Public Finance Review: 
the Amhara Regional Report

Final Draft

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Executive Summary

The objective of this study is to explore in depth public finance issues and their impact on decentralized service delivery at the regional and woreda level in Amhara region. The study is carried out as part of the federal and some regional case studies designed to examine effectiveness of public finances of sub-national governments. This study was expected to (i) review the institutional arrangement for managing public finances at the regional level including policies, budgetary institutions, systems and processes; (ii) assess the level, trend, and composition of public spending (both functional and economic classification) in per capita terms over the past five years and identify key achievements and limitations; (iii) assess the level, trend, and composition of revenue at the regional level and examine the financing framework, including ways to increase local revenue generation capacity; (iv) assess the role of external aid in supporting decentralized service delivery and the sustainability of the program in absence of external aid; (v) review the planning and budgeting process as well as the quality of PFM system; and (vi) data permitting, establish the link between the level of spending and the outputs and outcomes for selected sectors.

The study used standard public financial process review methodologies used for undertaking PEFA assessments. The report reviewed the various studies, plans and performance reports of the various sectors in the regions between EFY 1997 and 2001. In addition, key informant interviews were carried out at bureaus levels and woreda offices of education, health, water, agriculture and rural development, finance and economic development, revenue, General Auditor, rural road and woreda administrations. Four woredas were selected in consultation with BoFED, two of them (Libo Kemkem and Enesse Sarmidir) are food insecure while the other two (Dera and Hule Eju Enesse) are food secure. Finally, the review accessed and analyzed both Woreda and BoFED budget and expenditure. The main findings and recommendations of this report are presented as follows.

Findings

Planning and Budgeting Process

The regional development plan estimated the overall budget for realizing these targets to be 19.8 billion for five years, but the basis for this estimate is not clear as the strategic plan has not been fully costed. The targets and strategies of most of the sectors therefore remain too ambitious as the costs of delivering them were not known from the outset and backed up the regional fiscal space. The regional resource envelope budgeted from (EFY 1998-2001) from all sources reached 31.5 billion, 59% more than the targeted amount. Even with this increased allocation (as can be seen in the subsequent sections) budget shortages is common. Because strategic plan and the annual planning process targets are not fully costed and linked to the budget or any sort of regional MTEF, that sets out the overall cost implication of the development plan, the fiscal space available in the region/woreda for the implementation of strategic and annual plans is narrow.

Improved involvement and consultation process in the planning process has been observed by sector offices and the community at large. This is across all sample woredas though the degree of consultation varies from woreda to woreda. In Woredas like Hulet Eju Enesse, not only the village plan feeds into the woreda overall and sectoral plans but also the resource allocated to each Kebele is also communicated to the kebeles. In other woredas like Libo kemkem and Dera the community is consulted in...
the annual planning process. There is shared understanding and commitment on the rationality of the allocation of resources among the different sectors. All bureau and woreda level administration units managers do feel the available resources are fairly allocated among sectors. Some It is therefore necessary to maintain such collaborative rather than competitive attitude in the budgeting process.

There are two important lessons that have emerged from the experiences of planning. First, there is better alignment of national and regional plan in road, health and education sectors, mainly due to the fact that these sectors have been implementing sector wide approaches. Their achievement in realizing their regional targets and by so doing contributing to meeting MDGs targets is also better in these sectors. This is missing in the other sectors. In sectors where such experience is emerging like water, motivation and aspirations have been created but linkages among different level plans are not that clear. Second, the linkages of the regional levels plans with that of the federal level is found stronger when there is significant financial flow from Federal Sector Ministries through channel 2 to the bureaus and woredas to finance the priorities included within the plans. Furthermore, while the education and health sector woreda expansions plans are guided by requirements set by national standards, the water sector actions and priorities are reported to have been driven mainly by community requests and complaints, rather than by comprehensive regional assessment and a master plan.

The regional and Woreda level budgets are approved as late as the end of the first quarter leaving nine months for actual implementation, though sectors and woredas do spend recurrent budget as per the previous year’s budget. There is no evidence that this process is supported by a cascaded down and interrelated budget calendar.

Some federal managed programs like food security and productive safety net programs have contributed significantly to the financing of services in the region but continue to have their own separate vertical plans parallel to the regional plan. The details of these programs are by and large planned and directed at the federal level providing little room for adaptation at the regional level. As a result of such planning some of efficiency loss is reported (not using some of the resource allocated) which could have been avoided had the region have more say in the prioritization of services.

Local Revenue
The region has increased its revenue collection from year to year and it has been able to double it within this period. Similar trends have been seen at the woreda levels. The regional revenue grew from 424 million Birr in 1997 to 853 million Birr in 2001 EFY. The structure of revenue in the region is dominated by direct taxes, contributing from 50% in 1997 to 69% in 2001 EFY. The Woreda do not have the authority to set taxes in their own localities. The region managed to cover about 12% of its spending from own source. The per capita tax revenue in Amhara region has increased from Birr 17 in 1997 to Birr 34 in 2001 EFY, this about ten times lower than the national average. The major reason for this low own revenue is low tax rate for the main tax base in the region: agricultural income tax. The revised tax rates still remain very low and they are based
on land size and not production. In the word of one of the respondents, ‘the farmers were paying in real terms only 25 k.gs of teff before and even after the revision’. Not only that the tax rates are low but some questions its fairness. The farmers that are producing three times a year through irrigation are paying as much as those producing once in a year. The revenue collected from businesses is not growing as expected. There is no data base for tax payers and their numbers are not well known. It is also difficult to ascertain that the tax being paid is as per the incomes generated. With this taxation framework the potential of the region to expand its revenue base is limited as it should depend on very small and less complaint business tax. This is further exacerbated by the weak capacity of the revenue of office at regional and woreda levels. The creation of own institutional arrangement at the regional and woreda level for the revenue office is the right step in strengthening revenue generating capacity, but it has not been backed up as yet by efforts of capacity strengthening and putting the right incentive mechanism as was the case at the federal level.

**Block Grant System**
Allocation of block grants to woredas through a transparent and criteria based formula started in EFY 1997. The woreda block grants are separately allocated for recurrent and capital budgets and this formula used to determine these grants also vary. In both cases the five pro-poor are taken in to account. Since the last three years the ‘four’ PBS principles were included to guide block grant allocation. The expenditure assignments, their ability to collect revenue, additionality of overall resources, and fairness are some of the factors that are being taken to allocate resources. The woreda block grants has increased from 1.2 billion 1997 EFY to 3.3 billion in 2002. This huge increase is partly explained by the additional funding transferred through the PBS program. When we see the composition of the block grants by its sources, it is evident that more than 3 quarters of the grant comes from the treasury. In spite of the increased block grant allocation to the Woredas, it has not kept pace with the rising woreda level expenditures resulting from service expansion at woreda levels.

**Spending**
In nominal terms, aggregate regional spending doubled from about 2 billion in 1998 to about 4.7 billion Birr in 2001, showing an annual average increment of 33.7% (from 1997-2001EFY). In per capita terms the same trend is observed as it increased from Birr 105 to Birr 235 in the same period. Of these total spending, the share of capital spending has remained less than 20%. Most of the resources were spent on financing the increasing recurrent expenses. The share of operational expenditures from the total recurrent expenditure is declining both at regional and woreda level (except a small recovery in 2001 at woreda). While the share at regional bureau level is 47%, it is only 25% at woreda level in 2001 EFY.

In terms of spending priorities, a consistently more than 60%, of the resources were spent in the five priority sectors. The share of poverty sectors, however, has declined consistently from 77% in 1998 to 64% in 2001 EFY. The share of agriculture has also consistently declined throughout the period under consideration. The share of each poverty sector in 2001 EFY is below the level it has been in 1997.
Education stands out clear as a number one priority within priorities with its share of constant 35-36% from overall regional budget. The second important spending priority is agriculture and natural resources with 12% and health has been a distant third with about 8-9% share. The regional share for water and road from the total budget remains insignificant with less than 5% together. In per capita terms total poverty spending has been consistently increased from 51 Birr in 1997 to 145 Birr in 2001 EFY. In spite of such an increase, per capita spending in poverty sectors at country level is four times greater than the level in Amhara region. The gap in per capita spending in capital expenditure is exceptionally very high. The spending at country level is 12.5 times larger than the level in Amhara region. This has reached to a record 21.8 times in 1999 then decline to 13 times in 2001 EFY. The share of woreda expenditure from total regional expenditure has increased consistently and has reached 74% in 2001 EFY, implying the increasing role of woredas in basic services delivery.

The resource at sectoral level is allocated to priority functions (primary health care, primary education, rural water, and rural roads) in line with the government policies and strategies. This report has not gone in depth in analyzing whether this allocation is policy based and pro-poor. This may require a further analytical work. The simple tabular analysis made in this report however indicates that the resource allocation is as per the policy of the government and in areas where, over the longer term, could affect the status of poverty and resource distribution (human capital formation, and in agriculture on technology improvement). However, the short terms gains that could have obtained from investing in small scale employment creation and on agricultural productivity might not have been fully exploited as these sectors have obtained proportionally less amount of resources.

The availability of resources to manage operation activities determines the quality of services provided. The share of operational expenditures from the total recurrent expenditure is declining at the bureau level while it oscillated between 20-25% at woreda levels. The decline is much faster at the bureau level. While regional bureaus’ recurrent spending on operational expenses ranges from 47 to 61%, this is only between 20-27% at Woreda level. In both cases the share of operational expenses had been on decline.

Not only is the amount of resources spent on capital and running costs is declining, but also woredas have increasingly find it difficult particularly in the last two years to cover their salary costs. The main reasons for this are many but the following stands out as the major ones: (i) the effect of the new population census result on the block grant allocated to the region; (ii) the ever increasing need to finance the expanding services particularly in agriculture, education and health; (iii) the expansion of posts or processes as a result of the BPR carried out both at the regional and woreda levels; and (iv) the assignment of additional staff by the regional bureaus without concomitant increase in the resources allocated even after the budgets have been approved. As a result of these, three of the four Woredas visited have doubts on their ability to cover their salary expenditures in the last quarter of this financial year. Some have even borrowed to finance their last year’s recurrent expenditures. While expanding basic services and
institutional strengthening are noble objectives that needs to be pursued, this needs to be done within the fiscal space the region and woredas have, which is increasingly not the case. This is manifested by the inability of the region to ensure the ‘additionality’ principles of resource allocation for basic services as stipulated in PBS and the inability of woredas to finance their salary expenditures from their current year allocation. The balance between fiscal prudence and expanding services may not be ascertained without significantly increasing the domestic resource mobilization efforts. It is therefore necessary to explore options of how to sustain meeting policy objectives while implementing resource mobilization efforts.

**Budget Financing**

The regional finance envelop composed of federal block grant; regional own revenue; foreign loan and grants, road fund, water fund, Food Security and PSNP transfers from federal; Federal ministries support directly to the respective sectors in the region (example MoH’s health centre construction); off-budget sources like NGOs; and community contribution. These are not all known. No data on some federal ministries support to the respective bureaus, off-budget support and community contributions. The 2001 EFY resource envelop amounts to 6975.8 million including road fund, food security and PSNP where the largest share coming from federal block grants, 4189 million Birr.

Although the strategic plan and the annual planning process encourages stakeholders at regional and woreda levels to prioritize their spending, but this seldom happens, partly because the process is not linked to the budget or any sort of regional MTEF, that sets out overall the fiscal space available in the region/woreda for the strategic and annual plan to operate. Unless this link is established through the establishment of regional MTEF, the effort to create a linkage between targets and strategies of the region on one hand and the budget framework on the other will not borne fruit. The establishment of a regional MTEF type exercise will also give the opportunity for the regional and Woreda authorities to foresee the recurrent implications of the expansion of basic services on the fiscal space a year or two ahead and plan realistically to ensure functioning of basic services.

What is declared on the regional budget document is, however; significantly lower than the resource envelope indicated above. For instance SPGs and road fund are not part of the region declared budget and hence are not reported in the regional budget and expenditure book. All channel three resources that come from NGOs/ channel 3 donors into the region and community contribution are not totally recorded. There is neither an ongoing effort nor even a plan to document these resources. It should be noted also that Education offices of the visited woredas have also a record on community contribution. What is surprising is that WoFED of these visited woredas do not know this data and have even plan for future to record community contribution and that of NGOs contribution in the woreda.

**Budget and Aid Utilization**

**Budget utilization:** The budget outturn in Amhara region has consistently improved except a modest decline in 2001 EFY. This is an encouraging trend particularly when compared with the national average. Amhara consistently show higher utilization rates
than the national average. In EFY 2001 for instance the budget outturn was 95.1 % in Amhara and 88.3 % for the country. This is mainly explained by the improving utilization of treasury sources of funding. This is largely attributable to underperformance in domestic revenue where the largest share comes from the failure of the regional states while the federal performance was relatively better. This implies that the role played by the Amhara region seems relatively lower.

Aid Utilization
Unlike the treasury sources where there is a difference between the budget and the adjusted budget as a result of supplementations and deduction, the approved and adjusted budget for external aid (both loan and assistance) remains the same for all the given years under consideration. However, there is a wide variation between the budget and expenditure. The amount of expenditure from budgeted external assistance seems very insignificant while the percentage of loans utilized is even more than what was planned during 1998-2000. Woredas frequently reported that aid resources are budgeted in their resources framework but not disbursed as per plan. One of BoFED planning and budget guidelines clearly stated that the budgeted aid resources will be disbursed through sector offices rather than BoFED.

When we inquire whether the sources of funding indicated in the budget in disbursed similar magnitude of resources through the sector offices, we came to understand that some of the financers transferred resources even more than the budgeted amount. There is confusion on how these resources are transferred from the aid providing institutions to the Woredas. The apparent very low expenditure on the external aid could partly be explained by such recording problems. This may not mean though the all the budgeted aid money is disbursed.

The planning and management of the donor resources are managed by MOFED and in many instances are not well aligned and prioritized with regional plans. When the aid resources are planned and aligned with the regional plans and priorities (SIDA and FINIDA), their achievements are well recognized at all levels of the regional government. On the other hand, in many of the development aid (with the exception of those funding PBS) providers, the transaction cost is reported to be high and the flow of resources is unpredictable. The procurement procedures of some of the development partners are also reported to be frustrating.

Recent Progress in improving service delivery targets
Since the launching of PASDEP in 05/06, the region has put effort to progress on the MDG targets and reports from the administration shows notable progress in human development and infrastructure. In education, the efforts made over the last five years have increased numbers of pupils at the primary level in a manner that has been unprecedented before. Between EFY 1997 and 2001, GER in primary (regular and ABE) increased from 80% to 98%. At the same time, Net Enrolment Rate at primary have reached 89.4% in 2001 EFY. On the other hand, there is little progress in pre-

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1 BOFED, Planning guideline for EFY 1999.
2 This was the case in Libo kemkem woreda visited.
school child development as the enrolment rates remains very low. Despite the significant trend in narrowing the gap, there are still disparities between boys and girls (the NER for girls is 81%) and especially between Woredas. The gross enrollment rate at the secondary level is about 38.4%. The growth at primary level is now creating additional demand for more spaces at the secondary level. The expansion of the secondary schools is a woreda expenditure assignment but the Woreda fiscal space failed to finance this expansion. This, as acknowledged by the Education Bureau, has become one of the major strategic challenges in the education development. While access to primary education improved across woredas with limited variation across them, distribution in secondary school is uneven. Most lagging woredas achieved 48% in GER (primary); however in secondary school coverage, the ratio for lagging woredas could be as low as 10%.

In terms of quality, the revision of qualified teacher's standards at primary level (from certificate to diploma levels) has reduced the percentage of qualified teachers from 99.4% in EFY 2001 to only 2.2%. Lack of reference books remains a challenge as four or more students are sharing one book. Inefficiency in the primary education systems remains high and seems growing. There is consistent increase in the dropout rate in the first grade, as well as in the overall primary schools from 1997-2001 EFY. In all cases the drop-out rates for girls was lower than their male counterparts. The cause for such high inefficiency is perhaps due to the need for additional labor by parents. The coefficient of efficiency in the region is reported to be 44% and of which the wastage rate is 2.23%.

In the water sector the region reached coverage of only 54% against the target of 71% in rural areas and 87% in urban areas. The region targeted to reach 80% by the end of 2002 EFY. This target, however, does not seem to be attainable given the trend of both achievements and resources at the disposal of the sector. The gap to achieve the target has increased from 5% in 1998 to 17% in 2001 EFY. This makes the feasibility of the planning process as it relates to target setting and linkage with available resources questionable. Furthermore, there is a mismatch between the targets of UAP and the resources allocated to it; the expensive technology used that do not take account of community capacity to finance such schemes.

In health sector, on the average, number of health posts and health centers in the region grew by an average of 24% and 25% respectively between 1997 and 2001 EFY. However, the region has achieved only 69% and 31 % in terms of meeting national health post and health center standards respectively. On the other hand progress in expanding tertiary level care (district, zonal and regional referral hospitals) is virtually non-existent in the last four years. The number of functional district and zonal hospital remained unchanged since 1997 and there is an additional regional referral hospital established since 1997 EFY. The expansion of primary health care services has increased potential health coverage from about 56% in 1997 to about 98% in 2001 EFY. The growth of health outcome coverage has also improved over the last four years but not as much as the expansion of health facilities. According to the recently concluded household survey, percentage of people reported sick and visited health facility to get treatment in Amhara region is the lowest in Ethiopia, only 37%. This shows utilization of health services in the region is the lowest from all other regions. Most of the new health centers in the visited woredas are being managed by clinical nurses, compromising the quality and range of services provided. In the health
sector, the HEWs are not adequately trained on delivery and their success in this regard is quite limited. In one woreda, of the 68 health extension workers in the woreda only two saw delivery in facilities during training all the rest have not seen at all, let alone to practice such vital service delivery skill.

The road sector has managed to construct 515Kms in the last four years, with the implementation rate of 85%. About 93% of the targeted road density has been achieved. Given that there are 230kms roads that will soon join the road net work and 1117kms that are under construction, the regional target for 2002 EFY is expected to be achieved. The sector was able to achieve its target mainly due to a special arrangement by the regional government in building the capacity of the regional Rural Road Authority which enabled it to construct most of the roads through own force which significantly reduce the unit cost per Km by 1.1 million. The contribution of food security and productive safety net program are reported to be very significant. The maintenance aspect of the road was also on going through the financing of the Road Fund that comes directly from federal government to the Authority.

Recommendations
This report has contained a number of recommendations, including the following:

a) Planning process should be resource constrained rather than driven by wish list, which in the end frustrates not only the implementing offices but also the community as much of the plan remains unimplemented. In this regard, it is therefore necessary to institute mechanism by which:
   • The regional and annual plans are costed and cost implications of targets and strategies fully known
   • The regional plan at all levels are driven by mapping of available resources from all sources
   • Channel II and channel III resources are declared by participating agencies before the onset of the planning process.
   • This could be facilitated if BOFED considers introducing of a three year rolling medium term Expenditure framework.
   • Develop, implement and adhere to a budget calendar at all levels of government.

b) There is a variation among the sectors when it comes obtaining results and having coherent and integrated plan. In this context it is necessary to initiate a sector wide program in other key sector but more importantly in agriculture and rural development through conducting a jointly assessment with development partners and develop a common plan to ensure its coordinated development. Strengthen the water sector plans by learning from the experiences of the health and education sector planning processes.

c) The existence of comprehensive region and woreda wide planning system is imperative for priority setting and establishing sectors. It is therefore necessary to integrate in the planning process of special purpose grant programs with the regional mainstream planning process. This could be facilitated more if there is a move towards developing a regional MTEF.
d) Strengthening the revenue collection is something that should be given focus and priority. The options for expanding the revenue base should be explored. There is a need to implement revenue capacity strengthening programs (skills upgrading, ensuring protection and security, rewarding employees for better performance) at regional and woreda level similar to that of federal level. The tax harmonization exercise between the federal and regional levels needs to be supported by harmonization of management including incentives.

e) Develop systematic and regular recording mechanisms for community contribution and all other off budget sources, notably NGOs.

f) Monitoring and evaluation is focused on input output indicators. Evaluating achievements in outcome indicators against plan after completion of five year plans, in addition to providing important lessons, could be an important input to the next five year plan and could serve as a basis for policy review.
Introduction

1.1 BACKGROUND

Efficiency and effectiveness of public expenditure on the one hand and its linkage with growth and equity on the other has been an issue that many countries including Ethiopia have been grappling with. This is compounded by the fact that public spending decisions are increasingly being made at decentralized levels. Establishing empirical evidence on the link between expenditure, growth and equity and how decentralization would affect the interaction of these variables has been part of the development debate for some time. Providing answers to this question, according Fozzard (2001) is a basic ‘budgeting problem’. The main questions and concerns raised about the efficiency and effectiveness of public expenditure include but not limited to:

- How effective is public expenditure in stimulating growth? If it is positive, is its effect transitory or dynamic?
- Which composition of public expenditure allocation is best to impact more on growth, poverty reduction or both?
- What is the effect of growing public expenditure financed through deficit financing from domestic sources on macro-economic stability and hence growth?
- Is there a trade-off in choosing pro-growth and pro-poor allocation of public expenditure, and if yes how big is this trade-off? What is the right balance in resource allocation among competing sectors for sustained high level growth that have a direct impact on reducing poverty? The list can go on.

The analysis made linking public expenditure to growth used either Solow- Swan (1956) growth accounting model or the endogenous growth models developed by Barro (1990), King and Robelo (1990) and Barro and Salnai-i-Martin (1992,1995). Both models show that public expenditure affect growth but differ on the significance of its effect. The growth accounting models argued the effect of public expenditure remains transitory as the long term growth path is determined by the exogenous factors of population growth and the rate of technical progress. For the endogenous model on the other hand public expenditure may change the growth path, by affecting the production factors and/or Total Factor Productivity (Blanca Moreno-Dodson, 2008). The empirical evidences however remain inconclusive for a number of reasons:

(i) All public spending might not be actually used as per budget allocation and any leakage will affect its impact on growth;
(ii) Efficiency constraints in the government system affect the share of public spending used for creating new capital (labor and capital stock);
(iii) Not only the level of public expenditures but the way government finances its spending affects its impact on growth. For instance, inflationary financing and distortionary taxes that crowd out private investment might have negative effect on growth; and
Problems of data disaggregation of spending into public expenditure that are ‘productive’ and those with negligible growth impact will not allow for identifying the right balance in inter-sectoral public sector allocation.

The other aspect of this debate is the link between public spending and equity, or pro-poor allocation. Unlike the tax policy, where a theory of optimal taxation was developed, there is no comparable theory in optimal allocation of expenditures to various sectors. Most of the tools and guidelines used are pragmatic adaptations of current knowledge\(^3\). Public spending allocation decisions primarily target interventions that address market failures and inefficiencies.

