

FINANCING DECENTRALIZATION IN ETHIOPIA:- THE CASE OF PROTECTION OF BASIC SERVICE PROGRAM

Fantahun Belew Asfaw

Enrollment No. 099110450

Email: Fantahun_belew@yahoo.com or fasfaw3@gmail.com

Academic Advisor;- Aylew Abey (Mr.)

Master of Arts (Public Administrations)

INDRA GHANDI NATIONAL OPEN UNIVERSITY

October 2011
Addis Ababa

CERTIFICATE

Certified that the Dissertation entitled: **Financing Decentralization in Ethiopia:- the Case of Protection of Basic Services Program** submitted by **Fantahun Belew Asfaw** is his own work and has been done under my supervision. It is recommended that this Dissertation be placed before the examiner for evaluation.

Signature: _____

Name: Ayalew Abey

Address:- Addis Ababa, Chamber of Commerce

Study Center: **St. Mary's University College**

Regional Center

Date : 27-10-2011

TABLE OF CONTENTS

Acknowledgement	i
Acronyms	ii
Chapter One: Introduction.....	1
1.1 Background.....	1
1.2 Statement of the Problem.....	2
1.3 Objectives of the Research.....	3
1.4 Research Questions	3
1.5 Research Methods	4
1.6 Significance and Limitation of the Research	5
1.7 Organization of the Research	6
Chapter Two: - Conceptual Issues (Literature Review).....	7
2.1 Overview of Fiscal Decentralization.....	7
2.1.1 Expenditure Responsibilities	7
2.1.2 Assignment of Revenue	9
2.1.3 Intergovernmental Transfers	11
2.1.4 Decentralized Service Delivery	13
2.2 Aid Modality	16
2.2.1 Project Aid	16
2.2.2 Program Based Aid.....	20
Chapter Three. Protection of Basic Service Program: - Financing Decentralization.....	23
3.1 Government Structure	23
3.2 Intergovernmental Fiscal Relations Progress in Ethiopia.....	24
3.2.1 Expenditure Assignment	24
3.2.2 Revenue Assignment	27
3.2.3 Intergovernmental Transfers	30
3.2.4 Decentralized Service Delivery	33
3.3. Protection of Basic Service Program (PBS).....	35
3.3.1. Objectives & Components of PBS	36
3.3.2 Principles of the PBS.....	37
3.3.3 Contribution to promote service delivery at sub-national level	38
3.3.3.1 PBS Financial Contribution to Government Budget (Input measurements)	39
3.3.3.2 PBS Financed Basic Services Outputs Results.....	42
3.3.3.3 PBS Financed Basic Services Recent Outcomes	45
3.3.3.4 Impact of PBS on Service Delivery Performance	48
3.5 Promoting aid effectiveness.....	51
3.6 Opportunities and Challenges of PBS.....	52
Chapter Four. Conclusion and the Way Forward.....	56

ACKNOWLEDGEMENT

Writing of this paper would not have been possible without dedicated support from various individuals whose contributions proved invaluable at various stages of its preparation. My first appreciation goes to my previous supervisor Ato Hailemeleket Teklegiorgise who financially supported me to take the courage to engage in the study at this late time. Second, I would like to thank my colleagues Mesfin Girma, Mezgebu Terefe and Jemal Mohammed and others for their unreserved support throughout my study and in searching the data and information for writing the paper.

My deepest appreciation and thanks goes to Ato Ayalew Abey my academic advisor, for his endless support, sincere guidance, and caring efforts throughout drafting and finalizing of the paper. I am greatly indebted for his constructive suggestions and generous assistance that resulted in the development of the paper. My deepest, warmest thanks goes to my lovely wife W/r Abeba Mekonnen, and my wonderful children, Biruk, Lidet and Eyerusalem and our mother Tangut for their love, patience, support, and sacrifices they always pay for my usual busy schedule which crowds-out my stay with them.

