accounting	Negligence/lack of skill	5	386,161.87	Medium	Unreliable report, difficult for follow up, open for abuse.
46.Inappropriate reporting (including	accounting	Negligence/lack of skill	2	353176.08	sever	Unreliable financial report

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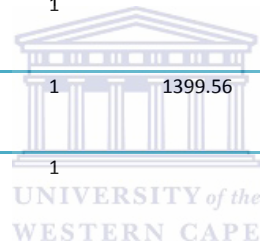
regional)						
47.Inappropriate recording	accounting	Negligence/lack of skill	1	1131698.25	Sever	Unreliable financial report
48.Inadequate recording and lack of trial error	accounting	Negligence/lack of skill	1		Medium	Difficult to control disbursement or if correct recording
49.Low budget execution	budget	Negligence/lack of capacity/late release of the fund	2	1430684.50 (35.77%)	Sever	Ineffective budget execution
50.Property management Procedures not followed (no recording, checking, inventory)	Property management	Negligence	1		Sever	Highly exposed to corruption, abuse
51.Lack of proper handling	Property administration	Negligence	11 vehicles		Sever	Public resource wastage
52.Property management procedures not followed(libre)	Property administration	Negligence	36 vehicles		Medium	Difficult for follow up and management
53.Property management not followed (recording, appropriate transfer, serial number)	Property administration	Negligence and lack of capacity	3		Medium	Difficult to identify lost property and open for fraud
54.Guarantor not provided or incomplete	HRM	Negligence	47		Medium	Unsafe situation
Measures taken 12 not satisfactory and 11 satisfactory						
Mekiet Woreda (2006/07)						
55.No balancing and no measures taken timely	Cash/accounting	Negligence/intentional	2	10,323.72	Too sever	Wastage, abuse and fraud of public finance not identified; weak follow up and controlling
56.Lack of appropriate transfer of responsibility	Cash/internal	Negligence/capacity problem	1		Sever	Unable to clearly identify the person responsible for

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for cash	auditing					discrepancy
57.Unable to identify how much excess or shortage/the existing balance unreliable	Cash/auditing	Negligence/capacity/weak controlling	1		Sever	Unable to know the real cash balance
58.Cash discrepancy b/n auditors record and ledger and left not reconciled	Cash/auditing	Negligence/capacity	1		Sever	Unable to identify and hold accountable the responsible person
59.Cash never audited for 2 years	Auditing	Negligence/capacity	1		Medium	Unable to check the cash against records/open for abuse or fraud
60.No cash control ledger	Cash/auditing	Negligence	1		Medium	Not easy for follow up and controlling
61.Dubious accountability	Cash/accounting	Negligence	1		Medium	Chance for losing accountability
62.Unsafe cash keeping	cash	Negligence	1	408,074.45	Medium	Chance for fraud, robbery
63.Unsafe cash keeping	Cash/procurement	Negligence	2	70,965	Medium	Chance for robbery and fraud
64.Timely unsettled advance payments and never recorded as receivables	Cash/accounting	Negligence	???	1,821,929.85	Medium	Cash mismanagement/unreliable reporting
65.Advance payment discrepancy	Cash/accounting	Negligence	1	10,308.55	Sever	Suspect for fraud, loss
66.Fail to record of already paid payables properly and timely	accounting	Negligence/capacity	???	1501157.35	Medium	Unreliable reporting
67.Revenue collection and disbursement without appropriate	Cash/accounting	Negligence/late budget appropriation/release of the block grant the region	1	500	medium	Open for fraud