Some argued that as a result of heavy NGO advocacy, who equated poverty reduction with social spending, and the effort of donors to limit the influence of political elite on spending allocation decisions towards their needs, there seems a consensus that social sector spending is the key to poverty reduction. Hence, most of the resources generated from the external aid have been allocated for social sectors. For example, of the total resource flows to HIPC countries, 49% were allocated for education and health. Since then, academic studies are using spending on education and health as a proxy to pro-poor spending. There are concerns about such narrow definition of pro-poor spending. World Bank’s Operational Evaluation Department on HIPC (2005) study on review of enhanced HIPC initiative (2005) recommends that there should be a different balance between social sector spending and other sector, specially, infrastructure and rural development for mobilizing investment to promote growth, a necessary condition for poverty reduction. Killick (2004) utilized the OED’s findings to argue forcefully that large amounts of aid are being misdirected, promoting a narrow approach to poverty where spending in the social sectors is expanded at the expense of broader developmental priorities such as raising economic growth and addressing structural weaknesses, both of which are key to sustained poverty reduction.\(^4\)

The other strand of argument is the link between efficiency of public spending and fiscal decentralization. Public spending through fiscal decentralization, is believed to bring about an efficient resource allocation through a responsive and accountable government by bringing the revenue and expenditure assignment at lower level of governments, an equitable provision of public services to residents of the country through fiscal transfer from the higher level of government to lower level of government, and preservation of macroeconomic stability and economic growth. By dint of this fact, it has become an important policy agenda in many developing economies in general and transitional economies in particular.

Fiscal decentralization by bringing fiscal power to local government with decentralized governance believed to facilitate and fasten the development effort. The fiscal power assigned to local government should in principle be enable them to generate sufficient revenue in order to discharge their functions and provide the services for which they are assigned to do so. There are two basic reasons for this argument:

\(^3\) Paternostro et al (2005:5)
\(^4\) Ibid, page 3.
(i) Local governments spend more wisely and are more accountable for money they are responsible for raising, and
(ii) People also are more willing to pay local taxes because they can make the link between service delivery and their money.

It should be noted, however, that lower level of governments are usually given the slowest growing revenue sources, which fail to keep pace with expenditure growth. This has exposed to huge vertical fiscal imbalance as most regions in Ethiopia are currently facing.

1.2 WHY PFR STUDY IN ETHIOPIA

The government is investing public resources on social and economic infrastructure (education, health, water, roads, power, communication, etc) to create an enabling environment for the private sector to invest. This is specifically so at the sub-national governments in Ethiopia where they are increasingly being responsible for delivering majority of the basic services to the people. Not enough is known about the state of their public finance both at all levels of the government structure and this is particularly so at sub national levels. Between 2002/03 and 2008/09, out of the annual average general government expenditure of ETB 34.5 billion, nearly ETB 14.9 billion (i.e., 43 percent of the total) was spent by regional and woreda governments. The latter’s share in total expenditure on basic services was even higher, i.e., sub-national governments spent nearly 48 percent of all government expenditure in pro-poor sectors know as education, health, agriculture and roads. Clearly the efficiency and equity of public spending have a significant impact on sustainable growth and poverty reduction. Yet, while the public finance of the federal government is carefully scrutinized, there is little systematic analysis of the public finances at sub-national level.

While there is a large body of work on decentralized service delivery in Ethiopia, their focus have been largely on institutional development and not on the effectiveness of public expenditure. These institutional reviews have been part of a monitoring instrument of ongoing projects with limited scope for linking inputs to outcomes. The PFR study as a whole therefore is a response to undertake an integrated analysis of institutional transformation and fiscal policy effectiveness. To this effect, the PFR-2010 could serve as a stepping stone to undertake more in-depth studies on the efficiency of public spending at the sectoral level. Specifically, PFR-2010 will examine the following three broad issues:

- **Changing institutional context.** The changing decentralization landscape and continued support of institutional reform and capacity building warrant an in-depth study in public service delivery progress and challenges. The report will therefore document changes in the institutional context and set-up through which decentralized service delivery is taking place in Ethiopia.
- **Allocation of expenditure.** The Government of Ethiopia spends nearly six-tenth of its budget on pro-poor sectors, a third of which is financed from external sources. Both the federal government and donor partners are concerned about two emerging trends in sub-national finances. First, the share of pro-poor sectors spending in sub-national budgets is declining. Second, the imbalance between recurrent and capital as well as between wage and operating spending is growing at the sub-national level. What is the source of these growing pressures on sub-national budget and how to protect expenditure allocated to basic
services are the two questions that this review would need to answer. Further, the role of donor partners, the predictability of aid flows and its implication on absorption, and allocative efficiency of resource at the woreda level are also crucial for the sustainability of Ethiopia’s externally supported decentralized service delivery.

- **Cross-regional and cross-woreda learning.** A vast amount of data has been collected through *Woreda Benchmarking Survey*, which provides a rich source of information to examine the performance of woredas on fiscal inputs and outputs as well as on outcomes on the ground. Such an analysis will help to identify the ‘high performing’ regions and woredas and indentify the factors that lead to their success. This can result in significant cross-regional and cross-woreda learning—currently missing in public policy and discourse—as well as help the federal government to come up with schemes to scale-up good practices from high performing woredas to the rest of the country.

### 1.3 OBJECTIVES AND OUTPUTS OF THE STUDY

This Amhara Report is part of the PFR-2010 analysis. The objective of this regional study is to deepen our understanding of public finance issues and their impact on decentralized service delivery at the regional and woreda levels. This will be one of the first studies to examine effectiveness of public finances of sub-national governments in a systematic manner. The report is one of the four regional PFR reports designed to inform the overall PFR report. Specifically, each of the case studies will examine the following issues for each of the specific regions:

- a) Review the institutional arrangement for managing public finances at the regional level including policies, budgetary institutions, systems and processes;
- b) Assess the level, trend, and composition of public spending (both functional and economic classification) in per capita terms over the past five years and identify the key achievements and limitations. As part of this exercise, also examine the sources of the recent decline in spending on basic services (education, health, agriculture and roads);
- c) Assess the level, trend, and, composition of revenue at the regional level over the past five years and examine the financing framework, including ways to increase local revenue generation capacity, (own revenue by sources, Federal block grant and SPGs, and off budget sources such as from NGOs and the community);
- d) Assess the role of external aid in supporting decentralized service delivery and the sustainability of the program in absence of external aid; and
- e) Review the planning and budgeting process as well as the quality of PFM system.
- f) Data permitting, establish the link between the level of spending and the outputs and outcomes for selected sectors (e.g., education and health).

The outputs of the regional PFR study are, therefore, the following.

- the collection and processing of the necessary quantitative information on expenditure, revenue and financing (from all sources) and on selected development output and outcome indicators (used for the determination of woreda block grant) at an acceptable level of disaggregation;
• the documentation of qualitative information required to understand the policy and institutional environment for the delivering of public service based on secondary information and through discussion with the relevant regional and woreda offices;
• the documentation of the perception whether regional public expenditure pattern is policy based and the perception of the regional officials on the inclusiveness of the so-called ‘pro-poor sectors’; and
• the contextualization of the relevance of public expenditure on poverty reduction and growth;

1.4 METHODOLOGICAL ISSUES

The study used standard public financial process review formats and procedures. In particular, it heavily borrowed the methodologies used for undertaking PEFA assessments to inform the process and the type of data to be collected. The study used a number of mechanisms to collect information for analysis:

a) Document review: The report reviewed the various studies, plans and performance reports of the various sectors in the regions between EFY 1997 and 2001. The review team had access to five year assessment reports from some sector bureaus;

b) Key informant interviews at regional and purposely selected woreda levels: interviews were carried out at bureaus levels and woreda offices. The sector managers interviewed include education, health, water, agriculture and rural development, finance and economic development, revenue, General Auditor, rural road and woreda administrations (see annex 3 for the interview list). Four woredas were selected in consultation with BoFED, two of them (Libo Kemkem and Enesse Sarmidir) are food insecure while the other two (Dera and Hule Eju Enesse) are food secure; and

c) Analysis of budget allocation and expenditure trends: the review had also access to both woreda and BoFED budget and expenditure data and analysis is made on the trend and the share of pro-poor sectors.

1.5 LIMITATION OF THE STUDY

The study covered only four woredas as it could not able to cover more Woredas, because of time and budget constraints. The selection of Woredas was made more on purposive (being food secure and insecure) and on logistical grounds and the emerging findings from sample Woredas will not represent all woredas in the region.

Obtaining comprehensive regional and woreda budget and expenditure remains a challenge as there is no system put in place to track in a consistent manner resources used from off-budget support, community contribution and sometimes from extra-budgetary resources. As a result, the information presented in this report mainly relies on resources that are on-budget, though the resources for sample woredas include some of these off-budget resources and extra-budgetary sources as well.

1.5 ORGANIZATION OF THE REPORT

Chapter two presents the socio-economic profile of the region Chapter three outlines the legal and policy frameworks for decentralization in Ethiopia with its concurrent revenue and expenditure assignment responsibilities among the different tiers of government. Chapter four presents the overall planning and budgeting process in the region supported by evidences from the sample woredas. Chapter five analyzes the local revenue generation in terms of its trend and structure both at the regional and
overall woredas levels as well as the challenges that the region is facing in raising local revenue. In chapter six, the overview of regional expenditure and financing encompassing of the resource envelope, spending by functions, by sub functions, by economic classifications and sector priorities as well as the assessment of the quality of PFM system will be presented. Chapter seven and eight presents the woreda level expenditures by all woredas and sample woredas respectively. Chapter nine presents stylized facts on aid utilization and while chapter ten deals with trends of service delivery outcomes resulting from these expenditures. Finally, the last chapter concludes with the lessons learnt.

II. Socio-Economic Profile of the Region

Administrative structure

Amhara region is located in the North Western part of the country between 9 21’14” North latitude and 36 20’40” East longitudes, bounded by Tigray in the North, Sudan and Benishangul Gumuz in the West, Oromia in the South, and Afar region in the East. The region is structured into 10 zones, 150 districts (12 are urban administrations) and 3,224 Kebeles. Below the Kebele level, sub-kebeles and development teams are created to ensure popular participation in the political, social and economic arenas. There are three tiers of government: regional, woreda and kebel levels with their respective legislative, executive and judiciary organs at regional and Woreda levels. The region has also zonal administrations serving as a bridge between the region and woreda, with no council. There are, however, three nationality zones in the region, namely Wag Himra, Agaw Awi and Oromo, with their own councils elected by residents from each constituency. There is also a special Woreda called Argoba.

Topography and climate

The region is characterized by a very rugged mountain chains, plateaus, and lowlands. The highest peak being Ras Dashen, located in the Semen Mountains, which is about 4,620 masl, while the lowest level is about 600 masl, located along the Sudan Border and river valleys. Due to altitude differences, it enjoys diverse agro climatic conditions. It receives an annual average rainfall of 300 mm on the eastern and western lowlands and up to 2000mm on the central and western part of Gojjam. It has an average annual temperature of 7.5 c -25 c.
Demographic structure
According to the recent national population and housing census, the population of the region is estimated to be 17.6 million (CSA, 2007; online). The population of the Region accounts close to 25% of the national population. The great majority (88.3%) reside in the rural areas, deriving their livelihood mainly from subsistence agriculture. The region is characterized by low level of urbanization, (11.7% of the population resides in urban areas). Population distribution is uneven across the region. The Region is characterized as 53% of the population is supporting the rest giving rise to a high dependency ratio of 88.7 per cent as the younger age population (14 years and below) accounts for 43.45% and the oldest age population accounts for 6.62% (ANRS, BoFED, 2008, pp 2-5).

Land use and land holding pattern
It has a total area of 161,828 km² and accounts for 15% of the total size of the country. According to the available data source the land use pattern shows that, 36.3 % is cultivated, 27.6% bushes and shrubs, 17.1% afro alpine vegetation, 7.5% wetland (swamps), 6.6% woodland, and 1.8% forest land (both natural and plantations) (ANRS, BoFED, 2006). The agricultural density of the region is estimated to be 4.95 people per hectare with high density in the Easter part and lower in the Western part. Similarly, the average landholding size per household is about 1.13 ha in the region but with slight difference from zone to zone. In the Eastern part of the Region (South Wollo, North Wollo and Oromia), per capita household land holding size is below the regional average which is less than 1.0 ha. In the remaining zones it is well above the regional mean (see table 2.1).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>North Gondar</td>
<td>2,538,569</td>
<td>554,536</td>
<td>4.58</td>
<td>1.38</td>
</tr>
<tr>
<td>South Gondar</td>
<td>1,956,104</td>
<td>429,577</td>
<td>4.55</td>
<td>1.17</td>
</tr>
<tr>
<td>North Wollo</td>
<td>1,417,554</td>
<td>220,223</td>
<td>6.44</td>
<td>0.76</td>
</tr>
<tr>
<td>South Wollo</td>
<td>2,372,799</td>
<td>389,451</td>
<td>6.09</td>
<td>0.82</td>
</tr>
<tr>
<td>North Shewa</td>
<td>1,812,251</td>
<td>380,916</td>
<td>4.76</td>
<td>1.21</td>
</tr>
<tr>
<td>East Gojam</td>
<td>2,026,217</td>
<td>471,200</td>
<td>4.3</td>
<td>1.26</td>
</tr>
<tr>
<td>West Gojam</td>
<td>2,311,371</td>
<td>483,497</td>
<td>4.78</td>
<td>1.33</td>
</tr>
<tr>
<td>Waghemra</td>
<td>335,611</td>
<td>79,135</td>
<td>4.24</td>
<td>1.07</td>
</tr>
<tr>
<td>Awi</td>
<td>899,372</td>
<td>198,593</td>
<td>4.53</td>
<td>1.24</td>
</tr>
</tbody>
</table>
Regional Macro-economic structure
Agriculture is the mainstay of the economy of the region. It contributes 60.9% of the RGDP while industry and service sectors contribute about 22.9% and 16.2% of RGDP, respectively. There has been however, a slight structural transformation in the economy where the contribution of the sectors to GDP has changed over the last few years. Hence the contribution of agriculture, industry, and service to the RGDP is estimated to be 46.97%, 26.38%, and 24.09% (1993/4-2004/5), respectively (ANRS, BoFED, 2006b, pp. 3-5). The real average growth of RGDP oscillates between 1.9% in 1997/98 to 8.4 in 1996/97 (See figure 2.1). The total real RGDP growth rate is thus 5.15 per annum and the average growth rate for the agriculture sector is estimated at 3.5% (Ibid. 2006, PP.5-10).

The region is endowed with diverse agro ecologies suitable for growing different types of crops i.e. cereals, pulses, and oil seeds. Crop production accounts for 62.1% of the regional GDP. The livestock potential of the region is considerable accounting for 25.85% of the region’s GDP (ANRS, BoFED, 2006, p. 12). However, production and productivity of the agriculture sector remains low owing to several factors, inter alia, low level of technology, inadequate institutional support, land tenure insecurity, poor infrastructure and social service development are worth mentioning.
Poverty is high and pervasive in the Amhara region. It was estimated that about 40.1% of the population in the region fall below the nationally defined poverty line (42.9% for rural and 31.1% for the urban) (MoFED, 2008). It should, however, be noted that there are observable changes in the level of poverty due to efforts made over the last few years, albeit no disaggregated data is available after the 2004/5 welfare monitoring survey. The head count ratio, 40%, is higher than the national average of about 38%. In the region, about 56 rural woredas are chronically food insecure, while 25 woredas are categorized under transitory food insecurity, respectively. Based on relief assessment, a total of approximately 6.3 million people are affected by food insecurity, of these nearly 3 and 3.3 million were facing chronic and transitory food insecurity and is estimated to account 16.5 and 18.2% of the regional rural population, respectively, (FSCDPO, 2007:3).

The depth and severity of poverty, however, remains high both in the rural and urban areas. It was estimated that 30.5% of the population falls below the nationally defined food poverty line. About 32% of the population covered its food requirement only for six months (ANRS, BoFED, 2006). Besides, if unexpected disasters occur, 46.6% of the population in the region hardly gets a weekly income of Birr 100 or more to recover. The average real per capital income in the region is 11 percent lower than the national average. This shows that there is weak resilience capacity of the rural population. The calorie level is also low at 2508 kcal compared to the national average of 2746 kcal. In general, the poverty level in the region is high which accounts for a quarter of the national poverty level (ANRS, BoFED, 2006). The Region had the highest stunted growth, twice as much as the national average (62.5% compared to the national average of 30.2%) (See table 2.2).

Table 2.2: Some trend of poverty, Amhara and Ethiopia

<table>
<thead>
<tr>
<th>Items</th>
<th>Amhara</th>
<th>Ethiopia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real per capital expenditure 2004/05</td>
<td>1,131</td>
<td>1,255</td>
</tr>
<tr>
<td>Change between 95/6 and 04/05 (%)</td>
<td>17.7</td>
<td>15.4</td>
</tr>
<tr>
<td>Real per adult expenditure 04/05</td>
<td>1,380</td>
<td>1,540</td>
</tr>
<tr>
<td>Change between 95/06 and 04/05 (%)</td>
<td>19.7</td>
<td>17.5</td>
</tr>
<tr>
<td>Caloric availability per adult per day 04/05</td>
<td>2508</td>
<td>2,746</td>
</tr>
<tr>
<td>Children stunted 04/05</td>
<td>62.5</td>
<td>30.2</td>
</tr>
<tr>
<td>Poverty headcount index (04/05)</td>
<td>0.401</td>
<td>0.387</td>
</tr>
<tr>
<td>Change in poverty headcount index (%)</td>
<td>-26.1</td>
<td>-14.9</td>
</tr>
<tr>
<td>Poverty gap 04/05</td>
<td>0.103</td>
<td>0.083</td>
</tr>
<tr>
<td>Gini coefficient (04/05)</td>
<td>0.27</td>
<td>0.3</td>
</tr>
</tbody>
</table>


With respect to the non income dimensions of poverty, as documented in the latest DHS results, life expectancy at birth is only 53.4 years for male and 56 years for female.
Moreover, the region has experienced high infant, child and maternal mortality rates which are in the sequence of 94/1000 live birth (80 for the national), 154/1000 live birth (123 for national) and 673/100000, respectively. The rural people should travel on average 7.4 km distance to reach the nearest health post and more distance to reach other services. The literacy rate in the region is 23.1 %. The Region is vulnerable to shocks such as drought, famine, loss of job, death, crop damage, death of animals, etc. According to the welfare monitoring unit estimate about 43% (44% in rural & 24% in urban areas) of total households has been suffering from drought spells and famine shocks, (ANRS, BoFED, 2006). The situation of women is also alarming. So far their participation in politics and decision making is found to be low, though there is improvement. The representation of women in the Federal, Regional, both Woreda and Kebele level councils is 5.3%, 31%, and 35% of the total seats, respectively (Ibid).

<table>
<thead>
<tr>
<th>Residence</th>
<th>% of total population</th>
<th>P0</th>
<th>P1</th>
<th>P2</th>
<th>% contribution to national poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>89.0</td>
<td>0.429</td>
<td>0.110</td>
<td>0.040</td>
<td>23.33</td>
</tr>
<tr>
<td>Urban</td>
<td>11.0</td>
<td>0.311</td>
<td>0.085</td>
<td>0.032</td>
<td>1.73</td>
</tr>
<tr>
<td>Regional</td>
<td>100.0</td>
<td>0.418</td>
<td>0.108</td>
<td>0.108</td>
<td>25.05</td>
</tr>
</tbody>
</table>

Source: Extracted from development and poverty profile of Ethiopia, BoFED (2006)

Major development challenges
Notwithstanding the above facts, the region is entangled with a myriad of development challenges inter alia, low productivity, dependence of rain-fed agriculture, subsistence farming system, low implementation capacity, land tenure insecurity, deep rooted poverty and food insecurity, environmental degradation, poor infrastructure and low social service coverage, high unemployment rate, especially in urban areas, and the spread of HIV/AIDS (BoFED, 2006). The Region is one of the most degraded areas in the country. It is estimated that about 1.1 billion tones of soil (48% of the country) is washed away annually as a result of intensive cultivation in the highlands and rapid population growth rate (Ibid).

III. Overview on Fiscal Devolution

3.1 LEGAL AND POLICY FRAMEWORK FOR FISCAL DECENTRALIZATION IN ETHIOPIA

Legal framework
Transitional Government of Ethiopia, soon after assuming power, restructured the political and administrative contour of the country based on its Charter. This was the first legal framework for federalism. Series of proclamations (Proclamation No. 7/1992, 33/1992, and 41/1993) were issued to strengthen the legal framework for administrative and fiscal decentralization. Proclamation No. 7/1992 identified the four sources of income for both federal and regional governments: revenue collected from
taxes allocated to them, fiscal subsidy from federal to regional government, domestic borrowing, and other sources of income. The structure of political, administrative, and fiscal decentralization was finally sketched in the Constitution of the Federal Democratic Republic of Ethiopia, which was ratified in 8th December 1994 and effective in August 1995 (Proclamation No. 1/1995).

It is this Constitution that is the basis for ongoing fiscal decentralization process in the country. Article 51, 52, 94, 95, 96, 97, 98 of the Constitution clarifies the responsibility/duty of federal government and regional states and also provided expenditure and revenue assignment to federal government and regional states.

Following the Constitution, all regional states promulgated their own Constitution. Although the federal and regional constitution provided fiscal decentralization, which constitutes the first generation of decentralization, originally it was weak in implementation and was not translated into practice up to woreda level government. In cognizant of this the federal government pushed further the fiscal decentralization to woreda government. Subsequently, regional governments revised their constitution since 2001 and paved the way for the second generation of fiscal decentralization; devolution of regional fiscal power to woreda administration. The revised constitutions of the regional states clarify the responsibility/duty and provided revenue and expenditure assignment to region (Art. 47, 49, 58 of the revised Amhara Constitution, Proc. No. 59/2001) and woreda administrations (Art. 84, 86, 91 of the revised Amhara Constitution, Proc. No. 59/2001). Woreda administrations are provided with the right and power to exercise self-administration, local development, and the power to recruit and dismiss personnel. Regional constitutions also provided woreda administrations with revenue assignment in order to enable them to discharge their responsibilities. The same power was provided to major urban centers that do not lie within the jurisdictional responsibilities of rural woredas.

**Policy frameworks**

**Countrywide SDPRP/PASDEP**

Both generations of fiscal decentralization was considered as a centre of socio-economic development and hence embedded into both Ethiopia’s poverty reduction strategy programs, namely Sustainable Development Poverty Reduction Program (SDPRP: 2002/03-2004/05) and the Plan for Accelerated and Sustained Development to End Poverty (PASDEP: 2005/06-2009/10). Decentralization and capacity building were among the major pillars of the SDPRP (see MoFED, 2002). For further strengthening of the fiscal decentralization, MoFED has issued a Fiscal Decentralization Strategy in 2004 (MoFED, 2004) which updated the federal-regional and regional-woreda fiscal framework (regional block and woreda block grants).

In the same fashion with even much stronger emphasis at local government, PASDEP recognized decentralization as central to the country’s strategy for ending poverty and

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6 The lowest administrative echelon with fiscal power.
effective service delivery. PASDEP in addition to consolidating the SDPRP gains, it further envisages deepening the second generation of decentralization, strengthening the Woreda administrations in every aspect to enable them to manage and deliver local services. The plan was to complete the revenue and expenditure assignments of woredas in the country by 2006-07 (See MoFED, 2006: Section 5.6.3).