ACRONYMS

APR:	Annual Progress Report
CABRI:	Collaborative African Budget Reform Initiative
CRP:	Citizen Report Cards,
CSC:	Community Score Cards,
CSOs:	Civil Society Organizations
DAC:	Development Assistance Committee
Das:	Development Agents
DBS:	Direct Budget Support
DFID:	Department for International Development
FBG:	Federal Block Grant
FDRE:	Federal Democratic Republic of Ethiopia
FGDs:	Focus Group Discussions
FTA:	Financial Transparency and Accountability
GBS:	General Budget Support
GPG:	General Purpose Grant
HEWs:	Health Extension Workers
ICR:-	Implementation Completion Report
IDA:	International Development Association
IMF:	International Monetary Fund
IMR:	Infant Mortality Rate
ITN:	Insecticide Treated bed Nets
JRIS:	Joint Review and implementation Support
LIG:	Local Investment Grant
MDGs:	Millennium Development Goals
MMR:	Mothers Mortality Rate
MoE:	Ministry of Education
MoFED:	Ministry of Finance & Economic Development
MoH:	Ministry of Health
NER:	Net Enrollment Rate
NSAC:	Non State Actors Coalition

ODA:	Official Development Assistance
OECD:	Organization
OFAG:	Office of the Federal Auditor General
PASDEP:	Plan for Accelerated and Sustainable Development to Eradicate Poverty
PBS:	Protection of Basic Services
PSCAP:	Public Sector Capacity Building Program
PSNP:	Productive Safety Net Program
SA:	Social Accountability
SBS:	Sector Budget Support
SPG:	Specific Purpose Grant
SWAPs:	Sector Wide Approach Programs
ULDP:	Urban Local Government Development Program
USAID:	United States Agency for International Development
USD:	United States Dollar
WCBS:	Woreda and City Administration Benchmarking Survey

CHAPTER ONE: INTRODUCTION

1.1 BACKGROUND

Most argue that decentralization plays an important role in promoting the coverage, efficiency and effectiveness of service delivery at lower level of governments (Ekpo: 2008, Elhiraika: 2007). But there is also a counter argument that implementing decentralization policies does not necessarily improve or transform service delivery (Gorelik: 2008). Apart from these diverging views, financing decentralized service delivery is the most challenging aspect of fiscal decentralization in discharging expenditure responsibilities of institutions in charge of providing basic services at grass root level.

In Ethiopia the process of fiscal decentralization is governed by the Federal and the respective Regional Governments Constitutions which stipulate the revenue powers and expenditure responsibilities of each tiers of government. Due to various reasons, the revenue powers devolved to lower government tiers are not commensurate with their expenditure responsibilities. Consequently, sub-national governments are commonly forced to rely on Federal Government grants to meet most of their expenditure responsibilities.

On the other hand, the overall resource envelope available for the Federal Government of Ethiopia to finance both the Federal Government expenditures and intergovernmental transfers constituted local and foreign sources.

Currently, of all foreign resources; it is only grants mobilized through the Protection of Basic Services Project/Program (PBS) that are set aside to sub-national governments through the Federal Government block grant transfer formula. The PBS Program was designed to replace the previous direct budget support aid modality suspended following the 2005 Parliamentary election contest. PBS provides a framework for coordinating the mobilization and management of grant resources. Its basic objectives include among others enhancing and making sustain block grant transfers, build capacity at all tiers of governments, and enhance accountability, and transparency in financial management. To achieve these objectives, the program establishes guiding principles such as *additionality, fairness, accountability and transparency (fiduciary)*.

Thus on top of providing financial resources, PBS designed to promote decentralized service delivery and engaging dialogue with government in building financial accountability and transparency. With this background this research examines issues related to the role, benefits, achievements and challenges

of PBS Program in financing decentralized service delivery, enhancing capacity, and promoting transparency and accountability in government budget management at sub-national level in Ethiopia.

1.2 STATEMENT OF THE PROBLEM

Except the Addis Ababa City Government, sub-national governments in Ethiopia on the average can finance only one tenth of their expenditure assignments from own sources; the rest is financed through Federal Government block grants. Federal Government overall resources emanated from domestic and external sources. The later is also contingent on the aid modalities that the donors follow to release their assistance. The only grant from the country's development partners that could be added to overall resource envelop for the purpose of allocating the block grant transfer is that flows in the form of direct budget support (PBS grant in the case of Ethiopia at this point in time). In other words, all other project and sector grants could not be part of the block grants as they are attached with specific projects and locations.