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recording						
68.No bank reconciliation	accounting	Negligence/capacity	1		Sever	Unreliable reports, difficult to know cash balance
69.Wrongly recorded cash balance	Accounting/cash	Negligence/capacity	1	498317	Medium	Difficulty of cash management
70.Expenditures supported by enough document but not recorded properly	Accounting	Negligence/capacity	1	369,133.58	Medium	Unreliable reporting
71.Revenue without adequate supporting document	Accounting	Negligence	1	11,692.50	Medium	Open for abuse
72.Unsafe cash keeping (2%tax)	Cash	Negligence/intentional	1		Sever	Open for abuse/ cash mismanagement
73.Discrepancy between ledger and report	Cash/accounting	Negligence	1	1399.56	Sever	Unreliable reporting/unable to identify losses if any
74.One form signed by one purchaser used though the money is paid two purchaser	Cash/procurement	Negligence	1		Medium	Dubious accountability/unable to identify who is accountable
75.Lack of proper transfer of responsibility for cash	Cash/auditing	Negligence/audit capacity	1		Sever	Unable to identify who is accountable
76.Transposition of record(debit vs. credit)	accounting	Negligence/capacity	1		Sever	Unreliable reporting and difficulty of controlling
77.Unsafe situation for ash keeping	cash	Negligence	1		Medium	Chance for robbery
78.Inadequate information on cheque	Cash/accounting	Negligence	1		Medium	Difficult for controlling; Open for fraud
79.Revenue collected without adequate	Cash/accounting	Negligence	1	8,920	medium	Open for fraud/ controlling and follow up become



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supporting document	ing					difficult
80.Timely uncollected	cash	Negligence	1	3074	Sever	Cash mismanagement
81.Misplaced and unfound of unused receipts	cash	Negligence/intentional	38 bundle		Sever	Open for fraud or abuse
82.Block grant recorded wrongly	Accounting	Negligence/capacity	2	12,035,227.99	Sever	Unreliable reporting/controlling difficulty
83.Revenue collected without adequate document	Cash/accounting	Negligence/intentional	1		Sever	Open for suspect of fraud or misuse
84.Inadequate recording of receivables	Accounting	Negligence/Human resource deficiency	6	796,181.65	Sever	No adequate information for management
85.Disbursement not supported by enough document	accounting	Negligence/intentional	8	35259.65	Too sever	Enough reason to suspect for fraud or abuse
86.Inappropriate recording of receivables	accounting	Negligence/capacity problem	1	130,294.48	Medium	Difficult for follow up and management
87.Expenditures recorded to wrong account	Accounting	Negligence/capacity	1	16,816.50	Sever	Unreliable reporting
88.Discrepancy b/n ledger and report	Accounting	Negligence/capacity	1	88815.00	Sever	Unreliable reporting and suspect for fraud
89.Inadequate supporting document per diem paid	Accounting	Negligence	1		Medium	Difficulty of controlling
90.Expenditure payment decided only by two management committee members	Management committee/accounting	Negligence/Intentional	1		Sever	Suspect for fraud or corruption
91.Procurement by chief	Cash/procure	Negligent/intentional	1		medium	Opens chance for fraud or abuse

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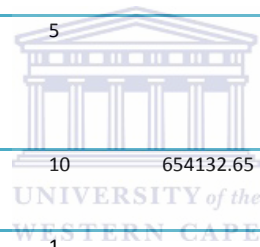
cashier	ment					
92.Voucher used not sequentially	accounting	Negligent/intentional	1		Medium	Open chance for fraud or abuse
93.Uneconomical procurement	procurement	Intentional	1		Too sever	Enough evidence to suspect for corruption/wastage of public resource
94.The same supporting document is provided for two different expenditures	Accounting	Intentional	1		Too sever	Enough evidence to suspect for corruption
95.Checks not registered...	Accounting/cash	Negligence	1		Medium	Difficult to follow up or control
96.Inadequate recording of payables	Accounting	Negligence/human resource deficiency	10	736,796.93	Medium	No detail information for its management
97.Budget indiscipline Excess paid than approved	Budget/accounting	Negligent	1	3,393.57	Too sever	Misuse of budget
98.Lower capital budget execution	Budget/accounting	Negligent/capacity/late release of the fund from foreign assistance	1	912,083.80	Too sever	Ineffective utilization of budget to bring the required socioeconomic changes
99.Incomplete reporting (off budget)	Budget/accounting	Negligence/lack of awareness	1		Sever	Net asset not known
100.No property auditing	Auditing/property admin	Negligence/capacity auditing	1		Sever	No guarantee for not loss of property
101.Lack of procedures (no recording, identification number is not given)	Property administration	Negligence/capacity	3		Sever	Open for abuse, fraud, loss of public resources (difficult to control)
102.Lack proper transfer of responsibility for property	Audit/property admin	Negligence/capacity	1		Sever	Dubious accountability