**Capacity building strategy and program**

Most regional states and almost all woreda administrations faced critical challenges in discharging their fiscal assignments (expenditure and revenue). As a result, the government has introduced a multifaceted effort to strengthen the capacities of public institutions at regional and lower levels of government. These include developing National Capacity Building Strategy (NCBS), Capacity Building for Decentralized Service Delivery (CBDSD) and Public Sector Capacity Building Program (PSCAP), among others. PSCAP was envisaged to resolve the nation-wide prevalence of capacity problems in the public sector, and to that end it was designed in an integrated manner through the involvement of relevant federal and regional institutions, donor communities, and consultants. The District Level Decentralization Program was one of the NCBP’s sub-programs, which is directly concerned with promoting the stability, efficiency, and accountability of Ethiopia’s ongoing public sector transformation process.

**Local government policy framework**

The MoCB has prepared a “Local Government Policy Framework” document in 2006. The document addressed quite a number of important issues and clarifies legal matters, including the structure, composition, powers and functions of local governments (expenditure and revenue assignments) at different tiers of government; intergovernmental relationships; human resources administration and planning and execution responsibilities of local governments excluding municipalities and town administrations that are to be guided by the urban development policy and associated proclamations.

The policy framework provides the legal delimitation and delineation of the intergovernmental relationships and responsibilities. Intergovernmental responsibilities describe the roles of the federal government and regional states that provide the support and regulatory framework for local government operations (For detail account of the role of federal government and regional states see MoCB, 2006).

The region developed and implemented its own version of regional PASDEP (EFY 1998-2002) that outlines the priorities, the strategies to be used and the targets to be achieved, its estimated budget requirements and the associated monitoring and

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7 The federal government has also established the Ministry of Capacity Building (MoCB) in 2001 to coordinate different capacity building subprograms. Capacity building bureaus were also set in regions and woredas to facilitate capacity building efforts at regions and woreda levels.

8 The NCBP’s identified by the government were in fact fourteen, out of which five sub-programs (Civil Service Reform, District Level Decentralization, Urban Management, Justice Systems Reform, and Information and Communications Technology sub-programs) have been selected for immediate interventions to be financed mainly through a large pools of funds known as Capacity Building for Decentralized Service Delivery (CBDSD) and Public Sector Capacity Building Program (PSCAP).
evaluation system. Furthermore, each woreda and sector developed a five year strategic plan that is aligned to the regional development plan. In these plans, decentralization and devolution is included as one aspect of building good governance.

3.2 EXPENDITURE AND REVENUE ASSIGNMENTS AND GAP FINANCING

Fiscal decentralization is a system in which different tiers of government are assigned with expenditure discretion (expenditure assignment), revenue raising powers (revenue assignment), and defines the nature of intergovernmental transfer and borrowing. It should be clear from the outset that the overriding framework for determining the expenditure, revenue and gap financing assignments among different tiers of the government in Ethiopia is the federal and regional states Constitution.

Expenditure assignment refers to the responsibilities of a given level of government in the production and delivery of services. The powers and functions of regional states are provided by the federal Constitution. Art. 52 (see box 3.1). In the same fashion regional Constitutions also provided expenditure assignments to the regional states which are more or less the same with that of Federal Constitution (see for instance, Amhara Constitution Art. 47, 49, 58, Proc. No. 59/2001). Functions which are of regional and inter governmental concern such as overall regional political, social and economic administration, spill over and cross cutting development projects and programs shall be undertaken by the regional states.

The powers and functions of woreda administrations are provided by the regional Constitutions. The Amhara National Regional State (ANRS) Constitution (Art. 84, 86, 91), for instance, provides powers to woreda administration to exercise self administration; prepare, approve and implement woreda budget; prepare, approve and implement economic development, social service and administrative plans; and safeguard peace and security of the inhabitants of the woreda. It should be noted, however, that there are cases where functions that would normally fall within the scope of woredas may be undertaken by regional states on the grounds of economy of scale and/or high costs. This can also happen if a woreda administration delegates regional

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Box 3.1 Constitutional Provision of Regional States

The Constitution states that regional states are responsible to:

- formulate and execute economic, social and development policies, strategies and plans of their area;
- administer land and other natural resources in accordance with federal laws;
- prepare and administer their budget; and to establish and administer a state police force, and
- to maintain public order and peace within their area.

In general regional states are responsible for all duties that are not given expressly to the federal.
state to take care of its own specific functions beyond its capacity or for other risky circumstances (see MoCB, 2006).

In order to discharge the expenditure assignments each level of government need to have a revenue assignment. Revenue assignment refers to power of a given level of government in generating and collecting revenues and using it within its administrative areas. Decentralization of revenue generating power to local governments serves several purposes. From the viewpoint of democratic governance, for example, the very rational for assigning revenue or taxing power to local governments is to help voters hold their elected officials accountable (Bahl, 1999 and Cochrane, 1983). Adequate revenue assignment along with the expenditure assignment is believed to facilitate and fasten the development effort at lower level of government. The revenue assignment to regional states and woreda administration should enable them to generate sufficient revenue in order to discharge their functions and provide the services for which they are assigned to do so. It is argued that revenue assignments or the division of financial resources between the various levels of government should ideally be guided by the division of functions/expenditure assignments among those levels of government (Georgia State University, 2003). There are two basic reasons for this argument. First, lower level governments spend more wisely and are more accountable for money they are responsible for raising. Second, people also are more willing to pay taxes because they can make the link between service delivery and their money. Bringing governance with fiscal power (expenditure and revenue assignment) closer to lower level of government is therefore one of the kernel point of fiscal decentralization.

In supporting this, Dillinger et al (2003:234) argued that if lower level of governments’ expenditure assignments are mainly covered by transfers from the central government, they would ‘overspend, expecting to get more resources from the common pool of national resources’ with the subsequent adverse impact on macro-fiscal management.

Box 3.2: Types of Intergovernmental resource transfers and the Ethiopian preferred system

There are different methods of allocating intergovernmental transfers, which include:

a) Tax based transfer in which a local government is allowed to keep a share of national taxes collected within its boundaries or a fixed percentage of a national tax reimburses local governments;

b) Formula based transfer, in which central/state governments provide grants to local governments based on a particular formula (Bahl, 1999). This is what is mainly practiced in Ethiopia.

Currently there are two types of intergovernmental transfer instruments in Ethiopia, the unconditional/block grants and conditional/specific purpose grants. The largest share of the transfer support to regions is channeled through the first type of block grants.
The revenue assignments to federal government, regional states and woreda administrations are legally provided by the federal and regional states Constitutions. Art. 96 of the FDRE’s Constitution provides federal government the power to levy/determine/fix and collect custom duties taxes and other charges on imports and exports; income tax on employees of the federal government and international organizations; income, profit, sales and excise taxes on enterprises owned by the federal government; taxes on the income of air, rail and sea transport services; taxes on income of houses and properties owned by the federal government; fees and charges relating to licenses issued and services rendered by organs of the federal government; taxes on monopolies; federal stamp duties; and tax the income and winnings of national lotteries and other games of chance.

The other aspect of fiscal decentralization is the provision of intergovernmental transfer and borrowing for financing the gap between expenditure and revenue assignments. Intergovernmental transfer is another source of financing lower level of government activities. The federal government provides grants to regional states for reasons of equity as well as to avoid fiscal stress of regional states because of relatively high expenditure needs and/or relatively low taxable resources. Grants are of two types: 1) Unconditional grant – this is general purpose or block grants aimed at financing the gaps. 2) Conditional grant- in this type, grants carry conditions regarding the use of the funds. The conditionality refers to earmarking by the federal government to finance certain services such as uniformity of education, primary health services, water supply, agricultural extension, roads, etc. (Georgia State University, 2003 ). Likewise regional states provide these two types of grants to woreda and urban administrations for reasons of equity as well as to avoid fiscal stress of woreda administrations. In Ethiopia grants from treasury, be it for regional states or for woreda administrations, are block or unconditional while some of grants from external loan and assistance are conditional grants like specific purpose grants (food security, safety net or LIG) or project tied aid and loan.

The federal government has been giving fiscal subsidy to regional states since 1995 based on a grant formula - a formula characterized by frequent revisions. It has, for example, been revised five times (in 1996/97, 1997/98, 2000/01, and 2003/04, and 2006/07). The number of variables used in the formula ranges from 3 to 5 and the weight attached to these variables has undergone high variations. Initially, the weight for population was, for instance, just 30%. It soon changed to 33.3% and enjoyed a significant increase in the subsequent changes to 60%, 55%, and 65%. Given the high magnitude of federal grant to regional states (about 65% of total regional expenditures), the changes in the number of variables and the frequent variation in the weight attached to them is believed to have adverse effects on regional planning and budgeting.

Furthermore, the variability and less weight attached to revenue collection effort also believed to have a disincentive effect for revenue raising effort. In addition, the use of actual rather than potential revenue which militates against strong revenue effort by the regions is one of the weaknesses of the formulas. As argued by Molla (2004) and World Bank (2000), the formula through its insignificant reward for tax effort is assumed to have a disincentive effect for tax collection.
The new formula approved on May 18, 2007 (effective as of 2007/08 fiscal year) tries to address some of the problems associated with the previous formula based on the following principles: (i) every Ethiopian living in any part of the country is entitled to similar range of and level of public service; (ii) grant given to regions is independent of their tax effort or expenditure level (effort neutral); and (iii) regions forced to spend more than the ‘standard expenditure’ are entitled to budgetary support to finance the gap. While the first principle seems to address the equity issue, the second principle has an important efficiency implication. Variables included in the formula are population, difference in relative revenue raising capacities, difference in their relative expenditure needs, and performance incentive. The approach thus strives for equal per capita distribution of grant, while considering the needs or capacities of regions.

The transfer made by regional states to woreda administration is also guided by a block grant allocation formula. The recent formula has two components: recurrent and capital budget. While the recurrent budget serves to estimate and capture the spending requirement needed to properly discharge recurrent expenditure responsibilities\(^9\); capital budget is estimated based upon inter-Woreda comparisons of infrastructure deficits.\(^{10}\) The allocation of block grants to woredas in Amhara through a transparent and criteria based formula started in EFY 1997. Currently, woreda block grants are separately allocated for recurrent and capital budgets and this formula used to determine these grants also vary. In both cases, though, the five pro-poor or priority sectors (education, health, agriculture and water) are taken in to account (see table 3.1).

**Table 3.1 Criteria for allocation of recurrent budget to Woredas in the Amhara region**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Proxy Variables</th>
<th>Weight in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>Total</td>
<td>35</td>
</tr>
<tr>
<td></td>
<td>Student to Class Room Ratio</td>
<td>17.5</td>
</tr>
<tr>
<td></td>
<td>Enrolment Rate</td>
<td>17.5</td>
</tr>
<tr>
<td>Health</td>
<td>Total</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>Health Personnel to Health Institutions Ratio</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Health Coverage</td>
<td>15</td>
</tr>
<tr>
<td>Agriculture &amp; Rural Development</td>
<td>Veterinary Clinic to Livestock Ratio</td>
<td>20</td>
</tr>
<tr>
<td>Water</td>
<td>Water Coverage</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: BoFED, ANRS block grant allocation (Kemer)

While this formula based approach seems fairer that others, there are anecdotal evidences that show that because of such allocations, there are some efficiency losses observed. Woredas with better implementation capacity have not been able to exploit their potential because of budget constraints while some woredas do not fully implement their budget. In spite of the inclusion of development gap as a measure to allocate resources among the woredas, the capital budget allocated at Woreda level is not adequate to affect any meaningful capital formation interventions. Finally stronger

\(^9\) The budget is estimated by using the unit costs for the five sectors: education, health, agriculture and rural development, water, and administrations and general services that represent the rest.

\(^{10}\) Woredas with relatively less infrastructure receive greater amounts of financial resources based upon the specific types and relative amounts of infrastructure deficits.
woredas usually tend to be located in relatively urban centers where there is a pull factor for many of the civil servants for better working and living environments. More often than not, these civil servants in these Woredas do earn more salaries as compared to the other woredas. This has very high implication on the recurrent budget as this Woredas do pay more salaries for the same services they got.

In addition to intergovernmental transfer borrowing is also the other aspect of fiscal decentralization in financing the gap. The Constitution confers regional governments the right to borrow from domestic source. Regional constitutions also allow Woredas to borrow from domestic sources but require the approval of the regional governments. Despite this constitutional provision, no region, thus far, experienced this right. The right offered by the Constitution was not followed to the law that determines the terms and conditions of borrowing. What is not addressed here is that the factors that hindered the enactment of the law for the last twelve years. Molla, however, thought that the responsibility of the federal government in macroeconomic stabilization could be perhaps one of the reasons that regional governments could not exercise their legal power to borrow from domestic sources.

### 3.3 Fiscal Decentralization in Practice

The revenue assignment provided to federal government, regional states and woreda administration in Ethiopia is characterized by a fiscal decentralization that does not bring spending and tax decisions closer. The fiscal relationship between federal and regional government is characterized by considerable vertical and horizontal fiscal imbalance. While buoyant and major tax base are assigned to federal government, relatively few and less buoyant tax base are assigned to regional governments. The degree of this horizontal fiscal imbalance also varies from region to region. There are various factors for horizontal fiscal imbalance. As regions are delineated by ethnic and language factors, they have huge variation in terms of area, population, economic base, and revenue raising efforts, giving rise to wide horizontal fiscal imbalance. Variation in population ranges from 0.18 million of Harari regional state to 27 million of Oromia regional state; variation in area ranges from 0.34 thousand km$^2$ of Harari regional state to 354 thousand km$^2$ of Oromia regional state; and variation in number of zonal administration ranges from 4 in Gambella regional state to 20 in Oromia regional state. There is also skewed distribution of social and economic infrastructure and huge disparity in the capacity of regional states in budgetary management and effective collection of taxes from the existing tax base among the regional states. This has facilitated the horizontal and vertical fiscal imbalance and for huge fiscal transfer. These differences, coupled with the mismatch between revenue and expenditure assignments, dictate the fiscal relationship between the federal government and regional states and regional states and woreda administration to be characterized by vertical and horizontal fiscal imbalances. While most expenditure is assigned to

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11 It should be noted that the regional government though provides guarantee for fertilizer procurement as well as construction of houses.

12 While the expenditure-decentralization ratio (regional expenditure relative to countrywide expenditure), on average, is 37%, the revenue-decentralization ratio (regional revenue relative to countrywide revenue) was only 21% for the period 1996/97 to 1999/00.
regional states, the revenue assignment tends to favor federal government by centralizing the major and most buoyant tax bases. Thus, there is a clear limitation of revenue assignment to regional governments relative to the size of expenditure they are assigned. The following table discloses the extent the fiscal imbalance in Amhara sample woredas in the region.

Figure 4.1 Trends in own revenue share from total expenditure/budget (in %)

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dera</td>
<td>21%</td>
<td>19%</td>
<td>13%</td>
<td>13%</td>
<td>20%</td>
</tr>
<tr>
<td>Libo Kemkem</td>
<td>16%</td>
<td>15%</td>
<td>13%</td>
<td>14%</td>
<td>18%</td>
</tr>
<tr>
<td>Enebse Sarmidir</td>
<td>18%</td>
<td>15%</td>
<td>11%</td>
<td>15%</td>
<td>22%</td>
</tr>
<tr>
<td>Hulet Eji Enese</td>
<td>18%</td>
<td>24%</td>
<td>17%</td>
<td>21%</td>
<td>24%</td>
</tr>
</tbody>
</table>

Source: Amhara BoFED and MoFED, various budget documents
* % is calculated from budget

It should be noted also that irrespective of the legal and legislative framework woredas have no revenue assignment at all. What they collected as revenue within their territory is considered as regional revenue and considered in the regional block grant formula. As a result of this there is a tendency for under plan woreda revenue and as the incentive for collection efforts is marginal woredas may not be encouraged to boost their efforts.

IV. Planning and Budgeting Process

Planning and budgeting processes are the mechanism by which the strategic national and regions plans as well as policy imperatives are translated into operational plan that is backed by resources. These processes are expected to be implemented as per the government budgeting calendar and with a full participation of all levels of the tiers of government in a transparent and constructive manner. The plans and budgets are also expected to be within the limits of what the economy can finance. In what follows the planning and the budgeting process in the region and woreda are discussed.
Strategic plan and its link to costs and resource framework

The region developed and implemented its own regional development plan, EFY 1998-2002. This strategic plan set regional targets similar to that of the national target with the exception of access to water and roads which were set lower. Most sectors in the region (education, health, agriculture, etc) have their own respective five year sector plans, aligned with the regional development plan, from which they generate annual targets and priorities. The regional development plan and the sector specific strategic plans took account of PASDEP and sector development programs initiated at the federal level.

The regional development plan estimated the overall budget for realizing these targets to be 19.8 billion for five years, rising from 2.9 billion EFY 2008 to 5.2 billion in EFY 2002. This overall budget has not been disaggregated by sectors. The basis for this estimate is not clear as the strategic plan has not been fully costed. The targets and strategies of most of the sectors therefore remain too ambitious as the costs of delivering them were not known from the outset and backed up the regional fiscal space. The regional resource envelope budgeted from (EFY 1998-2001) from all sources reached 31.5 billion, more than 59% of targeted amount. Even with this increased allocation (as can be seen in the subsequent sections) budget shortages is common. Although the strategic plan and the annual planning process encourages stakeholders at regional and woreda levels to prioritize their spending, but this seldom happens, partly because the process of development of the strategic plan, led and stewarded by BOFED/WOFED is not costed and linked to the budget or any sort of regional MTEF, that sets out the overall cost implication of the development plan, the fiscal space available in the region/woreda for the implementation of strategic and annual plans. Unless this link is established through the establishment of regional MTEF, with a robust annual resource mapping exercise, the effort to create a linkage between targets and strategies of the region on one hand and the budget framework on the other will not borne fruit. The establishment of a regional MTEF type exercise will also give the opportunity for the regional and Woreda authorities to foresee the recurrent implications of the expansion of basic services on the fiscal space a year or two ahead and plan realistically to ensure functioning of basic services.

The most critical problem in the budget process is observing the budget calendar at all level of the government. The region has its budget calendar but usually fails to observe it. This is even worse at woreda level. The region’s finance depends on the approval of the federal plan as most of its resource envelope comes from federal treasury as block grants and specific purpose grants. The regional budget calendar therefore needs to have some time lag between the federal level processing and approval. This is also the case for the woredas as they should have some time lag between the regional level approvals before they finalize their planning process. According to respondent interviews, the federal government is always late to inform the region about the level of block grants. For instance, by the end of April 2010, BoFED does not know how much is going to be allocated to the region from the federal government which should have been by this time. As a result of this delay at different levels, the budget is usually approved in the first quarter of the fiscal year which in principle should have been approved in the
preceding fiscal year. This has however not been formalized in the form of a budget calendar. Given the experience gained so far, it is necessary to develop a cascaded but interrelated budget calendar at the federal, regional and woreda levels.

Table 4.1: Planning and budget calendar

<table>
<thead>
<tr>
<th>Budget Cycle</th>
<th>Time frame</th>
<th>Responsible body</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Preparation by the Executive</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1 Preparatory work for budget</td>
<td>Up to Yekatit 30</td>
<td>Regional and woreda sector public offices</td>
</tr>
<tr>
<td>1.2 Allocation of block grants based on approved formula</td>
<td>Up to Megabit 30</td>
<td>BoFED</td>
</tr>
<tr>
<td>1.3 Plan and budget call letter</td>
<td>Up to Megabit 10</td>
<td>BoFED</td>
</tr>
<tr>
<td>1.4 Plan and budget call letter at lower level</td>
<td>Up to Megabit 25</td>
<td>WoFED and ZoFED</td>
</tr>
<tr>
<td>1.5 Plan and budget preparation</td>
<td>From Megabit 10/25-Ginbot 15</td>
<td>Regional and woreda public bodies</td>
</tr>
<tr>
<td>2. Legislative approval</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1 Approval of woreda and region budget share and resource distribution formula</td>
<td>Up to Yekatit 30</td>
<td>Regional Council</td>
</tr>
<tr>
<td>2.2 Approval of annual core plan</td>
<td>Up to Ginbot 30</td>
<td>Regional Council</td>
</tr>
<tr>
<td>2.3 Approval and appropriation of budget</td>
<td>Up to Ginbot 30</td>
<td>Regional Council</td>
</tr>
<tr>
<td>3. Executive implementation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.1 Notification of the approved budget</td>
<td>Up to Sene 15</td>
<td>BoFED</td>
</tr>
<tr>
<td>3.2 Endorsement of Approved budget</td>
<td>Up to Sene 20</td>
<td>Zone, woreda and town administration Council</td>
</tr>
<tr>
<td>3.3 Announcement of approved budget</td>
<td>Up to 30 Sene</td>
<td>BoFED/ZoFED/WoFED</td>
</tr>
<tr>
<td>3.4 Submission of itemized budget to BoFED for consolidation</td>
<td>Up to Hamle 20</td>
<td>ZoFED and WoFED</td>
</tr>
<tr>
<td>3.5 Implementing budget</td>
<td>Starting from Hamlet 1</td>
<td>BoFED and other public bodies</td>
</tr>
<tr>
<td>1.6 Annual finance and performance report</td>
<td>Starting from Hamlet 30</td>
<td>All public bodies</td>
</tr>
</tbody>
</table>

Source: ANRS, BoFED,

4.1.4 Annual planning process
The planning and the monitoring process

Planning guidelines: The issuance of a planning guideline by BoFED kicks-off the annual planning process every year. This guideline articulates what the indicative resources are likely to be (this is issues before MoFED communicates the regional grant to BoFED), how resources are going to be allocated among different sectors; how external loan and aid is planned, budgeted and disbursed and what types of sector specific activities are going to be funded through resources at the regional level (see box 5.1 for an example).

Once the sector offices receive sectoral (from Federal sector Ministries to regional bureaus and then to Woredas) and regional planning guidelines (from WoFED) the planning process at woreda starts at the sectoral level. In parallel, sector bureaus also plan for their mandated functions. The sectors will draft their physical plan (some in consultation of their Kebele institutions-agriculture, education, water and health) and some on their own. The draft report will be consolidated at WoFED/BOFED respectively for Woredas and regions. The consolidated woreda draft plan will be presented to the kebeles for discussion. The scope and depth of discussion vary from Woreda to Woreda. In some woredas there are simple consultations (Libo Kemkem) to having a Kebele plan as in Hulet Eju Enese. The aspirations and comments given to the draft plan will be revised and tabled for discussion and refinement to the Woreda development council which will submit it to the Woreda cabinet and counsel for approval. The schematic presentation of Amhara planning process is shown in figure 5.1.