Over the last few years, PBS has contributed a lot to the revenue basket of the Federal Republic Government of Ethiopia. Moreover, the requirements of PBS grants disbursements encourage both the Federal and Regional Governments to steadily increase the block grant transfers, to allocate the block grant transfer in fair and transparent manner and promoting accountability and transparency in public finance management. Consequently, PBS has introduced a new sort of conditionality which recognizes decentralization as a motto to bring visible changes in empowering citizens at local level.

Decentralization which is implemented through intergovernmental transfers in Ethiopian has been a cornerstone of socio-economic transformation and service delivery. But research works with regard to its sources and effectiveness in promoting economic growth, improving public service delivery, and poverty reduction are limited. Indeed, some attempts are made here and there to analyze the content and nature of Ethiopian block grant transfers, but PBS which accounts for the major part of the block grant received little attention so far.

Amidst of this fact, some concerns are raised from practitioners, national and global human right advocacy groups with regard to the effectiveness of PBS in achieving its objectives. Further, some are also skeptical pertinent to the adherence of government to PBS inherent guiding principles. Even some openly claim that the incumbent government practices misuse of PBS funds for political purposes (Human Rights Watch:2009). Therefore, a prudent research work is in order to find out whether PBS is effective or not in meeting its designed objectives.

In short, this research focus on issues so far marginalized in the ubiquitous researches of fiscal decentralization particularly how the global donors can contribute in promoting basic service delivery and help the country to attain the MDGs through attaching their disbursement conditions to decentralization.

1.3 OBJECTIVES OF THE RESEARCH

Ethiopia's fiscal decentralization characterized with a vertical fiscal imbalances, where little own revenue mobilization is occurred at local level. Accordingly, expenditure responsibilities of Regional and Woreda¹ administration rely largely on block grant transfers from the Federal Government. Supporting the Governments endeavor to enhance basic services such as education, health, agriculture, water and rural road, the country's development partners determined to provide their grant through the PBS program(World Bank:2007). Therefore, the overriding objectives of this research include, among others:-

- Evaluate how PBS contribute to finance decentralized service delivery (input);
- Appraise how PBS contribute to enhance basic services and achieve the Millennium Development Goals (output, outcome and impact),
- Assess how PBS promote budget literacy, and financial transparency and accountability at local level (impact),
- Examine how PBS objectives and principles preserved over the implementation period,
- Assess challenges and weaknesses of the program,
- Evaluate its contribution in harmonizing foreign grants and promote aid effectiveness and assess its unique features against the traditional aid modality,
- Examine its impact on the country's budget administration if it fails to continue,

1.4 RESEARCH QUESTIONS

Reviews of PBS implementation attest that given the complexity of the project, the challenges it faces and the political context, implementation of PBS met its objectives by and large though it experienced delays in some activities (World Bank:2010a).

Since its inception, however, a number of issues raised whether its objectives and principles are met or not. In this regard the following issues are the center of the research.

¹ Kebele and Woreda are consecutively the last and second lowest tiers of Government.

- Does the necessary finance to promote decentralized service delivery mobilized from the country's development partners as it is promised?
- Does the program help bring steadily increase in the intergovernmental transfer?
- Do intergovernmental transfers disbursed and services provided without partisan or political bias?
- Do financial inputs bring the intended results? Is there significant departure in promoting service delivery at sub-national level including education, health, water, agriculture and rural road?
- Does the program promote citizens participation and promote financial transparency and accountability at sub-national level?
- Does the program enhanced aid harmonization? Or is there any lesson for others in promoting service delivery at sub-national level?
- What will be the consequences to the country's budget administration, if it will fail to sustain in the medium or long term? Does it promote aid dependency on the country?

Evaluating such issues will be the theme of the intended research.