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103. Mishandling of Vehicle	Property admin	Negligence	1		Sever	Wastage of public resource
104. No Guarantor is provided	HRM	Negligence	??		Medium	No guarantee if there is loss or abuse, fraud
Shebel Berenta Woreda (2009/10)						
106. No bank reconciliation	Cash/accounting	Negligence/capacity problem	4		Medium	Difficult to for cash management, unreliable report
107. Revenue without adequate supporting document	Accounting	Negligence	1	754.5	Medium	Open for fraud, inadequate info for controlling
108. Revenue not collected	Accounting/procurement	Negligence/lack of skill	1	177.14	Sever	Government revenue not collected
109. Procedures not followed (signature, seal, balancing)	Accounting	Negligence	2		Medium	Difficult for controlling and follow up, open for fraud
110. Receivables recorded without adequate supporting document	Accounting	Negligence/ lack of follow up	2	231025.39	Medium	Difficult to follow up and unreliable report
111. Advance payments not settled timely	Accounting/cash	Negligence/lack of control	3	719647.45	Medium	Inefficient cash management, difficult to control
112. Unreliable receivables recorded	Accounting	Negligence	2	6835.22	Medium	Controlling becomes difficult and unreliable report
113. Unreliable and unsettled receivable	Accounting/procurement	Negligence/lack of follow up	1	16802.05	Sever	Could be sever abuse/fraud, difficult to follow up,
114. Inadequate recording of receivables	Accounting	Negligence/lack of capacity			Medium	Difficult to follow up and enforce its return
115. Uneconomical procurement	Procurement/accounting	Negligence/intentional	1	2900.00	Sever	Inefficient utilization, wastage and probably abuse or corruption

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116. Disbursement recorded without adequate supporting document	Accounting/cash	Negligence	1	1501989.00	Medium	Open for abuse, weak internal controlling
117. Illegally paid per diem	Sector/accounting	Intentional	2	1416.30	Too severe	Enough evidence for corruption
118. Government fund use for private purpose	Accounting/sector	Intentional	3	260.00	Too severe	Enough evidence for corruption
119. Excess paid	Accounting	Negligence	1	109.49	Severe	Enough evidence for wasting public finance
120. Disbursement approved beyond authority	procurement	Negligence	1	38375.91	Medium	Chance for abuse and weaken controlling
121. Various controlling procedures not followed (signature and seal missing)	Accounting/procurement	Negligence/lack of skill	5		Medium	Open chance for abuse/fraud
122. Inadequate recording of payables	Accounting	Negligence/lack of skill	10	654132.65	Medium	Difficult for management
123. Disbursement are accumulated at closing time	Accounting	Negligence/intentional	1		Severe	Uneconomical transactions or wastages, unplanned activities,
124. Inappropriate reporting	Accounting	Negligence/lack of capacity	3		Severe	Unreliable report/statement
125. Some unreported accounts (off-budget)	Accounting	Negligence/lack of capacity	2		Medium	Incomplete information for report users
126. Lack of budget discipline	Budget/accounting	Negligence	1	3418.78	Severe	Can cause misuse
127. Excess budget recorded wrongly	Budget	Negligence	3	3,106	Medium	Can cause inefficient utilization, weaken budget control



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128.Lack of proper handling	Property administration	Negligence	21 vehicles	Sever	Wastage of public resource
129.Not following the property admin procedures (libre, license)	Property admin	Negligence	15 vehicles	Medium	Difficult for management and follow up
130.Not presented for auditing	Property admin/sectors	Negligence/intentional	9 vehicles	Sever	There is a suspect that they might not be in good condition, difficult to ensure they are there
131.Improper handling and management of property in the store	Property administration	Negligence/capacity problem/no recording, inventory, follow up, timely distribution for use, no appropriate transfer of responsibility through audit		Too sever	Enough evidence for wastage of public property or damage, and loss of property, fraud are unidentified.
132.No or incomplete guarantor	HRM	Negligence	12	Medium	Accountability weakened



Appendix 7: Questionnaire to Local Residents

Dear respondent!