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**BOX 5.1: EFY 2002 planning guideline issued By BoFED to Woredas: an Example**

- Review the strength and weaknesses of EFY 2001 plan preparation and budgeting process and their implementation.
- Ensure that the budgets are within the ceiling provided to the woreda
- During allocation of budget to sector offices, due consideration should be given to regional strategy and policy. Priority services are expansion of primary health and education services, ensuring household food security and poverty reduction, and small scale enterprises. The budget EFY 2002 for basic services should also increase from previous levels;
- While providing sector ceilings, ensure that sector offices know source finance
- The allocation from treasury includes the revenue to be collected by the woreda and due attention should be given to revenue collection during the course of the year
- Foreign aid should be allocated to its intended purposes.
Determination of the resource envelop (block grants) in the region

The region provides resource envelope to woredas based on its information on the regional block grants it is likely to receive. As the information from the federal level usually comes late the original preparation takes place on the assumption that previous years’ allocation continues as is.

The regions allocated woreda block grants and sectoral allocation based on the regional expenditure assignment. Woreda level regionally allocation takes place using approved resource allocation formula as presented section 3.2. The information used to construct the resource allocation formula is the data...
generated across the board, or what is termed as from ‘common information’ sources. The allocation from external sources (loan and assistance) is made after negotiating with MOFED and excluding those that are not certain to come as they do offset the block grant allocations.

The major starting point for resource allocation is the previous year’s allocation. Based on this, all the mandatory expenditures will be allocated to all levels. Once this is achieved, the additional resource is allocated based on the principles as outlined in the Protecting Basic Services Program: additionality and fairness. From the additional resources available, it is reported that 70% will be allocated to woredas and 30% to regional offices.

In this process, the local revenue collected by woredas is also included in this formula and their revenue is declared in the budget. The woredas present their revenue collection plans and will be discussed and approved at regional level. The assessment team has seen evidences that woredas are requested to increase their revenue collection in the middle of the year. The woredas collecting more than the targeted revenue are encouraged to use the additional revenue as per their priorities through incorporating it in the supplementary budget.

The role of woredas in the determination of the resource allocation formula is marginal. It is the regional council that approves this after reviewing the proposals presented to it by the executive. There are some concerns that woredas raise on the fairness of the resource allocation formula, including:

- The resource allocation formula does not adequately cater for the geographic spread of the woreda as it has a significant implication to the non-salary recurrent cost;
- It does not take into account the efficiency of woredas. Some woredas do spend all their resources on time while others do not. It recommended at the woreda level that efforts should be made to maintaining the balance between fairness and efficiency in block grant allocation;
- Some woredas also get, in addition to the block grant, significant resources from special purpose grants (food security and PSNP Programs) raising their resource envelope much higher than those that are not part of. Those that are not part, raises the fairness in the allocation of public resources;
- The cost of salaries vary between remote and better off woredas as the experienced staff earning significantly higher, move to these better off places. This makes these woreda pay more for similar types of service. The resource allocation formula is also reported to not to fully capture such differences. This is compounded by the fact that most of transfers are made (specially teachers) after the annual budget is allocated and endorsed, putting the overstretching woredas’ fiscal space.

**Alignment of national, regional and woreda plans**

A common dilemma is how sub-national development plans or sub-national poverty reduction plans should be harmonized with the national development (or poverty reduction) strategy, in terms of planning, budgeting and reporting.

For all the regular programs, indicative national strategies and priority areas are communicated from the federal to regional levels and this is then transmitted to woreda levels. These indicative or focus intervention comes either as a strategy or sometimes with indicative targets. There is consensus at the woreda level that the indicative plans sent from above are more comprehensive and can easily adopted to incorporate the Kebele specific needs and priorities within the plan. The woreda takes this regional targets and strategies and adopt it to the local circumstances and draft initial woreda
plan. They then take this draft plans and discuss it with the kebeles to ensure that local challenges are identified and relevant priorities are included in the woreda plan. Although in theory the Kebeles can plan entirely based on their priorities, in practice they will adopt the national strategy and actions that are appropriate to their circumstance. The regional leaders will ensure that such interface exists. We can therefore say that planning methodology remains in the main top down as the strategies and targets formulated at federal and regional levels continue to be the primary drivers of targets and strategies at woreda levels.

Some federal managed programs like food security and Productive safety net continue to have their own separate vertical plans parallel to the routine one that is described above. Second, not only are they federally driven, but also their details are planned and directed at the federal level, providing only a little room for adaptation at the regional level. As a result of such planning, regional offices reported to have observed some efficiency loss and missed opportunities (not using some of the resource allocated, investing on medium sized ‘areas-based’ programs) that could have been avoided/exploited had the region have more say in the prioritization of services.

**Community consultations and community participation**

The planning process has become more participatory as the Woredas started to involve the communities in the planning process. All sample woredas visited have engaged and discussed with the communities when annual plans are developed. This has helped the Woreda authorities not only to get inputs in the form of priorities and needs from the community but also their willingness to contribute finance, labour and local materials for some of the development projects. Most of the capital projects in Woredas (with the exception of health centers) are financed significantly from the community.

As part of the initiatives to promote transparency, Woreda finance offices do put a public notice on the amount of grants the woreda obtained, the plan and achievement of woreda level revenue collection, and the total expenditures every quarter as well as the sectoral and functional expenditures. Some woredas like Hulet Eju Enese also communicate Kebele level budget and revenue expected.

**Sectoral priority setting**

There are different ways of establishing priority setting in the various sectors. Sectors where sector wide approach has been implemented, standards and norms have been guiding the regions and woredas in their planning process. Such efforts are clearly visible in the education and health sectors. In these two sectors, there is a clear link between federal level aspirations, plans and targets with regional and woreda plans. In sectors where such experience is emerging like water, the linkages are not that clear. In these two sectors, the federal ministries do mobilize external resources and channel to their respective bureaus for priority areas. And by so doing help woredas set and achieve their priorities. In the water sector, however, the linkage of the plan with the federal level has not been supported by significant finance flows and the priorities within the plans by and large remain wish lists. While the education and health sector woreda expansions plans are guided by requirements set by national standards, the water sector actions and priorities are reported to have been driven mainly by community...
requests and complaints, rather than by comprehensive regional assessment and a Master Plan. Rural roads are also constructed based on community requests.

**Shared responsibility and commitment**
There is shared understanding, responsibility and commitment to implement the woreda and regional plans at that level. There is a general consensus that the plans are not aspirational enough due to constraints of overall resource envelope. All sectors in the woreda/regional bureaus feel however that the available resources within are fairly distributed across sector offices. Most bureaus at the regional level also feel involved in the decision making process.

**The role of the council in the planning and budgeting process:**
The sector bureaus and woreda offices prepare their annual plans and budgets and submit to BOFED and WOFED respectively. These plans are consolidated and presented to the budget committee at the regional level and the woreda development committee at the woreda levels. These committees review the submitted plans and provide their comments for revision. Once these committees agreed to the plans and budgets, it will be presented for regional and woreda councils for approval. While these committees and the council contributed for the inclusion of community interests in the plan, their capacity needs to be built to make them more proactive and demanding.

**5.1.2 The budgeting process**
BOFED and WOFED lead the development, review and coordination of the budgeting process. They provide the planning guidelines and the resource envelope as approved by their respective executive and councils. Within those resource frameworks, sectors are responsible to ensure that the resources are allocated as per the guidelines provided: first to mandatory recurrent costs, then to capital costs if possible. Once the budget is approved, sectors are responsible to reallocate within their ceilings by providing adequate information to their respective finance offices. The institutional capacity to plan and manage resources at woreda levels is reported to have been improved but still much more needs be done particularly at the woreda levels sector offices.

The budgeting process the amount of resources allocated to various levels of sector offices heavily rest on the expenditure mandates given to the woreda and bureau offices (see table 5.1). Most the expenditure functions that benefit more than one woreda and some functions that require higher investment and recurrent costs (building big institutions) are given to the regional offices.

**Table 5.1: expenditure mandates of regional and woreda levels**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Regional level</th>
<th>Woreda level Recurrent</th>
<th>Woreda level Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>To all sectors</td>
<td></td>
<td>Existing Sector budget (salary and per diem); New sector offices to be created at the woreda level; Repayment for earlier years loan Operating expenses for core activities in each sector</td>
<td>Matching fund for loan and assistance when required</td>
</tr>
</tbody>
</table>
### Linkage between the planning and budgeting process

As discussed in the preceding section, the ambitions set in each sector for reaching the regional targets have not been sufficiently backed up by allocation of adequate funds and their timely release for a number of reasons:

- Targets are driven by national and regional ambitions that are not always fully costed and their resource implication are not known.
- They are not always backed up by realistic assessment of the availability of resources and capacities; and
- The regions and woredas do not have the full knowledge of resources that are going to be spent in their respective jurisdictions, making planning and prioritization much more difficult. All the regional offices visited have no information on channel three resources.

The concept of Woreda-wide planning is yet to be exercised. In the best circumstances, Woreda plans reflect the contributions of funding that comes from the three main

<table>
<thead>
<tr>
<th>Education</th>
<th>Preparatory education; TVET, agricultural TVET colleges, education communication centers, educational material distribution centers, teacher training institutions</th>
<th>Operating expenses for</th>
<th>Construction, expansion and maintenance of alternative basic education centers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Payment for 8th and 10th grade national examination</td>
<td>Construction, expansion and maintenance of primary schools</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Procurement of text books and chemicals</td>
<td>Construction, expansion and maintenance of first cycle secondary schools</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Recurrent budget for new schools</td>
<td></td>
</tr>
<tr>
<td>Agriculture and rural development</td>
<td>Agricultural training centers, Research and development centers, regional Seedling centers, agricultural centers providing service for more than on woreda</td>
<td>Medicines</td>
<td>Woreda and Kebele level livestock clinics</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Recurrent budget for new institutions</td>
<td>Farmer training centers</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Seedling centers</td>
</tr>
<tr>
<td>Health</td>
<td>Hospitals, health training colleges, referral laboratory</td>
<td>For health facility equipment and furniture</td>
<td>Construction of health posts and health centers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Per diem for routine immunization</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Per diem and medicines for epidemic control</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Procurement of malaria spray chemicals and associated per diem</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Medicines</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Recurrent budget for new health facilities</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>Woreda Justice offices, RR30 and RR50 rural Road construction and maintenance, construction of water supply in big towns, resettlement program</td>
<td>Uniform for the police force</td>
<td>Construction and maintenance of roads with standards less than RR30</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Printing for WOFED</td>
<td>Development, and maintenance of water points</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Per diem for revenue collecting farmers</td>
<td></td>
</tr>
</tbody>
</table>

Source: Amhara BoFED, July 2009, budgeting Guidelines for 2002 EFY planning process.
sources: government by both regional grants and own revenue, on budget donors and in some cases community contributions (see Table 5.2). Comprehensive resource envelope is not available, mainly because the resource envelopes (ceilings) from several sources are not known in time for inclusion in the work plans. In addition, most donors and NGO are not open and willing to disclose their financial contributions. On the other hand, bureaus and Woredas are not proactive to obtain such information. It is only in Dera Woreda that partnership forum has been initiated for joint planning with NGOs. It is only the education bureau that is developing a working modality with NGOs. Both regional bureaus and woredas were not able to actually secure the planned financial inputs of some of the actors in the area. They further reported they had great difficulty in getting the information about resource ceilings, and admitted that, as a result of this, their plans ended up being a mere shopping list.

Table 5.2: Incorporation of various financial resources into the Woreda plan

<table>
<thead>
<tr>
<th>Sources of funding</th>
<th>Libo Kemekem</th>
<th>Dera</th>
<th>Hulet Eju</th>
<th>Enesse</th>
<th>Sarmidir</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional grants</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Own revenue</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Foreign aid</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>On budget aid</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>On budget loan</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Other donors</td>
<td>No</td>
<td>FINIDA</td>
<td>Sida; FiNIDA</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>NGO</td>
<td>No</td>
<td>World vision</td>
<td>No</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Private sector</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Partial for Sida and FINIDA</td>
<td></td>
</tr>
<tr>
<td>Community contribution</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food Security Program</td>
<td>separate plan</td>
<td>NA</td>
<td>NA</td>
<td>separate plan</td>
<td></td>
</tr>
<tr>
<td>Productive Safety net</td>
<td>separate plan</td>
<td>NA</td>
<td>NA</td>
<td>separate plan</td>
<td></td>
</tr>
</tbody>
</table>

Source: interview notes
N/a: not applicable

In terms of sectoral planning and budgeting, there is a mixed finding on the linkage between the planning and budgeting process. Some sectors like health do try to undertake some sort of resource mapping as a jump starter of the planning process. Education plans are also linked with the availability of resources. On the other hand, this is not the case in water and agriculture and rural development sectors.

**Weak feedback loop from review to planning**

Another area where the planning process should take into account is the lessons learnt from the previous year and inform the setting up of realistic targets based on available resources and capacities. In ideal
situations, it is also expected to inform the revision of targets and strategies outlined in the regional and sectoral strategic plans. In general there are various reviews being carried out by woredas and sector bureaus. They are mainly intended to fast track the implementation process. Some sectors at bureau level conduct a quarterly review. The regional/woreda councils as well as offices/bureaus engage in the review of implementation. For example, a woreda level health sector implementation review was carried out three times in Dera and the participants were all HEW, all HEW supervisors, all health center in-charges, all woreda office employees and woreda administration. This is the case in many of the visited woredas. The major focus, according to the interviews is on activities and targets. However, it is not clear how much woredas and sectors do take lessons from this review feeding into the planning process and revision of targets and strategies. There are some evidences that this is not the case. Some targets continue to be put in the plan although it is known that they are not sufficiently backed up by availability of resource and capacity. The regional bureaus are currently being engaged on reviewing their status of implementation of the regional plan (EFY 1998-2001) using their routine date. This is not supported through population based information to verify whether the routine information is accurate for helping set the next five years targets and strategies.

The recurrent and human resource implications of capital budget:
Most of the development projects, as stated above, are being financed through community participation. The government has also investing in some of the sectors (health) to expand access to services. These development projects do require the allocation of adequate human resources and recurrent budget to function. The link between capital budgets and recurrent costs as well as with human resource development plan seems very weak. There are many health facilities for example that has been completed but not started functioning because of budget and human resource constraints. Some of the new facilities that have started proving service are also operating below their specified capacity because of similar constraints.

The effect of unplanned regional tasks on the implementation of the plan
Once the plans are endorsed and are being implemented, Woredas are requested by the regional government and sector bureaus to implement unplanned regional priorities using their resources. This is not uncommon. All woredas have provided such examples. This has a negative impact on the implementation of Woreda plans.

Box: XX Some instances of unplanned activities going down from the region to the Woredas reported in sample woredas

There are some activities that are given to the woredas without being included in the woreda plan and budget. These instances include:
- Employment of staff deployed by the regional offices without budgeting for them (education, health)
- The employment of land information recording officer
- The 45 days intensive work by the woreda leadership on the environment protection
- Training of judges
- Various health related campaigns without adequate support from the federal level
- Implementation of various regional initiated BPR institutional reform
V. Assessment of Local Revenue Generation

5.1 LEGAL FRAMEWORK

Ethiopian Constitution in its article 97, provides regional states the power to levy/determine/fix and collect income taxes on employees of the regional state and of private enterprises; fees for land usufructuary rights; taxes on the incomes of private farmers and farmers incorporated in cooperative associations; profit and sales taxes on individual traders carrying out a business within their territory; taxes on income from transport services rendered on waters within their territory; taxes on income derived from private houses and other properties within the regional state; rent on houses and other properties they own; profit, sales, excise and personal income taxes on income of enterprises owned by the regional state; fees and charges relating to licenses issued and services rendered by regional state organs; royalty for use of forest resources; and taxes on income derived from small and medium scale mining operations, and royalties and land rentals on such operations. The revenue assignment of regional states is also provided by the regional Constitution (see, for instance, the Article 47 of the ANRS Constitution, Proc. No. 59/2001).

The federal government and regional states have also a concurrent power of taxation as provided by article 98 of the FDRE’s Constitution. The federal government and regional states have joint power to levy and collect profit, sales, excise and personal income taxes on enterprises they jointly establish; taxes on the profits of companies and on dividends due to shareholders; and taxes on incomes derived from large-scale mining and all petroleum and gas operations, and royalties on such operations.

The revenue assignments of woreda administrations are provided by the regional Constitutions. The ANRS Constitution (Art. 86-sub article 2f), for instance, confers the powers to woreda administration to collect rural land user fee and agricultural income tax and even imposes other service charges. The woreda is also empowered to utilize any source of revenue which may have been outside the sum allocated and administered by the ANRS (Art. 86-sub art. 2g). The Local Government Policy Framework of the FDRE (MoCB, 2006) provides a detail revenue assignment for woreda administrations. Woreda administrations shall collect revenues from the following sources:

i. Personal income tax (employment tax from employees of the woreda administration and other government offices whose salary is paid from the budget of the woreda; employment tax from employees of public enterprises owned by the woreda administration; employment tax from employees of private persons in the woreda;

ii. Agricultural income tax;

iii. Tax on rented accommodation and housing;

iv. Business tax (schedule ‘C’ traders in accordance with income tax law, minor mineral enterprises, and woreda owned public enterprises);
v. Land use fees on non-agricultural enterprises;
vi. Service charges (social services such as roads, bridges, irrigation, water wells and medical centers; accommodation, libraries, clinics, conference halls owned by the woreda administration; issuance of local development permits; registration of births, marriages, divorces, deaths and registration of contracts; licenses);
vii. Duties (turn over tax on private business and woreda-owned enterprises, excise tax on private business, and capital gains tax); and
viii. Sales of moveable and immovable properties of the woreda; sand, quarry products, soil and driftwood; sales of natural resource commodities should cease in the event of negative impacts on the environment; sales of natural resource products from areas restricted by the regional state should not be allowed except on the basis of specific permits from the responsible body.

Some of the revenues collected by the woreda are to be shared with the Regional State. Agricultural income tax from leased land used for agricultural investments, royalties for minerals other than minor minerals (such as quarry products, potash, incense, and natural resource products), and tourism fees from visitors to the woreda tourist sites are to be shared with Regional State. Woreda administrations shall not be allowed to borrow except with the approval of the Regional state (See MoCB, 2006).

5.2 Institutional arrangement
As a result of the on-going reorganization, the regional revenue authority has been established as an independent office, both at the regional and woreda levels. Efforts have been made to strengthen the offices through deployment of managers and civil servants. The employees are employed at a salary that is one scale higher than the other civil servants. The committee/board has been established at Woreda and regional levels to guide and lead the authority. As part of the establishment process, training was provided to the woredas on revenue collection and administration.

The offices at regional and woreda levels are yet to be fully strengthened. The salary structure of employees needs to reflect the risk they are facing in collection revenue (under-table payment, relationship with business people etc). The capacity of the offices needs to be strengthened. There is a need to harmonize the employment and remuneration of staff between the regional and federal levels if regional offices are not to be the training ground for the federal level.

5.3 Trends and structures of revenue generation and collection
The overall regional revenue collection remains very low, both in terms of its magnitude and its share in financing regional expenditures. The regional revenue grew from 424 million Birr in 1997 to 853 million in 2001 EFY. Of this, between 81 to 91% was collected by the woredas and Bahir Dar Town while the remaining was collected by regional bureaus in the specified time period (See Table 5.1). The only time that the collected revenue declined from previous year is in EFY 1998 and this could be explained by the action takes after the 1997 election.
Table 5.1: Revenue collection in Amhara region

<table>
<thead>
<tr>
<th></th>
<th>Total Revenue</th>
<th>Collected by regional Bureaus</th>
<th>Collected by Bahir Dar Town and all Woredas</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In million Ethiopian Birr</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>424.2</td>
<td>50.7</td>
<td>373.5</td>
</tr>
<tr>
<td>1998</td>
<td>382.4</td>
<td>60.2</td>
<td>322.2</td>
</tr>
<tr>
<td>1999</td>
<td>457.9</td>
<td>86.1</td>
<td>371.8</td>
</tr>
<tr>
<td>2000</td>
<td>605.6</td>
<td>72.0</td>
<td>533.6</td>
</tr>
<tr>
<td>2001</td>
<td>852.8</td>
<td>74.1</td>
<td>778.7</td>
</tr>
</tbody>
</table>

|       | In Percentage |                           |                                             |
|-------|---------------|--------------------------------|                                             |
| 1997  | 12%           | 88%                          |                                             |
| 1998  | 16%           | 84%                          |                                             |
| 1999  | 19%           | 81%                          |                                             |
| 2000  | 12%           | 88%                          |                                             |
| 2001  | 9%            | 91%                          |                                             |

Figure 5.1: Revenue collection annual growth rate

Source: table 5.1

The structure of revenue in the region is dominated by direct taxes. Its contribution from the total revenue collected rose from 50% in 1997 to 70% in 2001 (see table 5.2). The main sources of this direct tax are payroll tax, agricultural income and land use tax and business tax. Most of the increase is associated with the revision of the agricultural income and land use tax. Although declining over time, non tax revenue continues to be the second most important source. Indirect taxes contribution is growing but remains and distant third.
Table 5.2 Trends in revenue structure (in million ETB)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>In amount</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Revenue</td>
<td>382.4</td>
<td>424.2</td>
<td>457.9</td>
<td>605.6</td>
<td>852.8</td>
</tr>
<tr>
<td>of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct taxes</td>
<td>224.0</td>
<td>246.2</td>
<td>266.9</td>
<td>379.9</td>
<td>589.3</td>
</tr>
<tr>
<td>Indirect taxes</td>
<td>35.1</td>
<td>67.3</td>
<td>84.6</td>
<td>59.6</td>
<td>100.2</td>
</tr>
<tr>
<td>Non tax revenue</td>
<td>115.9</td>
<td>110.1</td>
<td>106.3</td>
<td>159.3</td>
<td>163.1</td>
</tr>
<tr>
<td>Capital gain</td>
<td>7.4</td>
<td>0.7</td>
<td>0</td>
<td>6.8</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>In percentage</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct tax</td>
<td>59%</td>
<td>58%</td>
<td>58%</td>
<td>63%</td>
<td>69%</td>
</tr>
<tr>
<td>Indirect tax</td>
<td>9%</td>
<td>16%</td>
<td>18%</td>
<td>10%</td>
<td>12%</td>
</tr>
<tr>
<td>Non tax revenue</td>
<td>30%</td>
<td>26%</td>
<td>23%</td>
<td>26%</td>
<td>19%</td>
</tr>
<tr>
<td>Capital gain</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>1%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Although there is a very high growth rate in the collection of taxes, not only its contribution to overall spending in the region remains very low but also as compared to the national average. The per capita tax revenue in Amhara region has increased from Birr 17 in 1997 to Birr 34 in 2001 EFY. When we compare this with the per capita spending for the same year, Birr 235, one can observe that a lot remains to be done in strengthening the revenue collection effort. The region tax effort is also weak when compared with the country level. As may be observed from Figure 5.2, the gap has increased from time to time.

Figure 5.2: Per capita tax revenue in Amhara and country level
Overall, on the average, regional revenue account for about 12 percent of the regional spending. The major reason for this low contribution of revenue collection is low rate for the main tax payer in the region: agricultural income and land use tax. In spite of the fact that the rural income has reportedly improved over the last few years, the revised tax rates still remain very low. In the word of one of the respondents, ‘the farmers were paying in real terms only 25 kgs of teff before and after the revision of the tax’. It is reported that the tax rate for grind-mills per annum is only 90 Birr which is considered very low given the income they are generating. This also applies for transport mini buses that pay a tax of 170 Birr per year. The highest annual tax to be collected from a rich household in food secured area is 170 Birr per year while this is 140 Birr in the food insecure woredas (see table 5.3).