1.5 RESEARCH METHODS

The research is initiated to evaluate how decentralized service delivery is financed in Ethiopia with particular reference to the Protection of Basic Services program which mobilizes the larger part of foreign grants. As PBS is earmarked to finance basic services at sub-national level of the entire country both aggregated and specific data from all tiers of government are analyzed. The research involved information from national, regional and Woreda. The research generally depends largely on a qualitative analysis of hitherto relevant academic literatures, books, articles, internet publications and PBS implementation reports. Official data from government sources are taken as major tool to analyze PBS contribution in terms of input, output, outcome and impact in enhancing decentralized service delivery.

PBS has regular review forums and produce joint reports since its inception. Those documents released after each review, are used as important sources of information. The research has benefited from the Ministry of Finance & Economic Development website, Regional Finance & Economic Development Bureaus publications as well as PBS financers' including the World Bank reports, review documents and publications.

One aspect of the research is to evaluate how PBS contributes on aid harmonization and effectiveness. To this end, a comparative analysis of the PBS with other aid modalities practicing in Ethiopia and elsewhere is made. While fiscal decentralization is wide and rigorously researched subject, the literature review section of the research has been narrowed down to focus on financing decentralized service delivery to the extent possible. The review is supported with analytical framework for factors influencing service provision at local level and promotes pro-poor development and sustainability. The framework indicates enhancing the relationship between service providers (supply side) and service receivers (demand side).

The ultimate objectives and principles of PBS include promoting budget literacy, enhancing financial accountability and transparency at local level. While PBS funds are mixed with other government revenue and administered as a single budget, it might be difficult to single out its outcomes and impacts. However, there are rigorous attempts by the country's development partners and CSOs to evaluate their intervention in basic service delivery. Thus, the research largely depends on various studies conducted to evaluate basic service delivery efforts including the Woreda and City Administrations Benchmarking Surveys.

1.6 SIGNIFICANCE AND LIMITATION OF THE RESEARCH

Over the past two decades rigorous academic research has been done on how the political, institutional and fiscal aspects of the Ethiopian decentralization prevailed. Specifically the role, importance, strength and weakness of the country's fiscal decentralization have attracted most researches and studies. Such researches also paid attention to analyze the content and nature of Ethiopia's block grant transfer.

This research in particular shade lights on how foreign aid contributes to Block Grant transfers to finance basic services at sub-national level. How Ethiopia's development partners contribute to promote basic service delivery at the grass root level and also encourage the government to focus on decentralization in all aspects. Moreover, it provides empirical evidences on recent developments regarding the role of intergovernmental transfer in Ethiopia in promoting economic growth, improved public service delivery, and poverty reduction.

Unlike the traditional direct budget support management, PBS requirements incorporated factors promoting fiscal decentralization and empowering lower level governments. It finances recurrent expenditures of sub-national governments, which is critical for provision of basic services. The research seeks to spell out unique experiences against the traditional aid modalities.

The research analyzes issues remained contentious during PBS implementation. Some local and global human rights advocacy based institutions expressed their concern on some issues related to PBS implementation. They protest the incumbent government practicing misuse of PBS funds for political purposes. (Human Rights Watches: 2009) The research therefore critically reviews whether it preserves the objectives and principles. It may also share the experience to other developing countries and pose issues for donors to examine their aid modality effectiveness.

Despite its significance in providing information and analyzing the pros and cons of the program in financing decentralized service delivery the research would not be free from shortcomings. The research largely depends on information and data from secondary sources including previous studies and reports available from internet, books, articles as well as government and donors' reports and documents. Although the researcher wishes to enshrine the quality of study through evidences from primary sources and evaluate the outcomes and impacts of the program by field based survey; due to resources constraints the research is limited on desk based data.

1.7 ORGANIZATION OF THE RESEARCH

The research is divided into four major chapters. Chapter one deals with the introduction of the research dealing with statement of the problems, objectives, significance, limitation and methods of the study. The second chapter is devoted to conceptual issues on sub-national governments financing, decentralized service delivery as well as aid modalities and instruments. The third chapter provides brief review of developments in Ethiopia's fiscal decentralization followed by objectives and principles of PBS, analysis of its contribution in financing basic services, promoting service delivery, enhancing accountability and transparency at local level, and promoting aid effectiveness and harmonization in Ethiopia. Finally chapter four addresses the conclusion and the way forward part.