This questionnaire is meant for the constituents who reside in the selected rural and urban *woreda* administrations of the Amhara region. The primary purpose of this questionnaire is to gather data which will be used to write a research on “Linking Fiscal Decentralization and Local Financial Governance: the case of District Level Fiscal Decentralization in the Amhara Region, Ethiopia”. The success of this study depends on your genuine responses. The researcher would like to assure you that the entire data gathered will be used only for academic purpose and is strictly confidential. Hence, you are cordially requested to respond objectively and frankly to those questions.

Thanks in advance for your cooperation!



Note

- Writing your name is not required
- Please write or choose your answers to questions by putting \surd on the blank space or box in front of your preferred answer

1. Personal Information

1.1 Sex

1.7 Education level

1.2 Age

1.8 Marital status

1.3 Religion

1.4 Occupation

1.5 Woreda

1.6 Kebele

2. Awareness about woreda administrations finance and budgeting

2.1 How do you evaluate the importance of the following woreda government roles or activities?	Important	Undecided	Not important
Collecting and using tax for provision of various local public services			
Solving the economic problem of the people			
Ensuring peace and security in the surrounding			
Ensuring justice among the people			
Helping people who are suffering from various natural disaster			

2.2 Do you have interest to know the woreda administration finance and budget situation?

Yes

No

2.3 What do you expect if the woreda administration finance is allocated and utilized properly?	Agree	Undecided	Disagree
Services like schools, clinics, clean water, fertilizer and chemicals would be provided properly and adequately			
My own and my families living standard would be improved			
I would not be asked to pay tax			
Public services would be provided free of charges			
Government would give me money			

3. Attitude about government tax

3.1 How do you think various development activities and public services in your surroundings should be financed?	Agree	Undecided	Disagree
It has to be covered from regional or federal grant			
It has to be covered from foreign assistant and loan			
Citizens have to pay tax properly to cover it			
I am not concerned about it			

4. Accountability

	Yes	Undecided	No
4.1 Do you suspect that public finance in the woreda government get corrupted, misused or wasted?			

4.2 Which body do you think should be given the power to oversee the proper use of the budget allocated for development projects to be constructed in your surroundings?	Agree	Undecided	disagree
Elders in the community			
Woreda chief administrator			
EPRDF (the ruling party)			
Regional or Federal government body			
Woreda council members			

4.3 Which of the following activities do you think are exposed to corruption?	Agree	Undecided	Disagree
Procurement			
Construction			
Tax assessment			
Service delivery			

5. The role of Woreda Council

5.1 Effectiveness of woreda council to channel the voice of people?	Yes	Somehow	No
Have you ever met your kebele representative in the woreda council?			
Do representatives have information about the peoples' demand?			
Do you think your kebele representative have the capacity to convince the woreda administration to prioritize peoples' demand			
Do you know clearly the power and role of the representatives in the council			

6. Community Participation

6.1 How is your willingness to attend meetings called by your woreda administration?

Always Sometimes Never

6.2 If you are invited to participate in a meeting to discuss about the allocation and utilization of public finance, willing to participate if it involves personal gain	Agree	Undecided	Disagree

Willing to participate if it can lead to public service improvement			
Willing to participate if I will be heard in the meeting			
Willing to participate if I know I can influence budget decision			
Willing to participate whether I am heard and can influence budget decision or not			
Not willing to participate because of busy with personal engagements			
Not willing to participate as this is the duty of government officials and employees			
Not willing as I am not aware of any thing about this issue			
Not willing as it is not my mandate			

6.4 Which of the following would you likely to do If you were participating in a meeting to evaluate the utilization of government finance?	Agree
I would criticize openly and expose the corruption and embezzlement, if any	
I would keep quite as I don't know about the government system and I don't have information	
I would keep silent even if I know the government finance system and have information about it.	