Table 5.3 Revised Agricultural Income Tax and Land use tax in Amhara region

<table>
<thead>
<tr>
<th>Size of land</th>
<th>Food secure Woreda</th>
<th>Food insecure Woredas</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Land use tax</td>
<td>Agricultural income tax</td>
</tr>
<tr>
<td>&lt;0.5 hectares</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>0.5-1 hectare</td>
<td>20</td>
<td>35</td>
</tr>
<tr>
<td>1-1.5 hectares</td>
<td>25</td>
<td>50</td>
</tr>
<tr>
<td>1.5-2 hectares</td>
<td>30</td>
<td>70</td>
</tr>
<tr>
<td>2-2.5 hectares</td>
<td>35</td>
<td>95</td>
</tr>
<tr>
<td>2.5-3 hectares</td>
<td>40</td>
<td>130</td>
</tr>
</tbody>
</table>


Not only that the tax rates are low but some questions its fairness. The farmers that are producing three times a year through irrigation are paying as much as those producing once in a year.

Woredas do not have the authority to set taxes in their own localities. Their mandate remains assessing potential sources of revenue and recommend for the zone to consider the introduction or the revision of existing taxes. The zone will also assess and recommend to the region if convinced of the real potential. The decision to introduce new taxes and revise existing rates remains at the regional level. In spite of this fact, some Woredas like Libo Kemkem and Dera have managed to get the region endorse their proposals. Instances are the introduction of taxes on sand in Libo kemkem woreda.

5.4 Revenue collection in the Selected Woredas

The effort of the sample woredas in revenue collection is found adequate as compared to their plans. As can be seen from the table 5.4, the revenue collected in the sample woredas is more than doubled, similar to that of the regional average. The woredas were able to collect as much as they planned for in each of the planning periods, with the exception of Lobo Kemkem in the EFY 1998 and 1999. The incentive to use any additional revenue collected more than what is planned in their annual plan as per the
approval and endorsement of the woreda council is reported to have brought more commitment of the woreda administration in supporting the revenue collection process.

Table 5.4: Planned and collected revenue in sample woredas (in million ETB)

<table>
<thead>
<tr>
<th>Woreda</th>
<th>1,998 Plan</th>
<th>1,998 collected</th>
<th>1,999 Plan</th>
<th>1,999 collected</th>
<th>2,000 Plan</th>
<th>2,000 collected</th>
<th>2,001 Plan</th>
<th>2,001 collected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enebse Sar Midir</td>
<td>4.3</td>
<td>4.3</td>
<td>5.4</td>
<td>6.1</td>
<td>9.3</td>
<td>9.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Libo Kemkem</td>
<td>3.2</td>
<td>3.2</td>
<td>3.5</td>
<td>3.5</td>
<td>4.0</td>
<td>5.5</td>
<td>5.6</td>
<td>6.2</td>
</tr>
<tr>
<td>Hulet Eju Enense</td>
<td>4.2</td>
<td>4.3</td>
<td>5.4</td>
<td>6.1</td>
<td>9.3</td>
<td>9.3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 5.4 trends of performance in revenue collection, against plan

The institutional arrangement introduced at Woreda level has contributed to enhance the revenue collection process. It provided the office to focus and exert much more effort in revenue collection more than ever before. It also provided the office to obtain political and leadership support from the woreda offices. However, the support obtained from the regional revenue authority to strengthen the capacity in terms of skills and knowledge is reported to be weak. This is because the regional office itself lacks adequate capacity as it is in the strengthening phase. All the challenges raised in the next section are also applicable for the sample woredas as well.

5.5 Challenges

The agricultural tax not related to income but to the size of land. There are anecdotal evidences showing the income of farmers is improving. However, the tax that is collected from agriculture remains related to land size which is more or less constant. The revision of the tax has doubled the revenue collected in the region, but remains
very low compared to the regional GDP and the regional expenditure and the national average per capital revenue collection. There is no tax so far on incomes obtained from vegetables and livestock. In some Woredas visited, farmers were able to employ daily laborers paying 45 Birr a day. In these areas, there are suggestions from the woreda level implementers that the introduction of income related tax options be explored. As long as agriculture remains the main stay of the economy and as long as it is also reported to be the sources of the double digit growth, the tax base could only be expanded if income related taxation is introduced. It might be necessary to look into and explore the potential of agricultural income tax and what systems are required to implement it.

The revenue collected from businesses is also not growing as expected. There is no data base for tax payers and their numbers are not well known. It is also difficult to ascertain that the tax being paid is as per the incomes generated. It is the tax payer that has the responsibility for presenting the financial statement up on which taxes are going to be assigned on. According to our discussion with the head of the regional Revenue Authority, the business men do have three types of financial statements: one ‘for tax’, one ‘for banks to access credit’ and the ‘real statement for themselves’. This is compounded by lack of proper understanding of the tax system by the tax payers. Some tax payers are willing to take administrative penalties rather than submitting their financial statements. It is also reported that there are instances whereby financial statements are prepared after determining the amount of taxes to be paid. Moreover, some tax payers do understand payment of VAT for instance as their own tax payment.

There is lack of holistic implementation of the tax reform strengthening programs. Although the BPR process for revenue collection has been decided in consultation between the federal and regional authorities, its capacity strengthening efforts does seem to be limited only to federal level. There is a need to implement the strengthening efforts (skills up-grading, ensuring protection and security, rewarding employees for better performance) at regional level similar to the federal level. Because of differences in this, there is now a tendency for regional revenue employees to migrate to the federal level. Employees do work with business men who have the incentive to provide under table payments. They are required to take tax defaulters to court and sometimes encounter conflict with tax payers. On the other hand, the incentive environment does not compensate these employees more than other civil servants. The incentive package provided at the federal level recently has not trickled down to the regions and woredas. The incentive package needs to be defined in view of reducing or controlling corruption.

The lack of capacity both for undertaking tax assessment studies, correctly estimating the amount of tax to be paid by the tax authorities is another factor for low performance. The frequent turnover of staff and the longer learning time required for new employees to understand the tax laws has contributed negatively to the efforts being made to increase collection.

There are also institutional issues that limit the ability of revenue collecting institutions to effectively manage the revenue collection process. All Woreda offices visited indicated
that the support they get from the woreda administrators is good and the working environment has improved over the last year or so. But they lack transport facilities, electronic machines. Furthermore, the Woreda level steering committee is overburdened by competing tasks and has not been discharging its responsibility as expected. The efforts put to reform the tax system at woreda levels fall short of expectations. There is no clear guideline on how to improve the revenue collection system, nor on how to collect arrears. Finally, the support provided by the regional level to Woreda offices is reported to be weak. Reorganization has taken place at the woreda level, but reorganization alone will not build capacity to make a meaningful change in the way tax is collected and administered. It required sustained and continued capacity building programs to staffs involved in this task. The offices at woreda level were trained only once in 2001.
VI. Overview of Regional Expenditure and Financing

6.1 REGIONAL FINANCING ENVELOP

The regional finance envelop composed of federal block grant; regional own revenue; foreign loan and grants, road fund, water fund, Food Security and PSNP transfers from federal; Federal ministries support directly to the respective sectors in the region (example MoH’s health centre construction); off-budget sources like NGOs; and community contribution. These are not all known. No data on some federal ministries support to the respective bureaus, off-budget support and community contributions. The total known 2001 EFY resource envelop is estimated at 6,975 million, including road fund, food security and PSNP where the largest share coming from federal block grants, 4789 million Birr.

Table 6.1 Total Regional Resource Envelope in million Birr

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury</td>
<td>1,642.38</td>
<td>1,904.4</td>
<td>2,487.45</td>
<td>3,765.48</td>
<td>4,789</td>
</tr>
<tr>
<td>Federal level Grants</td>
<td>1,242.4</td>
<td>1,519.4</td>
<td>2,082.45</td>
<td>3,320.48</td>
<td>4,189</td>
</tr>
<tr>
<td>Regional own resources</td>
<td>400.0</td>
<td>385</td>
<td>405</td>
<td>445</td>
<td>600</td>
</tr>
<tr>
<td>Foreign aid and loan</td>
<td>207.34</td>
<td>231.44</td>
<td>163.11</td>
<td>105.997</td>
<td>185.843</td>
</tr>
<tr>
<td>Off- budget support (NGOs and off sector budget support+ direct donor/NGO implemented)</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Special purpose grants</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food security</td>
<td>NA</td>
<td>NA</td>
<td>631.2</td>
<td>710.8</td>
<td>805.5</td>
</tr>
<tr>
<td>Productive safety net</td>
<td>233.9</td>
<td>340.8</td>
<td>715.15</td>
<td>937.4</td>
<td>633.0</td>
</tr>
<tr>
<td>LIG</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>507.4</td>
</tr>
<tr>
<td>Road Fund</td>
<td>NA</td>
<td>NA</td>
<td>25.7</td>
<td>47.1</td>
<td>55.1</td>
</tr>
<tr>
<td>Community contribution</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,083.62</td>
<td>2,476.64</td>
<td>4,022.61</td>
<td>5,566.777</td>
<td>6,975.8</td>
</tr>
</tbody>
</table>

Sources, BoFED, Regional Road Authority, Amhara Food Security Office

6.2 BUDGET UTILIZATION

The budget outturn in Amhara region has consistently on improvement except a modest decline in 2001 EFY. This is an encouraging figure particularly when compared with the national average. The national average budget outturn is low in 1998 and 1999 and this is largely attributable to underperformance in domestic revenue where the largest share comes from the failure of the regional states while the federal performance was relatively better. This implies that the role played by the Amhara region seems relatively lower.

Figure 6.1: Budget outturn: Amhara and country level
6.3 REGIONAL SPENDING BY FUNCTION

Overall the regional spending has more than doubled from about 2 billion in 1998 to about 4.7 billion Birr in 2001, showing an annual average increment of 34% (see figure 6.3).

Figure 6.3: Average annual growth rate of recurrent, capital and total expenditure
Of these total spending, the share of capital spending has been increasing but remained less than 20%. Most of the resources were spent on financing the increasing recurrent expenses (See table 6.2 and Figure 6.4).

Table 6.4 Composition of regional expenditure between recurrent and capital in million ETB

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurrent</td>
<td>1,770.8</td>
<td>2,144.4</td>
<td>3,173.6</td>
<td>3,878.4</td>
</tr>
<tr>
<td>Capital</td>
<td>182.4</td>
<td>414.6</td>
<td>622.8</td>
<td>851.6</td>
</tr>
<tr>
<td>Total</td>
<td>1,953.2</td>
<td>2,559.0</td>
<td>3,796.4</td>
<td>4,720.0</td>
</tr>
</tbody>
</table>

Source: BoFED, IBEX data

Figure 6.4: trends of capital and recurrent budget in Amhara
Of the total regional spending, the share of the woreda level spending has been growing. It has increased from 1.2 billion in EFY 1998 to 3.5 billion in EFY 2001. The commitment to increase resources at the woreda level for better service delivery can be seen from the rising share of the woreda level spending from overall regional spending. The additionality criteria introduced by PBS is reported to have contributed to the rising trend.

Table 6.3: Trend of overall spending by woreda and regional level

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bureau level</td>
<td>733.8</td>
<td>1,081.0</td>
<td>1,432.4</td>
<td>1,241.4</td>
</tr>
<tr>
<td>Woreda level</td>
<td>1,219.4</td>
<td>1,478.0</td>
<td>2,364.0</td>
<td>3,488.5</td>
</tr>
<tr>
<td>regional Total</td>
<td>1,953.3</td>
<td>2,559.0</td>
<td>3,796.4</td>
<td>4,729.9</td>
</tr>
</tbody>
</table>

Source: IBEX data

Figure 6.5: Share of Woredas from overall regional spending

6.4 REGIONAL SPENDING BY SECTOR PRIORITIES

In terms of spending priorities, consistently about 60% of the resources were spent in the five priority sectors, though, lately slightly lower. Education stands out clear as a number one priority within priorities with its share of constant 35-36% from overall regional budget. The second important spending priority is agriculture and natural resources with 12% and health has been a distant third with about 8-9% share. The regional share for water and road from the total budget remains insignificant with less than 5% together.

Table 6.4 Sectoral composition of expenditure
In per capita terms total poverty spending has been consistently increased from 51 Birr in 1997 to 145 Birr in 2001 EFY. The same trend was observed in terms of per capita capital and recurrent expenditure (see Figure 6.6).

**Figure 6.6: Per capita spending on pro-poor sectors in Amhara and country level**

One main feature that stands out from the figure is that per capita spending in poverty sectors at country level is four times greater than the level in Amhara region. The gap in per capita spending in capital expenditure is exceptionally very high. The spending at country level is 12.5 times larger than the level in Amhara region. This has reached to a record 21.8 times in 1999 then decline to 13 times in 2001 EFY.
The availability of resources to manage operation activities determines the quality of services provided. The share of operational expenditures from the total recurrent expenditure is declining at the bureau level while it oscillated between 20-25% at woreda levels. The decline is much faster at the bureau level. There is a significance difference in the availability of operational resources at regional and woreda levels. While regional bureaus’ recurrent spending on operational expenses ranges from 47 to 61%, this is only between 20-27% at Woreda level (see figure 6.7). In both cases the share of operational expenses had been on decline except the recovery in 2001 at woreda level.

Figure 6.7: Trends of share of operational expenditure from the recurrent expenditure, all Woredas and Bureaus

Source: BoFED, IBEX data

As can be seen from Table 6.5, the share of operating expenses from their respective sectoral expenditures had increased in water and road sectors while it declined in education and health.

Table 6.5: the share of operational budget from regional allocation by sector

<table>
<thead>
<tr>
<th>Regional Consolidated</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of operational budget from the total regional budget</td>
<td>38%</td>
<td>37%</td>
<td>36%</td>
<td>31%</td>
<td>30%</td>
</tr>
<tr>
<td>Agriculture &amp; Natural Resources</td>
<td>33%</td>
<td>36%</td>
<td>30%</td>
<td>28%</td>
<td>36%</td>
</tr>
<tr>
<td>Water</td>
<td>35%</td>
<td>31%</td>
<td>41%</td>
<td>40%</td>
<td>44%</td>
</tr>
</tbody>
</table>
The decline in the operation expenditures in these two service delivery areas could have a negative impact on the quality of services offered. This is mainly because the rate of expansion of these services is much faster than the other two and the allocated budget in some cases were not even able to finance the salary costs.

Table 6.6: Regional and woreda level spending on priority sectors

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>20%</td>
<td>15%</td>
<td>18%</td>
<td>14%</td>
<td>13%</td>
</tr>
<tr>
<td>Health</td>
<td>42%</td>
<td>31%</td>
<td>31%</td>
<td>26%</td>
<td>29%</td>
</tr>
<tr>
<td>Rural Road</td>
<td>35%</td>
<td>37%</td>
<td>41%</td>
<td>82%</td>
<td>47%</td>
</tr>
<tr>
<td>Other Sectors</td>
<td>53%</td>
<td>59%</td>
<td>57%</td>
<td>50%</td>
<td>48%</td>
</tr>
</tbody>
</table>

Source: BOFED, Ibex Data

Pro-poor, policy based spending?
One important aspect which this study is expected to shade light on is to show the link between public spending and growth. Public expenditures can be effective in reducing poverty only when the policy setting is right. Pro-poor expenditures must be accompanied by pro-poor policies. This review has not in detailed reviewed the effectiveness of different policies in the various sectors. It would have been easier had public expenditure process (including budget management, accountability, transparency, and so on) is based on outcomes and impacts and not just on line items and inputs as is the case in Ethiopia. All this made it difficult to see the link between the input and the final product, growth. The detailed evaluation of the impact of spending that attends to the efficiency with which that spending generates services and to the impact on the intended beneficiaries is also required, which this study have not carried out. However, from the cursory look done in this assessment on spending it looks that the investment made has increased the regions capital stock (physical or human) reflecting higher flows of public funds. The public spending made in education and health contribute is expected to increase in the stock of human capital. Similarly, accumulation of physical capital (road, communication and power through the federal investment) through public expenditures in infrastructure is also expected to have a positive impact on growth. Establishing a link between public spending and growth requires more rigorous analysis than is carried out in this public finance review report.
The resource allocation in region is driven by the policy priorities set in the strategic plan and in regional PASDEP. The five pro-poor sectors took more than 60% of the regional budget. This is also true at the Woreda level. The data shows that the resource at sectoral level are allocated to priority functions (primary health care, primary education, rural water, and rural roads) in line with the government policies and strategies. This report has not gone in depth in analyzing whether this allocation is policy based and pro-poor. As establishing the effect of public spending on the poor requires a household level information that lend itself to benefit incidence analysis, which is beyond the scope of this report, it is recommended that this is known through further analytical work. The simple tabular analysis made in this report however indicates that the resource allocation is as per the policy of the government and in areas where, over the longer term, could affect the status of poverty and resource distribution (human capital formation, and in agriculture on technology improvement). However, the short terms gains that could have been obtained from investing in small scale employment creation and on agricultural productivity might not have been fully exploited as these sectors have obtained proportionally less amount of resources.

6.5 EXPENDITURE MANAGEMENT SYSTEMS AND QUALITY OF PFM

The expenditure management strengthening exercise carried out as part of the civil service reform has strengthening not only the skills and knowledge of the staff at BOFED and WOFEDs but also strengthened the systems for budgeting, accounting and reporting. A case in point is the installation of IBEX at the regional level which facilitated easy access to financial management information that can be generated as required. This exercise though has not cascaded down to the Woredas, and it is not a smooth process to get budget and spending data at woreda level. The manual system has increasingly increased the transaction cost for WOFED offices to provide such information. It is therefore necessary to consider investing on some type of computer based financial management system at the woreda level.

There are some expenditure overruns raising some concerns on the credibility of the budget. The region is operating with the use of zero-based budgeting through the operationalization of the seed money concept. Bureaus are allowed to utilize additional resources if they demonstrated that they have utilized their resources. Some bureaus managed to spend resources more than their budget. There are some instances where the region has to look for funding to finance the deficit in spending. The transfer of resources among sectors is being approved by the different levels of the regional system. While this improved efficiency of resource use at the regional level, the quality of capital budgeting planning, particularly in relation to spending capacity remains a challenge.

Another important aspect of the control system is the regular auditing of accounts and the implementation of its recommendations. There are currently about 700 institutions that need to be audited in the region. The capacity of the ROAG office is strengthening but is yet to fully cover all these institutions. So far the office manages only to cover about 25% of all the offices. Both regular and performance audits have been carried out. In EFY 2001 a total of 117 offices were audited. Of these about 57% of them
provided their responses to the audit queries on time while 11% did not provide any comment at all.

Table 6.7: Number of institutions audited

<table>
<thead>
<tr>
<th>Types of audit finding</th>
<th>Adequate</th>
<th>With qualification</th>
<th>Not adequate</th>
<th>Impossible to provide comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Audits</td>
<td>1</td>
<td>102</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>On time</td>
<td>67</td>
<td>57%</td>
<td>27%</td>
<td>11%</td>
</tr>
<tr>
<td>Delayed</td>
<td>32</td>
<td>1%</td>
<td>87%</td>
<td>3%</td>
</tr>
<tr>
<td>None</td>
<td>13</td>
<td>3%</td>
<td>3%</td>
<td></td>
</tr>
</tbody>
</table>
| Source: ANRS Office Auditor General, 2000/2001 audit report

According to the audit findings, in only 1% of the offices, audit finding was found adequate; in 87% cases, finance records were accepted with qualification while in 3% of the offices the findings was their financial systems was found inadequate (all are in Woreda level offices) and in another 3% of cases, the audit was not able to provide any judgment (See Table 6.7). This clearly shows that the financial management capacities need to be strengthened both at sectoral bureau and woreda levels.

According to the audited summary reports there is positive development in the last four years and some risks that needs to be looked at. The main developments recorded were (i) increased budget utilization in the regions (ii) improved internal control systems in many government offices. As can be seen in Table 6.8, there is generally a declining trend in all of the indicators associated with poor financial management until 2000. There seem to be a reverse in 2001 EFY.

Table 6.8: Major audit findings in the Amhara region

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash shortfall</td>
<td>0.9</td>
<td>0.3</td>
<td>0.7</td>
<td>0.5</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Unsettled balance</td>
<td>154.5</td>
<td>5.0</td>
<td>20.1</td>
<td>17.3</td>
<td>5.1</td>
<td>5.2</td>
</tr>
<tr>
<td>Revenue not collected</td>
<td>7.6</td>
<td>13.6</td>
<td>3.3</td>
<td>1.5</td>
<td>1.7</td>
<td>8.3</td>
</tr>
<tr>
<td>Spending not supported by appropriate documentations</td>
<td>0.7</td>
<td>0.6</td>
<td>2.0</td>
<td>13.6</td>
<td>0.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Procurement without following rules</td>
<td>5.0</td>
<td>11.7</td>
<td>19.3</td>
<td>12.0</td>
<td>4.7</td>
<td>63.1</td>
</tr>
<tr>
<td>Expenditure over budget</td>
<td>3.2</td>
<td>1.2</td>
<td>3.1</td>
<td>1.4</td>
<td>0.5</td>
<td>8.3</td>
</tr>
<tr>
<td>Budget not used</td>
<td>88.0</td>
<td>65.9</td>
<td>35.7</td>
<td>10.2</td>
<td>5.3</td>
<td>20.6</td>
</tr>
</tbody>
</table>

Source: ANSOAG, 2002 report

In spite of improvements in the quality of the PFM systems as evidenced by the audit reports, there are still challenges and concerns regarding the effectiveness and efficiency of the financial management system that needs to be tackled to further the gains made. These include:-
• The internal audit function does not seem to get adequate attention in the design of the business process reengineering of BOFED and WOFED as evidenced by the fact that its structure is set below the finance management structure.

• There are financial management weaknesses in bureau branch offices that are outside the financial management pool. Their financial management system may not be adequate for proper auditing. Their total budget though is not that significant.

• There is no orderly property management system at all levels. Property is not properly recorded, reported and followed up. And as a result, in all most all cases, the audit findings have been unable to provide any sort of judgment.

• The quality of the construction works at woreda level has not been properly followed up. This is reported to have been caused by weak capacity of contractors, challenges in the procurement process as well as the lack of structure at Woreda level to follow up and assure quality. There are efforts being made by the Works and Urban development bureau.

**Accountability and transparency mechanisms**

There are many mechanisms that the region is using to ensure transparency and accountability, one of which is the use of the audit findings by the executive and the legislative. From the discussions at the regional level, actions are taken based on the audit findings. All the major decision makers at all levels of the management (audited institution, the parliamentary committee, the justice and the parliament) have access to the audit findings. There is also a good working relationship between the ROAG with Anti Corruption Office as the information from the Anti-Corruption Office has started to be used to provide priority for auditing.