CHAPTER TWO: - CONCEPTUAL ISSUES (LITERATURE REVIEW)

The topic financing decentralized service delivery with specific reference to the Protection of Basic Service in Ethiopia revolves around critical concepts such as financing decentralization (fiscal decentralization), decentralized service delivery and Protection of Basic Service (PBS) Program/Project² (a sort of aid modality). Under the conceptual issues literatures are reviewed around these concepts. The concept fiscal decentralization is an entry point to the research. Thus in this section emphasis is given to shading lights on global and country specific practices of fiscal decentralization. Concomitantly, conceptual issues on the role and benefits of decentralized service delivery are highlighted.

The Protection of Basic Services Project/Program is organized to protect basic service delivery at sub-national level channeling grants through the country's financial system. Thus PBS is surrogate to direct budget support aid modality. Indeed, some call it disguised budget support. To this end, an overview of recent and current developments in aid modalities in the global context is part of the literature review section of the paper.

2.1 OVERVIEW OF FISCAL DECENTRALIZATION

Fiscal decentralization as an important component of decentralized governance is the division of public expenditure and revenue between levels of government, and the discretion given to regional and local governments to determine their budgets by levying taxes and fees and allocating resources (Davey:2003). Furthermore, according to Tanzi, Fiscal decentralization exists when sub-national governments have the power, given to them by the constitution or by particular law to raise (some) taxes and carry out spending activities within clearly established criteria (Tanzi in ed. Bruno and Pleskovic: 1995). In a precise manner fiscal decentralization is the fiscal relationships and/or arrangements between the centre and the lower levels of governments (Ekpo: 2008).

2.1.1 EXPENDITURE RESPONSIBILITIES

Though the level of government intervention in the overall economy of a nation is still remains contentious, a general consensus seems to exist among scholars that some basic public goods preferred to be in the hands of government. However, the current pertinent issue, in this connection, is which type of public goods can be optimally provided by which level of government (USAID: 2009.p.11,

² Due to its unique nature nomenclature of Protection of Basic Service is not clear whether it is a program or project.

Smoke: 2000). In Prud'homme view, (Prud'homme:2001) allocation of responsibilities among different levels of government is easy and straight forward for certain non-rival and indivisible public goods; for instance national defense is preferred to be in the hands of central government as street cleaning better fits into the jurisdiction of local governments. But it is difficult for many, if not most, public goods to provide at least a sort of broad guidelines.

Moreover, sharing responsibilities between levels of governments for a given service is not a rare case. Education is a case in point. Local governments should be involved in provision of educational services, because they are closer to local conditions and peculiarities. Central governments have also a stake in provision of this service for political and economic reasons. Intermediate governments, where they exist, also have a role to play. In such cases, the problem is coordination and cooperation between levels of governments (Prud'homme:1995). Ahmed, Hewitt, and Ruggiero also support this idea that for those public goods which do not fit into either to central or sub-national level, some degree of decentralization coupled with some centralized coordination of policy is both feasible and desirable, owing to unclear benefits, externalities, or national redistribution implications (Tersa Ter-Minassian.ed 2007.p.25).

In any case the argument for decentralizing expenditure assignments to sub-national governments is strong. But the assignment of functions and finances to different levels of government remained major challenges of implementers. In this connection, Bahl and Martinez enunciated three common challenges hindering the implementation of expenditure decentralization in most decentralized administrations. (i) The absence of clear assignment of expenditure. Which expenditures are allocated for which level of government should be spelt out by the constitution or other laws. (ii) There are problems of misplaced assignments of responsibilities i.e certain expenditure functions are matched with wrong levels of local governments. The level of expenditure required to meet expenditure needs in these areas has been beyond the reach of some local governments. (iii) The assignment of expenditure responsibilities and the revenues available to finance these expenditures often fail to balance. (Roy and Martinz: 2003,p.26).