6.5 Which of the following meetings are you willing to participate?	Agree	Undecided	Disagree
Local election campaign			
Construction of schools, clinics, roads and so forth			
Woreda administration performance evaluation			
Improving peace and security in the surroundings			

7. Intergovernmental relations

7.1 Which factor do you think is salient for proper allocation and utilization of public finance in your surroundings?	Agree	Undecided	Disagree
Strong control from higher level government (federal/regional)			
Autonomy to woreda administration			
Direct involvement of citizens			
Elders should have role			
Religious leaders should have role			
Capable executives and civil service personnel			
The capacity of Police and court			

7.2 Which body would you like to get involved in the duty of administering public finance to be used for you surrounding development?	Agree	Undecided	Disagree
Higher level government (Federal/Regional)			
Woreda government			
Kebele Administration			
People			
Elders and Religious leaders			

7.3 Can you clearly identify the functional competencies devolved to woreda administration and retained to the regional government?

Yes Partially No

7.4 Do you know the power devolved to your woreda administration and retained to the regional government?

Yes Partially No

8. Service Delivery

8.1 Can you mention your level of satisfaction on the following public services?	Satisfied	Undecided	Not satisfied
Primary school 1 – 4			
Primary school 5 – 8			
Clinic			
Health post			
Health center			
Hospital			
Provision of fertilizer			
Provision of improved seeds			
Agricultural expert support			
Other agricultural inputs such as chemicals			
Road			
Electricity supply			
Water supply			
Telephone			
Peace and security			

8.2 How do you describe the importance of the following basic service	Very important	Important	Not that important
Primary school 1 – 4			
Primary school 5 – 8			
Clinic			

Health post			
Health center			
Hospital			
Provision of fertilizer			
Provision of improved seeds			
Agricultural expert support			
Other agricultural inputs such as chemicals			
Road			
Electricity supply			
Water supply			
Telephone			
Peace and security			

8.3 Which of the following limitations do you witness in the service delivery institutions in your surroundings?	Agree	Undecided	Disagree
Poor construction quality			
Limited service capacity			
Lack of skilled personnel			
Lack of timely maintenance			
Lack of facilities, equipment and furniture			
Others, if any.....			

	Yes	Undecided	No
8.4 Do you think the budget allocation in the woreda has been responsive to the public service problems of the people?			
8.5 Do you think the allocated budget in the woreda utilized properly for the intended purpose?			

9. Availability of Financial Information

9.1 Do you ever get information about the utilization and performance of government finance?

Always Sometimes Never

9.2 What do you feel if the public finance utilized in your surroundings is inspected by independent party? I would be glad I don't mind

10. Institutions and their role

10.1 In which of the following informal associations you have membership?

- i. Edir
- ii. Equib
- iii. Senbetie/Mahiber
- iv. Debo

- v. Wonfel
- 10.2 In which of the following formal associations you have membership?
- i. Cooperative
- ii. Militia
- iii. *Mengistawi* group
- iv. Saving and credit institutions
- 10.3 Political party membership

11 Your general opinion about the administration and utilization of public finance in your *woreda*



Appendix 8: Questionnaire to Civil servants

Dear respondent!

This questionnaire is meant for the civil servants who work in various service delivery units of the selected *woreda* administrations of the Amhara region. The primary purpose of this questionnaire is to gather data which will be used to write a research on “Linking Fiscal Decentralization and Local Financial Governance: the case of District Level Fiscal Decentralization in the Amhara Region, Ethiopia”. The success of this study depends on your genuine responses. The researcher would like to assure you that the entire data gathered will be used only for academic purpose and is strictly confidential. Hence, you are cordially requested to respond objectively and frankly to those questions.