Figure 6.8: Mechanism put in place to utilize audit findings
Although efforts are being made to strengthen the audit function, there are still challenges that regional OAG office faces. Although the office aims at undertaking an audit in each institution every other year, the current capacity of regional OAG is far from achieving this target for a number of reasons. First, retention of staff has become difficult. The incentives provided to the staff seem to not compensate for the risks they take and long separation they have with their families during the auditing process at woreda levels. As a result, many use OAG as a learning ground. To address this, the region provided professional allowance (ranging from 350-450) per month, but it does not seem to have an impact in reducing the reduce attrition of human resources. The support provided by PBS in strengthening the office when released is expected to contribute to better retention mechanisms as career strengthening training are included in the interventions.
VII. Overview of Woreda Expenditure and Financing (all Woredas)

7.1 WOREDA FINANCING ENVIRONMENT

Overall woreda level nominal budget in the region has increased from 1.2 billion ETB in EFY 1997 to 3.1 billion in 2002 EFY, showing an annual growth rate of 21% (see table 8.1).

Table 7.1 Composition of Woreda level budget, all woredas (in million ETB)

<table>
<thead>
<tr>
<th>Year</th>
<th>“Own Source”</th>
<th>Regional Grant</th>
<th>Foreign Loan</th>
<th>Foreign Aid</th>
<th>Total</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>281.4</td>
<td>843.6</td>
<td>46.9</td>
<td>83.3</td>
<td>1,255.3</td>
<td>0%</td>
</tr>
<tr>
<td>1998</td>
<td>260.2</td>
<td>1055.3</td>
<td>12.9</td>
<td>83.9</td>
<td>1,412.3</td>
<td>13%</td>
</tr>
<tr>
<td>1999</td>
<td>235.9</td>
<td>1279.4</td>
<td>18.8</td>
<td>77.5</td>
<td>1,611.6</td>
<td>14%</td>
</tr>
<tr>
<td>2000</td>
<td>248.6</td>
<td>2086.4</td>
<td>14.6</td>
<td>45.5</td>
<td>2,395.1</td>
<td>49%</td>
</tr>
<tr>
<td>2001</td>
<td>333.3</td>
<td>2501.7</td>
<td>33.3</td>
<td>96.0</td>
<td>2,964.2</td>
<td>24%</td>
</tr>
<tr>
<td>2002</td>
<td>553.8</td>
<td>2438.2</td>
<td>107.4</td>
<td>36.6</td>
<td>3,136.1</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: BoFED, IBEX data

As can clearly be seen in figure 7.1, the contribution of regional grant has increased from 67% in 1997 to 87 percent in 2000. There was clear evidence that the Woreda level expenditure is growing. The support obtained from the ring-fenced Protecting Basic Services support with its additionality test might have contributed to this increased woreda level funding.

Figure 7.1 Composition of Woreda level budget by source funding
The overall spending at Woreda level has been on the rise showing the increasing role for the woreda in delivery of basic services. In nominal terms the woreda level expenditures rose from 1.2 billion in 1998 EFY to 3.5 billion ETB in 2001. This is reflected in the rise of the share of woreda level expenditures from the regional expenditure from 62% in 1998 to 74% in 2001 EFY.

Woreda level financing envelope originates from different sources. The main on-budget sources of funding include revenue generated from the Woreda, the grant provided through a block grant formula, foreign aid and foreign loan. In addition, there are off budget sources that also finance woreda level expenditures, though their magnitude is not always known for the woredas. This include channel 3 resources, NGO support and by and large the growing contribution of the community to various interventions in terms of labour, materials and money.

### 7.2 SPENDING BY ECONOMIC CLASSIFICATION AND SECTOR PRIORITIES

The expenditures pattern is well aligned to the government’s priority of allocating more resources to the pro-poor sectors. Overall the share of the five priority sectors was maintained at about 77 percent of the total woreda expenditures and this share declined to 64 percent in 2001.

<table>
<thead>
<tr>
<th>Sector</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture &amp; Natural Resources</td>
<td>204.7</td>
<td>220.8</td>
<td>320.1</td>
<td>397.5</td>
</tr>
<tr>
<td>Water</td>
<td>10.1</td>
<td>16.2</td>
<td>32.3</td>
<td>49.9</td>
</tr>
<tr>
<td>Education</td>
<td>595.5</td>
<td>708.7</td>
<td>1124.6</td>
<td>1429.4</td>
</tr>
<tr>
<td>Health</td>
<td>120.1</td>
<td>138.0</td>
<td>245.9</td>
<td>324.6</td>
</tr>
<tr>
<td>Rural Road</td>
<td>4.8</td>
<td>7.7</td>
<td>10.5</td>
<td>22.6</td>
</tr>
<tr>
<td>Other sectors</td>
<td>284.3</td>
<td>386.6</td>
<td>630.6</td>
<td>1264.5</td>
</tr>
<tr>
<td>Overall Woreda total</td>
<td>1,219.4</td>
<td>1,478.0</td>
<td>2,364.0</td>
<td>3,488.5</td>
</tr>
<tr>
<td>Share of priority sectors</td>
<td>77%</td>
<td>74%</td>
<td>73%</td>
<td>64%</td>
</tr>
</tbody>
</table>

Source: BoFED, IBEX data

The share priority sectors from overall woreda level spending declined from EFY 1998 to EFY. Of this Woreda level expenditure, almost 50% was spent on education in the period 1998 to 2000. Agriculture and natural resources was a distant second and health sector was the distant third with about 9%. These three sectors account for more than 70% of all the Woreda expenditures up to 2000 EFY but their share declined to just 60% in 2001 Overall the sectoral allocation in all the priority sectors, with the exception of rural road declined in 2001.

Table 7.3: Share of sector priorities from woreda spending
In spite of the fact that coverage and access to clean and safe water is a major issue, the woreda level allocation as can be seen from the above graph is very limited. The major challenge in this regard is the capital cost required for expanding access. Given the shortage of resources at the woreda level, woreda do have very little resources left for capital budget (see below). This has affected investment in some of the basic services. In EFY 2002 for example more than 60 woreda have not budget any resource from the treasury to the water sector; about 32 woredas have budgeted for matching fund, and only 13 woredas budgeted from the treasury on its own right together with the matching fund. This is in spite of the fact that the regional capital allocation criteria in the block grant formula gave the water sector a 15 % weight. The weight given for the agriculture sector in the block grant allocation formula is 15 percent and with the exception of EFY, it has been receiving comparable allocation to the formula.

### 7.3 WOREDA SPENDING BY FUNCTION

Overall the woreda expenditures are dominated by salaries. The percentage of operational budget at regional level declined from 38% in EFY 1997 to 30% in 2001. In comparison the percentage of operational spending at woreda level was 27 percent. It declined to 20 percent in 2000 and slightly increased to 25 percent in 2001. The proportion of operational budget from the respective sectoral recurrent budget is shown in table 7.4.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>% of operational budget from the total woreda budget</td>
<td>27%</td>
<td>22%</td>
<td>21%</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>Agriculture &amp; Natural Resources</td>
<td>29%</td>
<td>27%</td>
<td>21%</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>Water</td>
<td>20%</td>
<td>16%</td>
<td>35%</td>
<td>43%</td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>15%</td>
<td>11%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Health</td>
<td>37%</td>
<td>28%</td>
<td>25%</td>
<td>23%</td>
<td>27%</td>
</tr>
<tr>
<td>Rural Road</td>
<td>19%</td>
<td>20%</td>
<td>31%</td>
<td>47%</td>
<td></td>
</tr>
<tr>
<td>Other Sectors</td>
<td>40%</td>
<td>38%</td>
<td>41%</td>
<td>37%</td>
<td>46%</td>
</tr>
</tbody>
</table>

Source: BoFED, Ibex data
As can be seen from the table above, the operational budget for some sector improved over time. This is the case for water and rural road. On the other hand, this has declined for education and health sectors over the years. With additional resources allocated to woreda sector offices, road and water employ relatively smaller numbers of civil servants giving them the room to allocation relatively better for operational costs. In education and health, on the other hand, the additional allocation was not even able to cover the salary cost of accelerated expansion of schools and primary health care services.

7.4 OVERVIEW OF DEVELOPMENTS IN REGIONAL BLOCK GRANTS TO WOREDA

Block grants are being transferred from the federal to regions and then to Woredas based on a predefined formula agreed at federal and regional levels. There is a good rational for doing so (see Box: 7.1). The region has started resource transfers using block grants criteria since 1997 EFY. According to our discussions with BOFED, the resource transfers follow in general the above principles. Since the last three years the ‘four’ PBS principles were included to guide block grant allocation. The expenditure assignments, their ability to collect revenue, additionality of overall resources, and fairness are some of the factors that are being taken to allocate resources. All the information used for block grant allocation data commonly collected for all woredas (see preceding section on weights for allocation).

BOX 7.1: The Rationale and Criteria for Block Grant Transfers

There are many rationales for using grant transfers to ensure vertical and horizontal equity:

- Although all tiers of government are expected to provide public services, their own-source revenue-raising powers of sub-national governments are not sufficient to meet the costs of providing services they have been assigned to. The resulting gap can be filled by vertical equalization—increasing local revenue-raising powers or transferring resource from higher levels.
- There are wide differences in the ability of sub-national governments to mobilize resources independently. If only sub-national government own-source revenues were available to finance assigned local services, there would be substantial inter-jurisdictional differences in the quantity and quality of public services based largely on differences in resource endowments. Intergovernmental transfers can be a powerful mechanism to help equalize these differences.
- Some seemingly local government services generate inter-jurisdictional spillovers, which are benefits (or costs) that extend beyond the borders of the locality. Local governments may be unwilling to provide an efficient level of certain services if they believe that people who reside outside of the locality will enjoy many of the resulting benefits. Central government may transfer resources to local governments with the condition that such resources be spent on services that generate spillovers.

The debate therefore is not on why such transfers occur but how can they be optimal and fair. The necessary desirable features for transfer criteria are:

- Revenue adequacy and growth: A transfer system meets these criteria when it is designed to ensure that a sub-national government has enough resources to cover its unmet revenue need, and when the transferred resources grow appropriately with needs over time. Full adequacy is elusive as resources are limited.
- Predictability, transparency and simplicity: sub-national governments to have a general idea of how much money they are likely to receive from their various sources of revenue as they begin the planning and budgeting process for the next fiscal year. This provides a solid basis on which to make future plans and minimizes the probability of large swings in resource availability. Similarly, the transfers allocated to sub-national governments actually be distributed for their use and on a timely basis. Sub-national government officials and their constituents should also be able to ascertain how their share of a particular transfer was determined. Even if they are not satisfied, at least they will understand why they received a different amount than other jurisdictions. Such an understanding is facilitated by relatively simple but explicit transfer formulas;
- Allocative efficiency: transfers should encourage local governments to spend their limited resources carefully and in the most productive way possible. It also means that resources should be allocated to services identified sub-nationally as the highest priorities.
- Equity principle: transfer systems should ideally distribute resources across localities in a manner that accounts for differences in both expenditure needs (providing more to those with greater need where unit costs of producing public services are higher) and fiscal capacity (providing less to those with greater fiscal capacity), especially when a constitution, law, or central agency mandates certain types and/or levels of services. Transfers should specifically
The woreda block grants has increased from 1.2 billion 1997 EFY to 3.3 billion in 2002. As can be seen from figure 8.4, there was a sharp rise in the growth rate of block grants between 1999 and 2000, an increase of 58%. This could be cause by the additional funding transferred through the PBS program.

Table 7.5: Amount of block grants given to the Woredas by source (in Million ETB)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total block grant</th>
<th>Total treasury block grant</th>
<th>Treasury own Source</th>
<th>Regional grant</th>
<th>Foreign loan</th>
<th>Foreign aid</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>1,125.0</td>
<td>1,255.3</td>
<td>281.4</td>
<td>843.6</td>
<td>46.9</td>
<td>83.3</td>
</tr>
<tr>
<td>1998</td>
<td>1,315.5</td>
<td>1,412.3</td>
<td>260.2</td>
<td>1,055.3</td>
<td>12.9</td>
<td>83.9</td>
</tr>
<tr>
<td>1999</td>
<td>1,515.3</td>
<td>1,611.6</td>
<td>235.9</td>
<td>1,279.4</td>
<td>18.8</td>
<td>77.5</td>
</tr>
<tr>
<td>2000</td>
<td>2,395.1</td>
<td>2,335.0</td>
<td>248.6</td>
<td>2,086.4</td>
<td>14.6</td>
<td>45.5</td>
</tr>
<tr>
<td>2001</td>
<td>2,964.2</td>
<td>2,835.0</td>
<td>333.3</td>
<td>2,501.7</td>
<td>33.3</td>
<td>96.0</td>
</tr>
<tr>
<td>2002</td>
<td>3,287.5</td>
<td>2,992.0</td>
<td>553.8</td>
<td>2,438.2</td>
<td>107.4</td>
<td>36.6</td>
</tr>
</tbody>
</table>

Source: BoFED, IBEX data

Figure 7.2: Growth rate of block grants
When we see the composition of the block grants by its sources, it is evident that more than 3 quarters of the grant comes from the treasury and its share from the total grant had been growing from 1997 to 2000. Its share started to decline slightly in 2001 and by about 10% in 2002. This is partially due to the effect of decline in federal transfer to the region caused by the new population of the region. The share of the own source comes second and took the opposite direction of the treasury grants as it declined and vise versa. The share of foreign aid and loan from the total grants have declined from year to year, starting from 11% in 1997 to 4 percent in 2002 (see figure 8.3).

On the other hand there has been a profound restructuring and reorganization that has taken place in the region as a result of the Business Process Re-engineering (BPR). The discussion at all levels of the government shows that (a) there has been significant positive difference in providing client responsive services; (b) the synergy and commitment among the Woreda leadership improved in all the woredas visited; (c) there are evidences that the civil servant are working hard even in weekends to meet their targets.

Figure 7.3 Trends of block grants by source
The reorganization entailed the creation of new offices in Woredas as well as expanding the number of professionals required in each of the business processes of the existing offices. Furthermore, the business processing at regional level also increased employment as different sector bureaus instruct woreda offices to recruit additional staff as per their BPR process. Most of these recruitments are expected to be financed from the woreda level allocation. Another challenge where the BPR has not resolved yet is the expectation of the civil service for better remuneration. The reorganization enabled offices to deploy of the civil service to different business process in line with their skills and capacities. However, this is not followed up with adjustment of salary. There is variation in salary among employees working in the same business process and also some have taken higher positions without concomitant improvement to their incentives. Unless this is addressed, the commitment and initiative that is visible today may not last long.

As a result the visited woredas not only had an insignificant capital budget to finance development expenditures, but also their recurrent budget may not be able to over salaries of employees for the last quarter of the financial year. The lack of adequate resources to finance salaries for the year is now a common concern among the Woredas visited. Woredas, as result have started introducing various expenditure saving measures, though may not be optimal:

- In Libo Kemkem Woreda, the woreda in consultation with the employees have adopted a reduced payment schemes for per diems: 65% of the daily rate for remote kebeles, 50 % for moderately far and only 35 % of the daily rate for near Kebesles.
- In Dera, the sector share resources among themselves when a woreda focus area has emerged. For instance this year all the sector offices are supporting the

<table>
<thead>
<tr>
<th>Year</th>
<th>Foreign Loan</th>
<th>Foreign Aid</th>
<th>Own Source</th>
<th>Regional Grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>4%</td>
<td>7%</td>
<td>22%</td>
<td>67%</td>
</tr>
<tr>
<td>1998</td>
<td>1%</td>
<td>6%</td>
<td>18%</td>
<td>75%</td>
</tr>
<tr>
<td>1999</td>
<td>1%</td>
<td>5%</td>
<td>15%</td>
<td>79%</td>
</tr>
<tr>
<td>2000</td>
<td>1%</td>
<td>2%</td>
<td>10%</td>
<td>87%</td>
</tr>
<tr>
<td>2001</td>
<td>1%</td>
<td>3%</td>
<td>11%</td>
<td>84%</td>
</tr>
<tr>
<td>2002</td>
<td>3%</td>
<td>1%</td>
<td>18%</td>
<td>78%</td>
</tr>
</tbody>
</table>

Source: BOFED, IBEX data.
agriculture bureau in its effort to rehabilitate the environments. Other sector offices are deployed to kebeles by covering their own cost.

- In Hulet Eju Enense, they adopted a reduced per diem payment scheme but related it to performance.

VIII. Overview of Selected Woreda Expenditure and Financing

8.1 WOREDA FINANCING ENVELOP

The major financing source for the sample woredas remain the regional grants followed by own revenue collection. There is wide difference among these woredas in increasing their revenue sources. The average growth rate of revenue budgets varies from 26% in Dera to 53% in Hulet Eju Enese.

The role of on-budget external loan and assistance in these woredas is at best marginal and erratic. There is annual non interrupted budget on loan only for Libo kemekem Woreda while Enebse Sarmidir and Hulet Eju Enese did not have consistent flow of aid or loan (see table 8.1) for trends in on-budget resources.

Table 8.1: Budget allocation trends in sample woredas (in million ETB)

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>Average Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Own revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dera</td>
<td>2.7</td>
<td>2.6</td>
<td>2.6</td>
<td>3.4</td>
<td>5.4</td>
<td>26%</td>
</tr>
<tr>
<td>Libo Kemkem</td>
<td>2.5</td>
<td>2.7</td>
<td>2.9</td>
<td>4.0</td>
<td>5.6</td>
<td>30%</td>
</tr>
<tr>
<td>Enebse Sarmidir</td>
<td>2.2</td>
<td>2.0</td>
<td>2.2</td>
<td>3.4</td>
<td>5.6</td>
<td>39%</td>
</tr>
<tr>
<td>Hulet Eji Enese</td>
<td>2.2</td>
<td>4.2</td>
<td>4.5</td>
<td>5.4</td>
<td>6.7</td>
<td>53%</td>
</tr>
<tr>
<td><strong>Block Grants</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dera</td>
<td>9.0</td>
<td>10.9</td>
<td>18.0</td>
<td>21.0</td>
<td>20.2</td>
<td>31%</td>
</tr>
<tr>
<td>Libo Kemkem</td>
<td>12.8</td>
<td>14.9</td>
<td>19.2</td>
<td>22.4</td>
<td>22.2</td>
<td>18%</td>
</tr>
<tr>
<td>Enebse Sarmidir</td>
<td>8.4</td>
<td>10.2</td>
<td>15.5</td>
<td>18.5</td>
<td>17.6</td>
<td>27%</td>
</tr>
<tr>
<td>Hulet Eji Enese</td>
<td>8.4</td>
<td>11.7</td>
<td>20.4</td>
<td>19.2</td>
<td>19.4</td>
<td>33%</td>
</tr>
<tr>
<td><strong>Foreign Loan</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dera</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0</td>
<td>0.4</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Libo Kemkem</td>
<td>0.0</td>
<td>0.8</td>
<td>0.5</td>
<td>0.9</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Enebse Sarmidir</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Hulet Eji Enese</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
<td>0.4</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td><strong>Foreign Assistance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dera</td>
<td>1.0</td>
<td>0.1</td>
<td>0.0</td>
<td>1.7</td>
<td>2.3</td>
<td></td>
</tr>
<tr>
<td>Libo Kemkem</td>
<td>0.7</td>
<td>0.5</td>
<td>0.0</td>
<td>0.9</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>Enebse Sarmidir</td>
<td>1.1</td>
<td>1.8</td>
<td>2.2</td>
<td>0.5</td>
<td>2.2</td>
<td></td>
</tr>
<tr>
<td>Hulet Eji Enese</td>
<td>1.1</td>
<td>1.9</td>
<td>1.1</td>
<td>0.5</td>
<td>1.5</td>
<td></td>
</tr>
</tbody>
</table>

We need to note however that the total resource envelop that the woredas are operating with is much more than the woreda approved budget in their annual plans. There are significant resources such as off budget donor and NGO resources, community contribution, and the like) that are not included in the table. Because of the lack of systematic recording of off-budget resources, we were not able to show the complete resource framework even for sample woredas. Table 9.2 shows the estimated total resources used in EFY 2001. Food in secure woredas that obtain funding from productive safety net and Food security programs do access a significant resourcing that are not included in the budget. In Enebse Sarmidir where information on different sources of financing was available, the contribution of off-budget resources is as high as 31%.

Table 8.2: Overview of comprehensive resource envelope of 2001 EFY

<table>
<thead>
<tr>
<th></th>
<th>Dera</th>
<th>Libo Kemkem</th>
<th>Enese Sarmidir</th>
<th>Hulet Eju Enessse</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional Grants</td>
<td>23.1</td>
<td>24.4</td>
<td>18</td>
<td>25.3</td>
</tr>
<tr>
<td>Revenue collected by Woreda</td>
<td>5.4</td>
<td>4.0</td>
<td>8.1</td>
<td></td>
</tr>
<tr>
<td>Foreign aid and loan</td>
<td>2.1</td>
<td>0.9</td>
<td>135.6[1]</td>
<td>2.8</td>
</tr>
<tr>
<td>Channel 2 resources</td>
<td></td>
<td></td>
<td></td>
<td>0.8</td>
</tr>
<tr>
<td>Off-budget support (NGOs and off sector budget support+ direct donor/NGO implemented)</td>
<td>0.7[b]</td>
<td>0.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special purpose grants</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food security</td>
<td>None</td>
<td>7.4</td>
<td>2.1[2]</td>
<td>None</td>
</tr>
<tr>
<td>Safety net</td>
<td>None</td>
<td>2.2</td>
<td>12.5</td>
<td>None</td>
</tr>
<tr>
<td>LIG</td>
<td>None</td>
<td></td>
<td></td>
<td>None</td>
</tr>
<tr>
<td>Total</td>
<td>33.6</td>
<td>41.8</td>
<td>45.8</td>
<td>29.4</td>
</tr>
</tbody>
</table>

1 The sources for this funding are Sida and FINIDA; 2 This is the amount obtained from the woreda. The food security office budget allocation shows 4.1 million for 2001 EFY; 3 Only for water, education and agriculture sectors; 4 Only as part of the contribution to Sida and FINIDA Programs; 5 Community contribution only for water services; 6 for agriculture only. 7 Only for education sector.

The trend of revenue collection in the sample woredas have been increasing from EFY 1997 to 2001. The scale of increase varies from one woreda to another. In EFY 1997,
the least amount of revenue was collected in Hulet Eju Enese but over the last four years, the woreda became the highest in terms of revenue collection from the sample woredas (see Figure 8.1).

Figure 8.1: Trend of own revenue in the financing of the budget

![Graph showing trend of own revenue in the financing of the budget](image)

The contribution of own revenue to financing the woreda budget also varies both in terms of trend and among woredas. Its share declined in all woredas and reach bottom in EFY 2000 and started to increase in 2001 and 2002. The highest contribution was seen in Hulet Eji Enese, which 24% in 2002 from the budget not from the total known resource envelope.