In response to such challenges most prominent theories of fiscal decentralization identify three major functions of the public sector to allocate expenditure responsibilities to the different levels of governments: macroeconomic stabilization, income distribution and resource allocation (Musgrave,;1989, Oates,;1972 and 1999: Smoke 2001 Fjeldstad;2001). The theories assign the

stabilization and redistribution functions to the national government, while the role of resource allocation is deemed central to sub-national governments.

In view of such arguments most federal countries assign such functions, defense, foreign affairs, foreign trade, and regulation of immigration to the central government, while services such as local police, fire prevention, sanitation, transportation, and certain utilities are typically assigned to the lower level of governments (Ter-Minassian: 1997,p.6). Concurrent responsibilities are also frequent in the area of health expenditure. Local governments are often responsible for basic and preventive health care provision. The central government is more responsible for the provision of communicable disease, more advanced curative facilities, such as hospitals, and the funding of medical research (Stein:1998) .

2.1.2 ASSIGNMENT OF REVENUE

The issue of fiscal decentralization goes beyond the assignment of expenditure responsibilities among different levels of government. Financing of the provision of these services by each level is a more crucial dimension of fiscal decentralization. Most agree that assignment of expenditure responsibilities without empowering sub-national governments to administer their tax and non tax revenue will be a futile exercise (Prud'homme :2001).Thus in the case of revenue, the most common features of fiscal decentralization include increasing the transparency and stability of transfers, endowing sub-national governments with the power to collect their own taxes and to set the rates of these taxes, and giving sub-national governments the right to borrow with greater independence from the national government (USAID:2009,p. 12).

Norregard and Tanzi spell out three options in assigning the tax structures among the different levels of governments (Minassian ed.:1997:50-51. Tanzi, 1995:311). The first is to assign all revenue mobilization responsibilities to the lower level of government and required them to transfer upward part of the revenue to allow the central government to meet its spending responsibilities. Norregard, however, argued that this option hinders the national responsibilities in achieving income redistribution across the national territories.

The second option would be the other extreme to assign all the tax power to central government and finance sub-national governments by grants or other forms of transfers, including by sharing total revenue or specific taxes. The disadvantage of this option is breaking the nexus between the level of tax revenue collected and the decisions to spend that revenue which constitute the basic prerequisites for a fiscal decentralization system that enhance efficiency. (Tanzi:1995)

The third option which is advocated by most fiscal decentralization literatures is assigning some taxing power to the lower level of governments and maintains the rest by the central government. This option leads directly to the issue of which taxes should remain the responsibilities of the central government and assign to sub-national governments (Boadway and Shah:2007).

Pertinent to assigning tax bases to local governments Tanzi evokes the need to take several considerations. He further enunciates that the first is to provide emphasis to the importance given to other objectives than revenue. If more attention is given to other objectives he advised to refrain assigning those tax bases to local governments. For example if the prefer objective is to undertake stabilization policies certain tax bases, such as the progressive income tax and the corporate income tax should be left to the central government (Tanzi:1995, p. 312).

The second consideration is the mobility of the tax bases. If a tax base can easily escape taxation at the local level by moving to another jurisdiction, that base is not a good candidate for local taxation. Thus Tanzi noted that the more mobile the tax base the more desirable that it remain at the central level.

As macroeconomic stabilization is fundamental role of any government; most fiscal decentralization proponents call for central control over the tax instruments that may substantially influence central budget deficits or inflation.

The third consideration involves economies of scale. Depending on informational requirements (for example the need for a national taxpayer identification number), technical requirements (the use of computers), or other factors, economics of scale in tax administration for a given tax argue for leaving that tax to the central government. This consideration implies that the value-added tax and the global income tax should be centrally collected (Tanzi:1995).

The fourth consideration is ownership of the tax base. Some tax bases are exclusively owned by the respective governments. Such bases are advised to be assigned according to the ownership entitlements (Kelly: 1999).

It is simple to comprehend from the foregoing discussion that the potential revenue from the tax bases that can efficiently be exploited at sub-national level is more limited than the spending obligations typically assigned to them in decentralized economies (Smoke:2004). For this reason, decentralized countries often end up having a large degree of vertical imbalance. Virtually, both vertical and horizontal imbalances resulted from mismatch of expenditure and revenue assignments, at sub-national

level are mostly covered through transfers from the central government, which is the central theme of the subsequent section.