Thanks in advance for your cooperation!



Note

- Writing your name is not required
- Please write or choose your answers to questions by putting \surd on the blank space or box in front of your preferred answer

1. Personal Information

- 1.1 Sex
- 1.2 Age
- 1.3 Occupation
- 1.4 Woreda
- 1.5 Kebele
- 1.6 Institute
- 1.7 Education level

2. How much do you know about the budgeting activities of the *woreda* administration?

A lot Few things Nothing

3. Which of the following activities in your institution and the <i>woreda</i> administration do you think are exposed to corruption?	Agree	Undecided	Disagree
Procurement			
Construction			
Tax assessment			
Service delivery			

4. In which type of election do you think people are more interested to cast their vote?

Woreda council election Regional council election

5. Community Participation

5.1 How is the willingness of the people to attend meetings called by your *woreda* administration?

Always Sometimes Never

5.2 Which of the following meetings do you think people are willing to participate?	Agree	Undecided	Disagree
Local election campaign			
Construction of schools, clinics, roads and so forth			
Woreda administration performance evaluation			
Improving peace and security in the surroundings			

6. Intergovernmental relations

6.1 Which body do you think the people would you like to get involved in the duty of administering public finance to be used in their surrounding development?	Agree	Undecided	Disagree
Higher level government (Federal/Regional)			

APPENDICES

Woreda government			
Kebele Administration			
People			
Elders and Religious leaders			

6.2 Can you clearly identify the functional competencies devolved to *woreda* administration and retained to the regional government?

Yes Partially No

6.3 Do you know the power devolved to your *woreda* administration and retained to the regional government?

Yes Partially No

7. Which of the following limitations do you think your service delivery unit faces?	Agree	Undecided	Disagree
Poor construction quality			
Limited service capacity			
Lack of skilled personnel			
Lack of timely maintenance			
Lack of facilities, equipment and furniture			
Others, if any.....			

8. Your general opinion about the administration and utilization of public finance in your service delivery unit and *woreda*

Appendix 9: Checklist of issues to be addressed in the interview with the deputy head of ANRS BoFED

1. Description of the district level fiscal decentralization process in the Amhara region
2. Functional competencies, expenditure and revenue powers devolved to *woreda* administrations
3. The formulation of regional transfer formula and process
4. Self-administering capacity building process in the *woreda* administrations including the financial management reforms, organization of *woreda* offices and providing the required personnel.
5. Interaction and power relationship between the region, zone administrations and *woreda* administration in the process of planning, budgeting, evaluation and in the day to day financial activities.
6. The absence of legal framework and its impact on their relation
7. Capacity of *woreda* administrations to mobilize their own revenue
8. The current role of the regional office to support and regulate *woreda* administrations
9. In which situations the regional/zonal office tends to interfere on *woreda* administrations.
10. Successes and challenges of devolution of power, financial management reform and self-administering capacity building.
11. Your evaluation about the implementation of financial management reforms in various *woredas* and the impact on their financial performance
12. What the budget allocation structure and budget execution of *woreda* administrations looks like
13. Why is the budget structure of *woreda* administrations is dominated by recurrent budget
14. Adequate availability of fund at *woreda* administrations and the role of aid and donors fund to resolve budget shortage problem.
15. How do you evaluate the role of fiscal decentralization and the financial management reform in curbing any possible corruption at *woreda* administrations

16. What accountability arrangements are put in place if public fund is abused by woreda officials
17. Do you think the existing accountability mechanism is adequate to handle any corruption in woreda administrations?
18. Does the financial management reform incorporate the role of citizen involvement in the financial management process of woreda administrations
19. Is there any program or project to facilitate participation of people in woreda financial management process

Appendix 10: Checklist of issues to be addressed in the interview with the woreda chief administrator and heads of woreda sector offices