Figure 8.2 Percent of own revenue financing woreda budget, sample woredas

![Graph showing percent of own revenue financing budget](image)

### 8.2 SPENDING BY FUNCTIONS AND ECONOMIC CLASSIFICATION
The share of capital budget from the overall woreda financing is becoming very marginal. Woredas do find it increasingly difficult to finance their recurrent expenditures. As a result of declining or not growing regional block grants and expansion of salary costs, there are some evidences that woreda were not able to fully finance their salary expenditures. Consequently the first causality of this is the reduction or almost the total absence of capital expenditures from the government allocation. Most of the capital expenditures are almost financed through the community support. The percentage of capital investment from the total budget remains well below 8% (see table 8.3).

Table 8.3 Share of capital expenditure from the woreda budget, selected woredas

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Libo Kemkem</td>
<td>NA</td>
<td>NA</td>
<td>7%</td>
<td>7%</td>
<td>4%</td>
</tr>
<tr>
<td>Dera</td>
<td>2%</td>
<td>0%</td>
<td>4%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Hilet Eju Enense</td>
<td>6%</td>
<td>1%</td>
<td>8%</td>
<td>3%</td>
<td>7%</td>
</tr>
<tr>
<td>Enese Sar Midir</td>
<td>25%</td>
<td>5%</td>
<td>8%</td>
<td>3%</td>
<td>7%</td>
</tr>
<tr>
<td>NA-not available</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Community contribution

Because of the lack of development funding, the role of the community in accelerating progress is becoming critical. The total amount of contribution from the community is not well documented. Form the visited woreda offices, education and water offices seem to have better mechanisms of estimating and recording community contributions. Even in these offices, there is no standard of estimating labor and in-kind contributions. However its contribution has become very critical in some of the sectors. According to the regional education bureaus, and we have conformed this from our visits and document analysis, the expansion of secondary schools rests on the community. Access to clean and safe water is also driven by the community. Although all sample woredas do attempt to mobilize the community, the strategies used and results obtained in Hulet Eju Enese seem to be the best example (see box 8.1).

Box 8.1: mobilizing the power of the community in Hulet Eju Enese

As can be seen from table, community contribution is shown with some notes. This is because it was not possible to map out all community contributions from all sectors. There are some very positive experiences in mobilizing community contributions in the various sectors. In Huler Eju Enesse for example the woreda has mobilized the community to:

- construct two and equip two high schools;
- construct 38 health posts;
- put in place 38 FTCs, (farmers’ training centers);
- build 73 primary schools;
- requested the woreda to upgrade 9 schools; and
- 60 percent of the cost of increasing access from 39.2 % in 1997 to 51.4 % in 2001.

The woreda has also managed to enroll all 52,000 agricultural tax payers to become members of the Amhara Development Association. The primary drive for the woreda to go into this endeavor is the amount of retained revenue from this membership. The woreda retains about 25 birr per member (70 % of the collection is assigned to the woreda).
8.3 SPENDING BY ECONOMIC CLASSIFICATION AND SECTOR PRIORITIES

The total spending on sample woredas varies from woreda to woreda. The total on budget spending grew between 1997 and 2001 by 166 percent in Enebse Sarmidir, 95 % in Huletju Enese and 72 percent in Dera. The data on Libo Kemkem is not complete (see table 8.4 and 8.5).

Table 8.4: Recurrent, capital and total spending in selected woredas (in million ETB)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recurrent</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enebse Sar Midir</td>
<td>6.6</td>
<td>9.7</td>
<td>11.5</td>
<td>18.8</td>
<td>22.0</td>
</tr>
<tr>
<td>Hule Ejuenese</td>
<td>12.3</td>
<td>16.0</td>
<td>17.3</td>
<td>27.0</td>
<td>24.0</td>
</tr>
<tr>
<td>Libo Kemkem</td>
<td>NA</td>
<td>NA</td>
<td>29.6</td>
<td>43.9</td>
<td>48.4</td>
</tr>
<tr>
<td>Dera</td>
<td>15.2</td>
<td>10.4</td>
<td>13.4</td>
<td>NA</td>
<td>25.4</td>
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<td>1.4</td>
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<tr>
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<tr>
<td><strong>Total</strong></td>
<td>8.9</td>
<td>10.2</td>
<td>12.5</td>
<td>19.5</td>
<td>23.6</td>
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Table 8.5: Annual spending growth in selected woredas

<table>
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<th></th>
<th>1998</th>
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<th>2000</th>
<th>2001</th>
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<td>Hule Ejuenese</td>
<td>23%</td>
<td>8%</td>
<td>65%</td>
<td>-11%</td>
<td>24%</td>
</tr>
<tr>
<td>Libo Kemkem</td>
<td></td>
<td></td>
<td>48%</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>Dera</td>
<td>-33%</td>
<td>34%</td>
<td></td>
<td></td>
<td>18%</td>
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</table>

As was the case in the overall woredas, the proportion of capital spending from the total spending declined in each woreda as shown in figure 8.3.
Figure 8.3: Proportion of capital spending from total spending

In terms of allocation to the various pro-poor sectors, the trend described in the preceding sections was observed in the selected woreda as well. Overall the majority of recurrent spending and virtually all capital spending in the selected woredas was spent on the five priority sectors as shown in table 9.6. Education stands as the priority of all woredas followed by agriculture and health.

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<th>Sector</th>
<th>1,997 Recurrent</th>
<th>1,997 Capital</th>
<th>1,998 Recurrent</th>
<th>1,998 Capital</th>
<th>1,999 Recurrent</th>
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<th>2,001 Capital</th>
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<td>0.1</td>
<td>0.0</td>
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<td>Trade, industry and small and</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>micro enterprises</td>
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<td>0.1</td>
<td>0.0</td>
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<td>0.3</td>
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<td>0.1</td>
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<td>0.0</td>
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<td>0.1</td>
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<td>2,000 Capital</td>
<td>2,001 Recurrent</td>
<td>2,001 Capital</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
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<td>0.2</td>
<td>12.6</td>
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<tr>
<td>Total</td>
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<td>13.4</td>
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IX. Aid Utilization

Unlike the treasury sources where there is a difference between the budget and the adjusted budget as a result of supplementations and deduction, the approved and adjusted budget for external aid (both loan and assistance) remains the same for all the given years under consideration. However, there is a wide variation between the budget and expenditure. As can be seen from table 9.1, the amount of expenditure from budgeted external assistance seems very insignificant while the percentage of loans utilized is even more than what was planned during 1998-2000. Woredas frequently reported that aid resources are budgeted in their resources framework but not disbursed as per plan. One of BOFED planning and budget guidelines clearly stated that the budgeted aid resources will be disbursed through sector offices rather than BOFED. When we inquire whether the sources of funding indicated in the budget in disbursed similar magnitude of resources through the sector offices, we came to understand that some of the financers transferred resources even more than the budgeted amount. There is confusion on how these resources are transferred from the aid providing institutions to the Woredas. The apparent very low expenditure on the external aid could partly be explained by such recording problems. This may not mean though the all the budgeted aid money is disbursed.

Table 9.1: Comparison of assistance and loan budgets and expenditures at regional level

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<td>Budget</td>
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<table>
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</tr>
</thead>
<tbody>
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<td><strong>% of expenditure against budget</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External assistance</td>
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<td>22%</td>
<td>20%</td>
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<td>0%</td>
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<tr>
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<td>122%</td>
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<td>155%</td>
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</tbody>
</table>

The major contribution of external aid, in addition to the PBS program is through the food security and productive safety net programs. According the annual report for EFY 2001, 1.52 billion ETB was planned to be mobilized, of which 1.47 was mobilized, and

---

14 BOFED, Planning guideline for EFY 1999.
15 This was the case in Lobo kemkem.
disbursed to woredas. Of these only 409 million was used and at the woreda level and reported (see table 9.2 for details).

Table 9.2: Resource mobilization, disbursement and use by source funding

<table>
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<th>Name of the project/program</th>
<th>Plan to be mobilized</th>
<th>Mobilized</th>
<th>BALANCE FROM 2000 EFY</th>
<th>Total available</th>
<th>Disbursed to woredas</th>
<th>Utilized and reported</th>
<th>Unutilized/no report</th>
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<td>959</td>
<td>696</td>
<td>247</td>
<td>712</td>
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<td>631</td>
<td>33</td>
<td>664</td>
<td>742</td>
<td>116</td>
<td>549</td>
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<tr>
<td>WB-FS</td>
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<td>53</td>
<td>8</td>
<td>61</td>
<td>38</td>
<td>31</td>
<td>30</td>
</tr>
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<td>0.11</td>
<td>0.61</td>
<td>0.48</td>
<td>0.49</td>
<td>0.12</td>
</tr>
<tr>
<td>WFP/CSI</td>
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<td>4.48</td>
<td>1.12</td>
<td>5.60</td>
<td>3.98</td>
<td>3.60</td>
<td>2.00</td>
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<tr>
<td>UNDP</td>
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<td>4.36</td>
<td>0.00</td>
<td>4.36</td>
<td>3.82</td>
<td>2.67</td>
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<tr>
<td>UNICEF</td>
<td>1.86</td>
<td>1.34</td>
<td>0.00</td>
<td>1.34</td>
<td>0.71</td>
<td>0.15</td>
<td>1.19</td>
</tr>
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<td>GTZ/KFW</td>
<td>16.28</td>
<td>16.25</td>
<td>0.81</td>
<td>17.06</td>
<td>16.25</td>
<td>8.97</td>
<td>8.09</td>
</tr>
<tr>
<td>Overall total</td>
<td>1528</td>
<td>1467</td>
<td>247</td>
<td>1713</td>
<td>1502</td>
<td>409</td>
<td>1304</td>
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</tbody>
</table>

Source: ANRS, Food Security coordination and disaster preparedness Office, 2001EFY budget performance report

The amount of resources flowing to the sector through aid, channel 3 and NGOs is not well documented in the region. This is because:

- There region has not made a concerted effort to coordinate aid efforts in the region. Development partners and their contracting agencies have not proactively sought to reflect their resources in the plan both at Woreda and regional levels. From the woredas visited, it is only Dera that has initiated cooperation forums with NGOs. The education sector is on the process of drafting a guideline for NGOs on the mode of cooperation. While this efforts are encouraging, this needs to be region wide and all sectors and woredas should be proactive in ensuring that the program support of any actor working through the government offices be included in the plan;

- In terms of alignment to regional priorities, most of the aid and loan are being spent on the four pro poor sectors: agriculture, education, health and water. Most of these resources are negotiated and agreed on at the federal level by MOFED and may not fully aligned to woreda and regional priorities or specific concerns;

- The NGOs and contracting agencies also are not willing to fully disclose and align their resources in the region. According to our interviews at the regional and woreda levels, the most aligned and predictable resources from development partners in the region have been FINIDA and Sida. Their resources are aligned and predictable. They also work though the regional and woreda offices, making it easier for the concerned offices to include their interventions in their plan. BOFED rates the PBS funding modality as the best since it is flexible to be put to use to priority areas both at the regional and woreda levels, channeled through the treasury using government financial management systems;

- There are information flow gaps between federal Ministries, bureaus and woredas when resources are channeled using channel 2. The activities could be planned at the woreda and regional levels, but the resources are not always included in the budget. Some of the construction and procurement activities that are carried out at federal and regional levels on behalf of the woredas for reasons of efficiency and scale are not included in the budget;
• The capacity of woredas and regions to utilize and report the aid resources on time remains a challenge. Some of the aid resources are disbursed through a reimbursement mode. When adequate financial reports are not submitted, it affects the disbursement of the next tranche. Some of the visited woredas reported that they were not able to access aid resources because other woredas do not account their expenditures on time. The financial reporting system needs to be strengthened with also a mechanism to reward and sanctioning of better performance; and

• There are also other donor related challenges that affect aid effectiveness. The mismatch between the EFY and donor calendar has affected the predictability of resources for the regional and woreda implementers. Some of donor do have their procedures, and some of them bureaucratic, and affect the pace of program implementation. Still in other the overhead cost in terms of studies (WASH program) and other technical assistance costs (some of them is reported as a high as 75%) do affect the real value of aid provided.
X. Trends in regional service delivery outcomes: cursory look at the effect of public spending on access, quality and effectiveness

The Amhara National Regional State (ANRS), as part of implementing and translating PASDEP to its regional context, developed and implemented its ‘3rd Five Year Plan for Development and Establishment of the Democratic System (2006-2010). This plan set out the various targets and strategies to be implemented at regional level. According to this plan the goals were set on the following spring boards: (i) the nationwide coverage as minimum target (all targets with exception of two in health and one in water are set above the national targets; (ii) setting higher ambition and goals for regional potential and capacity; (iii) the regional successes and achievements of the past years; and (iv) the need for achieving the MDG goals (BoFED 2006:35-36). Major macroeconomic and sectoral targets were set and presented comparatively with the national PASDEP targets (see Annex II). The plan provides all the strategies and major activities that have been planned in the region for all the economic and social service sectors. The following section will highlight the progress made in the past four years in the provision of basic services against these regional targets.

10.1 EDUCATION

Additional 640,000 children, who had never attended school before, were enrolled in the region between 1997 and 2001. This has increased the total enrollments in the 8-year primary school program to 3.76 million. The primary school Gross and Net Enrolment Rate (GER and NER respectively) continues to increase, reaching 98.4 and 89.4 respectively. As can be seen from figure 3.1 there has been progress in increasing enrollments at primary and secondary levels. On the other hand, there is little progress in pre-school child development as the enrolment rates remains very low. There are still disparities between boys and girls (the NER for girls is 81 percent) and especially between Woredas.

Figure 10.1 Trends of gross enrolment ratios at primary and secondary schools

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>81%</td>
<td>86%</td>
<td>92%</td>
<td>100%</td>
<td>98%</td>
</tr>
<tr>
<td>Secondary</td>
<td>19%</td>
<td>27%</td>
<td>37%</td>
<td>38%</td>
<td>38%</td>
</tr>
</tbody>
</table>

16 BoFED, August 2006, The 3rd Five year plan of Amhara Region for development, and establishment of a democrtatic system (2006-2010).
Education disparities exist among woredas, rural and urban residents and between males and females. In primary education, for example, the GER in 66 woredas is lower than the regional average; 48 woredas have a rate of 98-110% and 6 woredas are with >110%. The gender disparity has narrowed in both levels but more in primary than secondary education. Gender disparity in gross enrolment ratios at primary and secondary schools is presented in the figures 3.9.

Figure 10.2: Gender disparities in primary (on the left) and secondary schools (on the right)

Source, ANREB, 2009, situation analysis.

There is very little progress in expanding special education and the educational needs of the differently-abled children in not being met.

Figure 10.3 Gross Enrollment Rate across Woredas in Amhara Region

However, to remain on track, huge challenges face the region. Indeed, the gains of the five years can only be sustained with further investment in the short to medium term to
restore quality and improve access. More than 10% of the school age children are still out of school.

One of the determinants of quality of education is the qualification of teachers. In lower primary schools, nearly all teachers were certificate graduates (99.4%) in EFY 2001 but the standard of qualification was raised in the same year to be diploma level. This has reduced the percentage of qualified primarily teachers in the region to only 2.2%. Lack of reference books remains a challenge as four or more students are sharing one book. The change of medium of instruction (from Amharic to English) in the last four years reported to have reduced the relative success of the region as compared to Tigray and Oromia. The region tried to follow up the performance of students after they joined higher education. This preliminary tracing show that girls are not performing as boys and they are shy even to request for assistance and this has contributed to their dropout. The regional students also reported to have performed poorly in information technology because they lack of adequate preparation during the preparatory schools (interview with the region Education Bureau Head).

At the secondary level, there are several major issues. The gross enrollment rate at the secondary level is about 38.4 percent. But the efforts made over the last five years have increased numbers of pupils at the primary level in a manner that has been unprecedented before. The huge expansion in primary school is significantly driven by the community constructed schools as the standard of the school construction is somehow affordable by the community. This, in turn, is now creating additional demand for more spaces at the secondary level and is putting increased pressure on the limited places available. The expansion of the secondary schools is a woreda expenditure assignment and woredas should follow the national standard for constructing such schools, which makes it more expensive both for the community and woreda administration. Because of the shortage of resources at woreda level for capital investments), there has been little government investment on expanding this level of education. The limited development in the construction of secondary school in the past five years has therefore remained community driven. Unfortunately, community's capacity to finance such big investment programs is limited and will not be able to put in place the necessary schools to take up the outputs of primary schools in the coming few years. This has hampered the development of secondary education in the region and, thus, has become one of the major strategic challenges in the education development that the region is facing at the moment. Most Woreda do have one or two high school and in some Woreda, there are now more than 60,000 primary schools pupils who are likely to join secondary school in the next few years. The regional education system is not prepared to absorb such a large student population. This may require concerted strategic thinking and programming not only at the regional level but also at the national level. The major challenges of meeting the regional MDG will also be transforming the existing 3000 alternative basic education centers to formal schools, ensuring all teachers are qualified as per the standard.

Inefficiency in the primary education systems remains high and seems growing. There is consistent increase in the dropout rate in the first grade, as well as in the overall
primary schools from 1997-2001. In all cases the drop-out rates for girls was lower than their male counterparts. The causes for such high inefficiency need to be looked into through a detailed study, but poverty, the need for additional labor by parents and the perception of quality of education might have contributed for such poor results. The coefficient of efficiency in the region is reported to be 44% and of which the wastage rate is 2.23%

10.2 WATER

In the water sector, the region has targeted to provide safe and clean water to 80% of its population. It has reached coverage of 54 percent in rural areas and 87 percent in urban areas. The region targeted to reach 80% by the end of this year. This target, however, does not seem to be attainable given the trend of both achievements and resources at the disposal of the sector. Please give number for all figures and tables (bring the title out of the figure box). You need also to put sources for all tables and figures

Figure 10.3: Coverage of rural water supply

<table>
<thead>
<tr>
<th>Year</th>
<th>Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>31%</td>
</tr>
<tr>
<td>1998</td>
<td>41%</td>
</tr>
<tr>
<td>1999</td>
<td>51%</td>
</tr>
<tr>
<td>2000</td>
<td>62%</td>
</tr>
<tr>
<td>2001</td>
<td>71%</td>
</tr>
</tbody>
</table>

Source: ANRS, Water resource Bureau, five year Situation analysis.

As may be observed from the figure, the gap between regional targets and what is achieved is increasing from time to time. The gap in the fiscal year 1998 was only 5% but increased to a record 17% in 2001. This will undoubtedly led to question the planning process if it is set on realistic (taking into account own capacity constraints) and resource based. Out interviews at regional and woreda levels indicated that the planning process in the sector is not in formed by resource and largely a demand driven planning.

Figure 10:4 Comparison of Amhara and national level water supply coverage
The main challenges of increasing access to water are many but the following are some of the major ones that this report is able to highlight from document review and our interviews:

- The mismatch between the targets of UAP and the resources allocated to it. Woredas do plan for the targets they are required to meet as per regional guidelines but were not supported by adequate resources due to capital budget shortages. There is also an understanding at Woreda level that the capital cost of some of water points is high and they tend to allocate resources to other sectors for the sake of effectiveness;
- The technology used is expensive and needs to be cognizant of the community capacity;
- In other sectors (education and health) there are federal and regional responsibilities for preparatory education, TVE, higher education and tertiary health facilities because of their nature and cost involved. There are no such parallels in water supply particularly from the federal government. The water supply of big towns is becoming a major challenge to finance by regional capacity. It might be prudent to consider establishing such a program at the federal level to be managed and coordinated at the federal level. The water fund is expected to contribute towards better access to water services. However, it is reported that it is not as effective as other funds, like the road fund, to mobilize funding effectively; and
- The regional plans are informed more by reported problems rather than a well prioritized and well documented master plan for water point expansion, and therefore, there are wide variations not only among the woredas but also within a woreda in access to safe water. This is further complicated by the technology required in different settings with their cost implications.

10.3 HEALTH

Accelerated health expansion has been implemented in the regions as is the case nationwide. On the average, number of health posts and health centers grew by an
average of 24% and 25% respectively between 1997 and 2001. This has helped the region to narrow down its gap in meeting the national standard of 5000 and 25,000 per health center post and health center respectively. However, the region is only 69% percent in terms of meeting national health post standard and only 31% on health center standards (see figure 10.5). On the other hand, progress in expanding tertiary level care (district, zonal and regional referral hospitals) in virtually non-existent in the last four years. The number of district and zonal hospital remained unchanged since 1997 to 2002 and there is an additional regional referral hospital established since 1997 EFY.

Figure 10.5 Progress in meeting national health post and health center standards by number of population

<table>
<thead>
<tr>
<th>Year</th>
<th>Health posts</th>
<th>Health centers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>38%</td>
<td>17%</td>
</tr>
<tr>
<td>1998</td>
<td>54%</td>
<td>20%</td>
</tr>
<tr>
<td>1999</td>
<td>60%</td>
<td>21%</td>
</tr>
<tr>
<td>2000</td>
<td>65%</td>
<td>23%</td>
</tr>
<tr>
<td>2001</td>
<td>69%</td>
<td>31%</td>
</tr>
</tbody>
</table>


Figure 10.6: Comparison of selected Health status indicators in Amhara and national average
However, there is work in progress in expanding the tertiary level care. Two primary and one zonal hospitals are under construction and the construction of the regional specialized hospital has also contracted out. Furthermore, process is underway to construct more than 30 primary hospitals in the region. When these are completed, the accessibility and quality of health care in general and tertiary care in particular will be improved.

The expansion of primary health care services has increased potential health coverage to rise from about 56% in EFY 1997 to about 98% in 2001. The growth of health outcome coverage has also improved over the last four years but not as much as the expansion of health facilities.

The construction of health centers has been effectively supported by the availability of human resources and equipment. As a result, there are facilities that are not providing effective services because of lack of human resources. In Hulet Eju Enese woreda, for example, one health center has not started functioning, all the rest are being run with clinical nurses without health officers. The services provided by these health facilities could have been improved had there been manning of health personnel as per the national standard. The inefficiency of the health system can be described. First, mothers do not come to deliver at facility level as much as they visited for Antenatal care. There is significant drop out in child immunization between BCG and measles. The integration of services and management between health and HIV/AIDS is far from working.

Figure 10.7 Trends in maternal health outcomes
Accessibility of health services is not equally distributed. People in the rural areas still travel a long distance to access quality referral services. As can be seen in the services provision section, there are many children and women who have not been able to access services fairly.

Quality of care in health depends on the skills of the health professionals, availability of inputs like diagnostic facilities and adequate reagents and medicines and medical supplies. In terms of skills, there is mismatch between the health sector human resource needs and the training outputs. On the one hand, in spite of the efforts to scale up training of health officers, most of the new health centers in the visited health centers
are being managed by clinical nurses, compromising the quality and range of services provided. In the health sector, the HEWs are not adequately trained on delivery and their success in this regard is quite limited. According to one woreda of the 68 health extension workers in the woreda only two saw delivery in facilities during training all the rest have not seen at all, let alone to practice. In five years since the HEP initiated only 8 HEW have been trained on delivery. On the other hand, there are professional areas where trainees are more than what the health sector require: i.e., laboratory technicians. Furthermore the quality of training of private training institutions is being questioned. It is reported that they are ‘theoretically rich’ but ‘poor practically ‘.The need to institutionalize quality assurance tests before joining the civil service have been recommended during the field visit. The efforts made to train HEWs on delivery have started showing results like in Dera Woreda and needs to be scaled up. Another quality constraint is shortage of budget for medicines and medical supplies. The per capita budget for non-Health Care Financing Woredas is less a birr per person per year.