2.1.3 INTERGOVERNMENTAL TRANSFERS

There is a general consensus that expenditure assignments of sub-national governments often do not commensurate with revenue assignments. It is due to the very fact that the decentralization process largely assigns more responsibilities to sub-national governments to provide public goods and services to their constituency without adequate mobilization of resources from own revenue sources (Boex:2009). Obviously such conditions create both vertical and horizontal imbalances.³ These imbalances are managed either by enhancing own revenue mobilization efforts or through transfers (grants)⁴ from the central government. In most cases, however, the potential to mobilize additional resources from own sources is dubious (Llanto:2009) . Therefore, intergovernmental transfers are the only option to fill the gap between expenditure and revenue assignments of sub-national governments.

Intergovernmental transfer programs serve multiple often-interrelated purposes. Boex accentuates that intergovernmental transfers:- First help to cover sub-national government fiscal imbalances, and supplementing inadequate local own-source revenues to improve the ability of sub-national governments to meet their expenditure responsibilities. Second, support national redistributive objectives, helping to offset fiscal capacity differences among sub-national governments. Third, encourage local expenditures on particular goods and services that exhibit positive externalities or are considered to be basic needs that should be distributed less unequally than the ability to pay for them (Boex: 2009). Most transfer systems are intended, at least officially, to meet these objectives, using variety mechanisms to do so.

In a similar vein, Musgrave (Musgrave:1989) as a pioneer scholar on fiscal decentralization provides three main purposes of intergovernmental transfers (grants). These include: (i) correcting differences in fiscal capacity or per capita income among lower levels of governments via matching grants. This is done to equalize the terms at which local governments may provide all public services and to enable local governments to provide national merit goods;(ii) equalizing the terms of provision for particular public services. This could be either to ensure certain minimum service level (ascertaining given level of education locally) via matching grants or ensuring uniform service levels across member

³ A vertical imbalance occurs when own revenues and expenditures sub-national governments are unequal. Likewise horizontal imbalances occur when revenue capacities of the various sub-national governments differs each other.

⁴ Intergovernmental transfers, grants and subsidies are interchangeably used in most literatures. The same is applied in this paper.

jurisdictions (a uniform level of school services) through selective matching grants; and (iii) correcting externalities or benefit spill over (educational services in a particular school district may generate general benefit via migration). In order to internalize such externalities the central government provides matching grants.

Furthermore, Larry Schroedr and Paul Smoke argue that intergovernmental transfers are powerful mechanism to minimize differences in the quality and quantity of public service delivery between the center and sub-national governments. (Schroedr and Smoke: 2003,p.21). They further noted that any governmental transfer program whether or not explicitly designed to help equalize the resource bases of sub-national governments, have redistribution implications.

Intergovernmental transfers are broadly classified into two categories: *general-purpose (block, unconditional)* and *specific-purpose (conditional or earmarked) transfers*(Shah:2007,p.2) In designing a sound transfer mechanism Schroedr and Smoke advised to provide serious emphasis to consider the various unique situation and objectives of each country decentralization objectives. They further elaborate that among the various factors in designing transfer systems, revenue adequacy, and buoyancy, predictability, simplicity, transparency, allocative efficiency, equity (in terms of redistribution) and incentives for sound fiscal management and sub -national resource mobilization are important factors policy makers should provide serious consideration. (Schroedr and Smoke: 2003,pp:22-24).

Schroede and Smoke emphasize that the desire for predictability is important as sub-national governments are always in need of having information regarding the level of transfer in time in order to do their budget. Middle level governments will be handicapped to inform the amount of transfer to further lower level governments unless they have complete data about their resources from all sources including transfer from the central government which often contains the lion share.

Furthermore, Schroedr and Smoke reminisce the following three policy challenges in designing transfer mechanisms to transfer funds from one government to other (Schroedr and Smoke :2003) :- (i) how to determine the total amount of resources to be distributed (ii) how to allocate that resource pool across all eligible sub-national governments; and (iii) if and how to restrict the way the transfer funds can be used.