1. Description of budget preparation, allocation, appropriation and utilization process in your sector office
2. How clear and understandable is the budgeting process
3. Do you think the role and responsibility of your office and other bodies such as WOFED, woreda cabinet, woreda chief administrator and woreda council is clearly known
4. Which body do you think is influential in the budget appropriation process
5. How do corresponding offices at the region/zone administration involve in the sector office's planning, budgeting and evaluation process
6. Do you think there is clear integration between budget allocation and strategic plan; and between budget allocation and annual plan, if not why
7. Do you think planning and budgeting procedures are implemented properly in your office, if not why?
8. Do you think the budget appropriated to your office is fair and adequate
9. Do you think various planned activities in your office are properly financed?
10. How often your office drop planned activities due to budget shortage
11. Do you have procedure to complain if you are dissatisfied with the budget appropriated to your office
12. Do you finish plan and budget preparation process on time, if not why?
13. Do you implement your budget as planned, if not why?
14. Has your office ever experienced cash shortage? When, how often, and why?

15. Description of the financial reporting nature and process in your office?
16. Do you think the existing financial procedures, rules and regulation safeguard your office budget from wastage and embezzlement
17. Is there any practice of involving people in the budget preparation, implementation and evaluation process in your office
18. The capacity of supporting staff and officials to properly discharge planning and budgeting responsibilities
19. What improvements do you suggest in the current budgeting system and practice?

Appendix 11: Checklist of issues to be addressed in the WOFED experts' focus group discussions

1. Clarity of the functions and spending and revenue collection power devolved to woreda administrations
2. Clarity of the role, duty and power relationship between regional/zonal office and WOFED and between WOFED and various bodies within the woreda administration
3. The nature of changes introduced by the reform in budgeting process, accounting process, disbursement and collection process, procurement process, financial reporting process, internal controlling and auditing practice.
4. How is the implementation of reform and the impact thereof
5. How prudently plans and budgets are prepared and implemented in sector offices
6. The process of plan and budget consolidation at WOFED
7. The role and power of WOFED to support and regulate woreda sector offices for compliance of financial procedures, rules and regulations
8. Description of procedures in budget controlling and follow up by WOFED
9. What does the budget performance of sector offices and woreda administration in general look like
10. Account recording and reconciliation practices in WOFED
11. Disbursement processes and the occurrence of cash shortage in the woreda

12. How adequate the current procurement method is to address quality, late delivery and high price problems in the procurement process
13. How donor funds are integrated with treasury funds and accounted and controlled?
14. The capacity of the current financial ordinances, internal controlling arrangements and auditing to safeguard public finance from misallocation, uneconomic utilization and embezzlement
15. The nature and adequacy of financial reporting to depict clearly financial and physical performances, if not adequate, why?
16. How often misuse, illegal use, and corruption of public resources occur in the woreda
17. How often is the woreda financial performance audited by ARAG
18. The challenges WOFED experienced in implementing the reform
19. What does the political commitment of woreda officials look like to get the reforms properly implemented and financial procedures, rules and regulations enforced
20. The gaps in the current financial management reform?
21. The capacity of manpower (skill, training, experience, number, turnover and commitment) involved in the financial management process

Appendix 12: Checklist of issues to be addressed in the community focus group discussions

1. People's attitude about the government role of collecting and spending public finance
2. People's awareness about the importance of effective and transparent and accountable public finance mobilization and spending by the woreda administration
3. Awareness about the division of responsibilities and powers between the region/zone and the woreda
4. The role and partnership the people should have with the woreda administration in service delivery process and financial management process