According to the recently concluded household survey, sick people in Amhara and were much less likely than others to seek care. This shows utilization of health services in the region is the lowest from all other regions. If access to outpatient care is to improve in Ethiopia, the reasons why Amhara and Oromia regions do have low OPD visits need to be explored and targeted interventions that change household and community practices in these regions need to be designed and implemented.

10.4 ROAD

In the road sector, the sector has managed to construct 515Kms in the last four years, with the implementation rate of 85%. About 93 % of the targeted road density has been achieved. Given that there are 230kms roads that will soon join the road net work and 1117 kms that are under construction, the regional target for 2002 is expected to be achieved.

The sector was able to achieve its target mainly due to a special arrangement by the regional government in building the capacity of the regional Rural Road Authority which enabled the Authority to construct most of the roads through own force. To assist this, the regional government has also exerted its effort to strengthen the capacity of the authority. It has allocated 2.2% and 1.1% of the total regional budget to procure road machineries for rural and urban roads respectively. This has a number of advantages. First, the unit cost per Km is much lower than that of road constructed by private contractors. It is reported that the unit cost as per recent tender was 3.3 million per kilometer while the authority’s cost is 1.1 million. The contribution of food security and productive safety net program that come from the federal government to the Authority through the regional government are reported to be very significant. Most of the roads being constructed are mainly demand driven and not based on the comprehensive assessment and prioritization of needs. The maintenance aspect of the road was also on going through the financing of the Road Fund that comes directly from federal government to the Authority.

Table 10.1 New roads and density
<table>
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</thead>
<tbody>
<tr>
<td>New Roads constructed (km)</td>
<td>2516</td>
<td>3246</td>
<td>49.454</td>
<td>70.67</td>
<td>93.15</td>
<td>301.75</td>
</tr>
<tr>
<td>Road density</td>
<td>37.06</td>
<td>46.33</td>
<td>NA</td>
<td>39.3</td>
<td>40.1</td>
<td>43.36</td>
</tr>
</tbody>
</table>

Source: ANRS Rural Roads Authority, Situation Analysis Report, December 2009

There is disparity among the various zones due to historical factors and investment made to exploit economic potential. North Shewa is the highest with 83.9 with lowest being 24.3 in North Gondar. Only three out of the ten zones have road density below the regional average.

Figure 10.10 Road density

Lessons from this ongoing review are the following:

a) Progress in meeting service delivery targets are better achieved when there is responsibility sharing and financing services between the federal and regional governments. The development and expansion of universities encouraged the region to establish own managed colleges. Some of the ESDP targets are also financed through MoE efforts, for instance, General Education Quality Improvement program. The synergy and cooperation of the ERA and the regional authority has also helped to expand and maintain the road infrastructure. The expansion of primary health care services is achieved through active leadership, support and financing of the FMoH. All this has enabled the sectors to achieve better than others. When such classification and support is not adequately clear and available, the result has not been encouraging. The water service was not able to meet its coverage and access targets because the costs required to reach these targets have become more than the budget capacity of region and woredas. The synergy and cooperation between the federal Ministry and regional Water Bureaus is poor (interview with the regional Water Bureau head). While there are efforts to mobilize additional resources through some donor support, like WASH, it has not been as effective and as significant as the other sectors. The urban water supply is a function that may not be financed through the regional capacity in the near future. It may therefore be necessary to look into the modalities by which the federal government can take some of the assignments related to water supply if the UAP targets are to be met.
b) Taking the health sector as a model for other planning of priority services: the planning of the health services are linked at all levels of government: Woreda, region and federal level. The Woreda based planning process requires further strengthening in its fine details, but enabled the sector stakeholders at all levels to pull together with the same direction. The FMoH, through its active mobilization of resources, managed to take over the woreda expenditure assignment (health center expansion and equipment at woreda level) to ensure that the development targets are realized through accelerated primary health expansion. The communication and understanding of the issues involved at meeting health sector targets are well shared among all levels of the system. Other sectors need to learn from this experience and scale up its best practice.

XI. Lessons and Challenges

Planning and budgeting process

Improved involvement and consultation process in the planning process has been observed by sector offices and the community at large. This is across all sample woredas though the degree of consultation varies from woreda to woreda. In Woredas like Hulet Eju Enesse, not only the village plan feeds into the woreda overall and sectoral plans but also the resource allocated to each Kebele is also communicated to the kebeles. In other woredas like Libo kemkem and Dera the community is consulted in the annual planning process.

The alignment of plans from federal to regional and woreda levels are different among sectors. Those sectors that guided by sector wide approaches, and whose service expansion is driven by norms and standards have a better alignment of plans among the woreda, regional and federal levels. The alignment process is facilitated when federal ministries also support regions and woredas through resource mobilization.

The regional and Woreda level budgets are approved as late as the end of the first quarter leaving nine months for actual implementation, though sectors and woredas do spend recurrent budget as per the previous year’s budget. Much of the first part of the year is spent on authorizing spending on the current year’s budget, and there is little spare time to think about the following year’s budget. This is even more complicated with many revisions and supplementation to the budgeting process during the year. It is usually at the third quarter that BOFED is ready to think about the calendar for the next financial year’s budget preparation. It might be prudent to develop and implement different but interrelated budget calendar at Woreda, regional and federal levels.

There is shared understanding and commitment on the rationality of the allocation of resources among the different sectors. While there is a consensus that there is shortage of resources across the board, all bureau and woreda level administration units managers do feel the available resources are fairly allocated among sectors. Some even justify why their sector is getting lower allocation as compared to other sectors. It is therefore necessary to maintain such collaborative rather than competitive attitude in the budgeting process.

Financing framework
Existing overall regional and sectoral policies and strategies are seriously underfunded, with inadequate resources allocated for investment and increasingly declining proportion of the recurrent budget going for non-salary running costs compromising quality of services. The regional strategic plan has not been fully costed and it seems that the targets and strategies challenge fiscal sustainability by pressing the regional government to expand areas of spending with high long term recurrent implications like education and health. Each Kebele on the average is having from 9-11 employed staffs at present without including education and facility based health service providers. Although the strategic plan and the annual planning process should encourage stakeholders at regional and woreda levels to prioritize their spending, but this seldom happens, partly because the process, led and stewarded by BOFED/WOFED is not linked to the budget or any sort of regional MTEF, that sets out overall the fiscal space available in the region/woreda for the strategic and annual plan to operate under. Unless this link is established through the establishment of regional MTEF, the effort to create a linkage between targets and strategies of the region on one hand and the budget framework on the other will not borne fruit. The establishment of a regional MTEF type exercise will also give the opportunity for the regional and Woreda authorities to foresee the recurrent implications of the expansion of basis services on the fiscal space a year or two ahead and plan realistically to ensure functioning of basic services.

**Resource allocation among sectors**

The resource allocation in region is driven by the policy priorities set in the strategic plan and in PASDEP. The five pro-poor sectors took more than 60% of the regional budget. This is also true at the Woreda level. Within these priority sectors, education took almost half of the total budget allocated for priority sectors. In this equation water and

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**BOX 11.1: The Medium Term Expenditure Framework (MTEF): a planning tool**

The resource forecasting being used has generally been restricted to the preparation of expenditure aggregates in order to define a hard budget constraint. Consequently, it has failed to provide decision-makers with a sound basis for the inter-sectoral allocation of the resources available. Similarly, while planning systems may routinely generate statistical information on sectoral performance, these have rarely been used as an input to the budgeting process. As a result, now a days MTEF is used to guide the planning and budgeting process. MTEF helps to:

- match expenditures with overall resource availability, thereby ensuring budgetary stabilization in the short term and define sustainable expenditure levels for the medium and longer-term;
- guide the sectoral allocation of expenditures in line with government’s development priorities, on the basis of a comprehensive review of resources, policy options and their cost;
- facilitate strategic sector planning by ensuring a more predictable flow of resources on the basis of indicative limits over a three to five year period and the simultaneous programming of recurrent and investment expenditures and both internal and external financing; and
- improve the efficiency of expenditure, by requiring line agencies to define their mission, objectives and activities and, where possible, link expenditure to measures of performance in terms of outputs and outcomes.

Source: Mick Foster and Adrian Fozzard, 2000, Aid and Public Expenditures: a guide
agricultural development does not seem to get adequate resources. This is specifically so because the health and education resource allocation is driven by increasing employment of civil servants (health extension workers, nurses, health officers and teachers) which the woredas have very little room not to allocate once the facilities are in place. The expenditure required for water and agriculture by contrast are investment related and not salary driven.

From the data we obtained, the resource at sectoral level are allocated to priority functions (primary health care, primary education, rural water, and rural roads) in line with the government policies and strategies. This report has not gone in depth in analyzing whether this allocation is policy based and pro-poor. This may require a further analytical work. The simple tabular analysis made in this report however indicates that the resource allocation is as per the policy of the government and in areas where, over the longer term, could affect the status of poverty and resource distribution (human capital formation, and in agriculture on technology improvement). However, the short terms gains that could have obtained from investing in small scale employment creation and on agricultural productivity might not have been fully exploited as these sectors have obtained proportionally less amount of resources.

Another issue that needs to be mentioned is that the resource allocation at the region and at the woreda levels continues to be driven solely by expanded recurrent budget, leaving investment programs largely to depend on special purpose grants and community participation. This is mainly driven by high pace of expansion of basic services specially health and education and the expanded civil service requirement partly resulting from institutional strengthening and restructuring through the business process reengineering. While expanding basic services and institutional strengthening are noble objectives that needs to be pursued, this needs to be done within the fiscal space the region and woredas have, which is increasingly not the case. This is manifested by the inability of the region to ensure the ‘additionality’ principles of resource allocation for basic services as stipulated in PBS and the inability of woredas to finance their salary expenditures from their current year allocation. The balance between fiscal prudence and expanding services may not be ascertained without significantly increasing the domestic resource mobilization efforts. It is therefore necessary to explore options of how to sustain meeting policy objectives while implementing resource mobilization efforts.

Local revenue mobilization
The region has increased its revenue collection from year to year and it has been able to double it within this period. Similar trends have been seen at the woreda levels. There are differences among woredas on their strategies. Some woredas tried to identify potential sources and propose for the region for introducing new tax sources: Dera and Libo Kemkem. Hulet Eju Enese focused more on collecting as much as it can within the existing framework but introduced a radically different strategy for community mobilization: ensuring all tax payers are members of the Amhara Development Association. This has enabled the woreda to collect more than what they have planned for. In spite of all these efforts, the share of own revenue from the overall regional and
woreda level budget and expenditure remained very low, 12 % at the regional level, and between 18 and 24 percent at woreda level in EFY 2002 budget. This is mainly because the main stay of the region, agriculture, is taxed not on the amount of income earned but on the size of land owned. With this taxation framework the potential of the region to expand its revenue base is limited as it should depend on very small and non complaint business tax. This is further exacerbated by the weak capacity of the revenue of office at regional and woreda levels. The creation of own institutional arrangement at the regional and woreda level for the revenue office is the right step in strengthening revenue generating capacity, but it has not been backed up as yet by efforts of capacity strengthening and putting the right incentive mechanism as was the case at the federal level.

**Block grant distribution system**
The block grant allocation systems have been revised to make it fair and acceptable to woredas. The allocation formula considers recurrent and capital budgets separately and attaches weights for the five pro-poor sectors to drive woreda share. The role of woredas in determining the criteria is found limited. The formula is reported also not to fully address issues of geographic spread, efficiency in resource use and experiences civil servant pooling woredas in resource block grant allocation.

**Budget utilization:**
The budget outturn in Amhara region has consistently improved except a modest decline in 2001 EFY. This is an encouraging trend particularly when compared with the national average. Amhara consistently show higher utilization rates than the national average. In EFY 2001 for instance the budget outturn was 95.1 % in Amhara and 88.3 % for the country. This is mainly explained by the improving utilization of treasury sources of funding. This is largely attributable to underperformance in domestic revenue where the largest share comes from the failure of the regional states while the federal performance was relatively better. This implies that the role played by the Amhara region seems relatively lower.

**Aid utilization**
Unlike the treasury sources where there is a difference between the budget and the adjusted budget as a result of supplementations and deduction, the approved and adjusted budget for external aid (both loan and assistance) remains the same for all the given years under consideration. However, there is a wide variation between the budget and expenditure. The amount of expenditure from budgeted external assistance seems very insignificant while the percentage of loans utilized is even more than what was planned during 1998-2000. Woredas frequently reported that aid resources are budgeted in their resources framework but not disbursed as per plan. One of BoFED planning and budget guidelines clearly stated that the budgeted aid resources will be disbursed through sector offices rather than BoFED.
When we inquire whether the sources of funding indicated in the budget in disbursed similar magnitude of resources through the sector offices, we came to understand that some of the financers transferred resources even more than the budgeted amount.

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17 BOFED, Planning guideline for EFY 1999.
18 This was the case in Libo kemkem woreda visited
There is confusion on how these resources are transferred from the aid providing institutions to the Woredas. The apparent very low expenditure on the external aid could partly be explained by such recording problems. This may not mean though the all the budgeted aid money is disbursed.

The planning and management of the donor resources are managed by MOFED and in many instances are not well aligned and prioritized with regional plans. When the aid resources are planned and aligned with the regional plans and priorities (SIDA and FINIDA), their achievements are well recognized at all levels of the regional government. On the other hand, in many of the development aid (with the exception of those funding PBS) providers, the transaction cost is reported to be high and the flow of resources is unpredictable. The procurement procedures of some of the development partners are also reported to be frustrating.

**Recent progress in improving service delivery targets**

Since the launching PASDEP in 05/06, the region has put effort to progress on the MDG targets and reports from the administration shows notable progress in human development and infrastructure. In education, the efforts made over the last five years have increased numbers of pupils at the primary level in a manner that has been unprecedented before. Between EFY 1997 and 2001, GER in primary (regular and ABE) increased from 80% to 98%. At the same time, Net Enrolment Rate at primary have reached 89.4% in 2001 EFY. On the other hand, there is little progress in preschool child development as the enrolment rates remains very low. Despite the significant trend in narrowing the gap, there are still disparities between boys and girls (the NER for girls is 81%) and especially between Woredas. The gross enrollment rate at the secondary level is about 38.4%. The growth at primary level is now creating additional demand for more spaces at the secondary level. The expansion of the secondary schools is a woreda expenditure assignment but the Woreda fiscal space failed to finance this expansion. This, as acknowledged by the Education Bureau, has become one of the major strategic challenges in the education development. While access to primary education improved across woredas with limited variation across them, distribution in secondary school is uneven. Most lagging woredas achieved 48% in GER (primary); however in secondary school coverage, the ratio for lagging woredas could be as low as 10%.

In terms of quality, the revision of qualified teacher’s standards at primary level (from certificate to diploma levels) has reduced the percentage of qualified teachers from 99.4% in EFY 2001 to only 2.2%. Lack of reference books remains a challenge as four or more students are sharing one book. Inefficiency in the primary education systems remains high and seems growing. There is consistent increase in the dropout rate in the first grade, as well as in the overall primary schools from 1997-2001 EFY. In all cases the drop-out rates for girls was lower than their male counterparts. The cause for such high inefficiency is perhaps due to the need for additional labor by parents. The coefficient of efficiency in the region is reported to be 44% and of which the wastage rate is 2.23%.
In the water sector the region reached coverage of only 54% against the target of 71% in rural areas and 87% in urban areas. The region targeted to reach 80% by the end of 2002 EFY. This target, however, does not seem to be attainable given the trend of both achievements and resources at the disposal of the sector. The gap to achieve the target has increased from 5% in 1998 to 17% in 2001 EFY. This makes the feasibility of the planning process as it relates to target setting and linkage with available resources questionable. Furthermore, there is a mismatch between the targets of UAP and the resources allocated to it; the expensive technology used that do not take account of community capacity to finance such schemes.

In health sector, on the average, number of health posts and health centers in the region grew by an average of 24% and 25% respectively between 1997 and 2001 EFY. However, the region has achieved only 69% and 31 % in terms of meeting national health post and health center standards respectively. On the other hand progress in expanding tertiary level care (district, zonal and regional referral hospitals) is virtually non-existent in the last four years. The number of functional district and zonal hospital remained unchanged since 1997 and there is an additional regional referral hospital established since 1997 EFY. The expansion of primary health care services has increased potential health coverage from about 56% in 1997 to about 98% in 2001 EFY. The growth of health outcome coverage has also improved over the last four years but not as much as the expansion of health facilities. According to the recently concluded household survey, percentage of people reported sick and visited health facility to get treatment in Amhara region is the lowest in Ethiopia, only 37%. This shows utilization of health services in the region is the lowest from all other regions. Most of the new health centers in the visited woredas are being managed by clinical nurses, compromising the quality and range of services provided. In the health sector, the HEWs are not adequately trained on delivery and their success in this regard is quite limited. In one woreda, of the 68 health extension workers in the woreda only two saw delivery in facilities during training all the rest have not seen at all, let alone to practice such vital service delivery skill.

The road sector has managed to construct 515Kms in the last four years, with the implementation rate of 85%. About 93% of the targeted road density has been achieved. Given that there are 230kms roads that will soon join the road net work and 1117kms that are under construction, the regional target for 2002 EFY is expected to be achieved. The sector was able to achieve its target mainly due to a special arrangement by the regional government in building the capacity of the regional Rural Road Authority which enabled it to construct most of the roads through own force which significantly reduce the unit cost per Km by 1.1 million. The contribution of food security and productive safety net program are reported to be very significant. The maintenance aspect of the road was also on going through the financing of the Road Fund that comes directly from federal government to the Authority.
Annexes

Annex 1: Trends in the level of poverty, for Selected poverty indicators

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>1  % of population below absolute poverty line</td>
<td>54.3</td>
<td>41.8</td>
<td>38</td>
</tr>
<tr>
<td>2  Annual per capita income (ETB)</td>
<td>960.7</td>
<td>DA</td>
<td>1042.5</td>
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<tr>
<td>3  Calorie intake/head/day</td>
<td>1975.8</td>
<td>2550.1</td>
<td>DA</td>
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<tr>
<td>4  Level of food poverty (%)</td>
<td>51.8</td>
<td>32.5</td>
<td>DA</td>
</tr>
<tr>
<td>5  Literacy rate (%)</td>
<td>DA</td>
<td>23.5</td>
<td>DA</td>
</tr>
<tr>
<td>6  Net Primary school enrollment rate (%)</td>
<td>DA</td>
<td>34.25</td>
<td>90.2</td>
</tr>
<tr>
<td>7  Nutritional status of children (3-59 months age)</td>
<td>DA</td>
<td>64.6</td>
<td>58.29</td>
</tr>
<tr>
<td>• Stunting (height-for-age)</td>
<td>DA</td>
<td>10.9</td>
<td>7.88</td>
</tr>
<tr>
<td>• Wasting (weight-for-height)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>8  Sanitation status (% of HHs using toilet facilities)</td>
<td>DA</td>
<td>7.1</td>
<td>13</td>
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<tr>
<td>9  % of Population using potable water</td>
<td>DA</td>
<td>19.17</td>
<td>52</td>
</tr>
<tr>
<td>10 Access to all weather roads (Km/1000 population)</td>
<td></td>
<td></td>
<td>40.33</td>
</tr>
<tr>
<td>11 Education</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>• Share of girls in primary education</td>
<td></td>
<td></td>
<td>48.5</td>
</tr>
<tr>
<td>• Primary Gross Enrollment ratio</td>
<td>46.5</td>
<td>99.8</td>
<td></td>
</tr>
<tr>
<td>• Primary Net Enrollment ratio</td>
<td>42.5</td>
<td>90.2</td>
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<tr>
<td>12 Health</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Primary health coverage</td>
<td>42.9</td>
<td>94.1</td>
<td></td>
</tr>
<tr>
<td>• DPT3</td>
<td>55.6</td>
<td>87.6</td>
<td></td>
</tr>
<tr>
<td>• Family planning service</td>
<td>16.6</td>
<td>57.1</td>
<td></td>
</tr>
<tr>
<td>• Delivery service</td>
<td>6.7</td>
<td>15.6</td>
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<tr>
<td>13 HIV/AIDS prevalence rate</td>
<td></td>
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<td>2.7</td>
</tr>
<tr>
<td>• Urban</td>
<td></td>
<td></td>
<td>9.9</td>
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<tr>
<td>• Rural</td>
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<td></td>
<td>1.5</td>
</tr>
<tr>
<td>14 Political participation of Women</td>
<td></td>
<td></td>
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<tr>
<td>• House of representatives</td>
<td></td>
<td></td>
<td>5.3</td>
</tr>
<tr>
<td>• Regional councils</td>
<td></td>
<td></td>
<td>31</td>
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<tr>
<td>• Woreda and Kebele councils</td>
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DA= Data not available
Source: extracted from the 1996, 2000, & 2004 WMS, CSA
## Annex 2: Regional Development Targets

<table>
<thead>
<tr>
<th>Selected Indicators</th>
<th>Baselines</th>
<th>Targets</th>
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<tr>
<td></td>
<td>Country Region</td>
<td>Region Country</td>
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<tr>
<td>GDP</td>
<td>8.9</td>
<td>7.8</td>
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<tr>
<td>Primary education completion rate (%)</td>
<td>34.6</td>
<td>31.6</td>
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<tr>
<td>Primary education general enrollment (%)</td>
<td>79</td>
<td>80.7</td>
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<tr>
<td>Supply of potable water within 0.5 km radius (%)</td>
<td>42</td>
<td>36</td>
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<tr>
<td>Female education gender gap</td>
<td>.84</td>
<td>.92</td>
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<tr>
<td>Infant mortality rate per 1000 live births</td>
<td>97</td>
<td>96</td>
</tr>
<tr>
<td>Maternal mortality rate per 100,000</td>
<td>871</td>
<td>871</td>
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<tr>
<td>Family planning service coverage</td>
<td>23</td>
<td>31.7</td>
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<tr>
<td>Basic health coverage with 10 Km radius (%)</td>
<td>64</td>
<td>55</td>
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<tr>
<td>DPT3 Vaccination coverage (%)</td>
<td>61</td>
<td>75.1</td>
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<tr>
<td>Distance to all weather road (hours)</td>
<td>5</td>
<td>7</td>
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<tr>
<td>Roads proximity K.ms per 1000 square K.ms</td>
<td>33.2</td>
<td>37.06</td>
</tr>
<tr>
<td>Roads in standard condition cover</td>
<td>64</td>
<td>57</td>
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<tr>
<td>Population with access to electric supply (%)</td>
<td>17</td>
<td>50</td>
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<tr>
<td>Population with access to telephone services within 5 K.ms radius</td>
<td>3000</td>
<td>100</td>
</tr>
<tr>
<td>Number of kebeles with access to telephone services</td>
<td>6</td>
<td>15000</td>
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