5. Are the people willing to have role in the process of public finance mobilization and spending, if not why
6. The current participation of people
7. The type of public meetings currently being organized by the woreda administration
8. Are financial performances discussed in such meetings
9. Is information about the financial performance of the woreda administration available, if yes, how and if no, why
10. Are people interested to get information about the financial performance of the woreda administration
11. People's level of suspect for corruption by woreda officials
12. The nature of corruption suspected and areas suspected for corruption
13. The availability of arrangements for the people to expose such suspects
14. Are people interested to expose corruption, if not why
15. What type of community based organizations and civil society organizations exist in their surrounding
16. The capacity, role and credibility of local formal and informal community based organizations to facilitate, mobilize and empower local people to involve in budget preparation, implementation, follow up and evaluation process of the woreda administration
17. How the people think different public services and development projects should be financed
18. Are people willing to pay tax, if not why
19. People's attitude about the assessment and collection process
20. The participation of people in the woreda council election
21. The attitude about the role of woreda council in safeguarding public funds from embezzlement by woreda officials
22. Are public services provided in their surrounding adequately
23. What kind of problems exist in the public services delivered in their surroundings

Appendix 13: Letter of Support from the School of Government



SCHOOL OF GOVERNMENT

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20 January 2011

TO WHOM IT MAY CONCERN

Meselu Alamnie MULUGETA: Letter of Support

Meselu Mulugeta is a PhD student at the School of Government, University of the Western Cape, Cape Town, South Africa. He commenced his studies in January 2010 and is in receipt of a prestigious DAAD (German Academic Exchange Service) scholarship. The School of Government is part of a Centre of Excellence established at UWC with funding from DAAD for the education and training of leaders and scholars in Africa in the development field.

Meselu has successfully completed his PhD proposal and has attended the School's partner organization in Germany, the Institute for Development Policy and Research at Bochum University, where he attended courses and seminars to assist him with his studies. From January 2011 he will be undertaking fieldwork in Ethiopia to collect the data he requires to complete his doctoral dissertation on District Level Fiscal Decentralization in the Amhara Region of Ethiopia. I am his supervisor for the dissertation.

In carrying out his fieldwork and research, Meselu will abide by the strict research ethics principles set out in the University's Research Policy, particularly in relation to voluntary participation, informed consent and confidentiality. The interviews he conducts and the information he collects will be used solely for the purpose of his dissertation, and the anonymity of respondents will be guaranteed.

If you are able to assist Meselu in carrying out his fieldwork in Ethiopia, I would be very grateful and would like to thank you in advance for the support you provide.

Yours sincerely

Prof. John E. Bardill
Director
School of Government

Appendix 14: Support Letter (in Amharic Language) to the Case Woreda Administration WOFEDs From ANRS Bureau of Finance and Economic Development

AMHARA NATIONAL REGIONAL STATE
BUREAU OF FINANCE AND ECONOMIC DEVELOPMENT

የአማራ ብሔራዊ ክልላዊ መንግሥት ገንዘብና ኢኮኖሚ ልማት ቢሮ

ቁጥር አብክ/ገአ.ል/ልዩ-1/7169
ቀን 13/07/2003 ዓ/ም

ለ ደ/ማርቆስ አተገ ^{አካተደደ} ወረዳ ገንዘብና ኢኮኖሚ ልማት ዋና ጽ/ቤት
ደ/ማርቆስ

ጉዳይ :- ትብብርን ይመለከታል

አቶ መሠሉ አላምኔ በደቡብ አፍሪካ ዌስተርን ኬንያ ዩኒቨርሲቲ የዶክተሬት ዲግሪ (PhD) ትምህርታቸውን በመከታተል ላይ ይገኛሉ።

አቶ መሠሉ የዶክተሬት መመሪያ ጽሁፋቸውን ለማጠናቀቅ ያስችላቸው ዘንድ በክልላችን ፣ ወረዳዎችና ዞኖች የመስክ ዳታ ማሰባሰብ ይጠበቅባቸዋል።

በመሆኑም ለጽሁፋቸው ማሟያ ይሆን ዘንድ ለሚጠይቋቸው ማሳራሪያዎችና የሚፈለጉ መረጃዎችን በመስጠት ትብብር እንድታደርጉላቸው እንጠይቃለን።

ግልባጭ

- ለአቶ መሠሉ አላምኔ ባለቤት

ከሰላምታ ጋር

ጥላሁን እሸቴ ምክትል ቢሮ ኃላፊ

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