In the final analysis, most have the same opinion that it is difficult to put one fit for all prescriptions about the appropriate structure of an intergovernmental transfer system, which should be expected to

vary across country depending on national objectives, the extent of service and revenue functions assigned to sub-national governments, the fiscal capacity of sub-national governments, the extent of inequalities across sub-national governments, and the political environment (Smoke:2000; Boex:2009; Ter-Minassian:1997).

Box:- 1. Key Guidelines for Sound Intergovernmental Transfers

Clarity in grant objective:- Grant objective should be clearly and precisely specified to guide a grant design.

Revenue adequacy:- Sub-national governments should have adequacy revenue to discharge designated responsibilities.

Responsiveness:- The grant program should be flexible enough to accommodate unforeseen changes in the fiscal situation of the recipients.

Autonomy – Provide some sources of finance with little or “no strings attached” through formula-based revenue sharing and block grants. Also, grant amounts should not be reduced as the result of additional effort by sub-national governments aimed at mobilizing local revenues.

Revenue Adequacy – The volume of financing from grants should be significant enough to provide meaningful assistance for the recipient to carry out expected functions.

Equity (fairness) – Transfers should vary positively with sub-national fiscal needs and negatively with sub-national fiscal capacity.

Predictability/Stability – Parameters determining size of grants for individual recipients should be fixed or stable for multi-year period to promote sound budgeting practices.

Efficiency – The design of grants should be such that they are neutral with respect to a sub-national government’s choices regarding of resource allocation to different sectors or different types of activity.

Simplicity/Transparency – Grant distributions should be based on objective and easily observed factors.

Proper Incentives – Grants should encourage sound fiscal management and avoid financing deficits. In other words, grants should not create a disincentive for local tax effort or expenditure control.

Safeguarding grantor’s objectives – The system in place should permit for effective monitoring of actions by all levels of government, progress reviews, technical assistance as necessary, and the use of selective matching transfers.

Adopted from:- Bahl and Linn (1992), Shah (1994), the World Bank (2001)

2.1.4 DECENTRALIZED SERVICE DELIVERY

The overriding objective of this paper is to highlight the role of the Protection of Basic Service Program in financing decentralized service delivery in Ethiopia. Prior to dealing with the core subject, it would be useful to have brief review of theoretical and practical implications of decentralized service delivery. According to Wallace Oates, the prominent scholar in fiscal decentralization, the basic economic case for decentralized service delivery is the enhancement of economic efficiency: the provision of local outputs that are differentiated according to local tastes and circumstances results in higher levels of social welfare than centrally determined and more uniform levels of outputs across all jurisdictions

(Oates 1993, p.240). Others alleged that decentralized service delivery increases the efficiency and responsiveness of government. Locally elected leaders know their constituents better than authorities at the national level and so should be well positioned to provide the public services local residents want and need. Physical proximity makes it easier for citizens to hold local officials accountable for their performance (World Bank, 1999/2000,p.108, Shaha: 2007,p.58, Robertson Work:2002, Llanto:2009).

It is a common argument that transferring decision-making power to local authority is a way to increase efficiency and effectiveness. Efficiency can be defined as a way to make the best use of scarce resources to achieve given ends (Thomas in Guthrie, 1980, p. 148). Thomas argues that an increase in efficiency may result from procedures that increase goal attainment with no increase in cost, reduce cost without reducing goal attainment, or enhance goal attainment while also reducing costs. From the efficiency point of view, high unit costs of primary and secondary education provided by the central government become a main argument for decentralizing education (Winkler, 1989; Burki, Perry and Dillinger, 1999). There are some reasons behind this argument: (i) since the capacity of national government to manage and supervise the education system is inadequate or weak, the transfer of the responsibilities to local authorities may increase the accountability of the school to improve its performance. (ii) The costs of decision-making in a system where even the most minor local education matters must be decided by a geographically and culturally distant bureaucracy in the capital city; and (iii) Prices and production processes may vary across the regions.

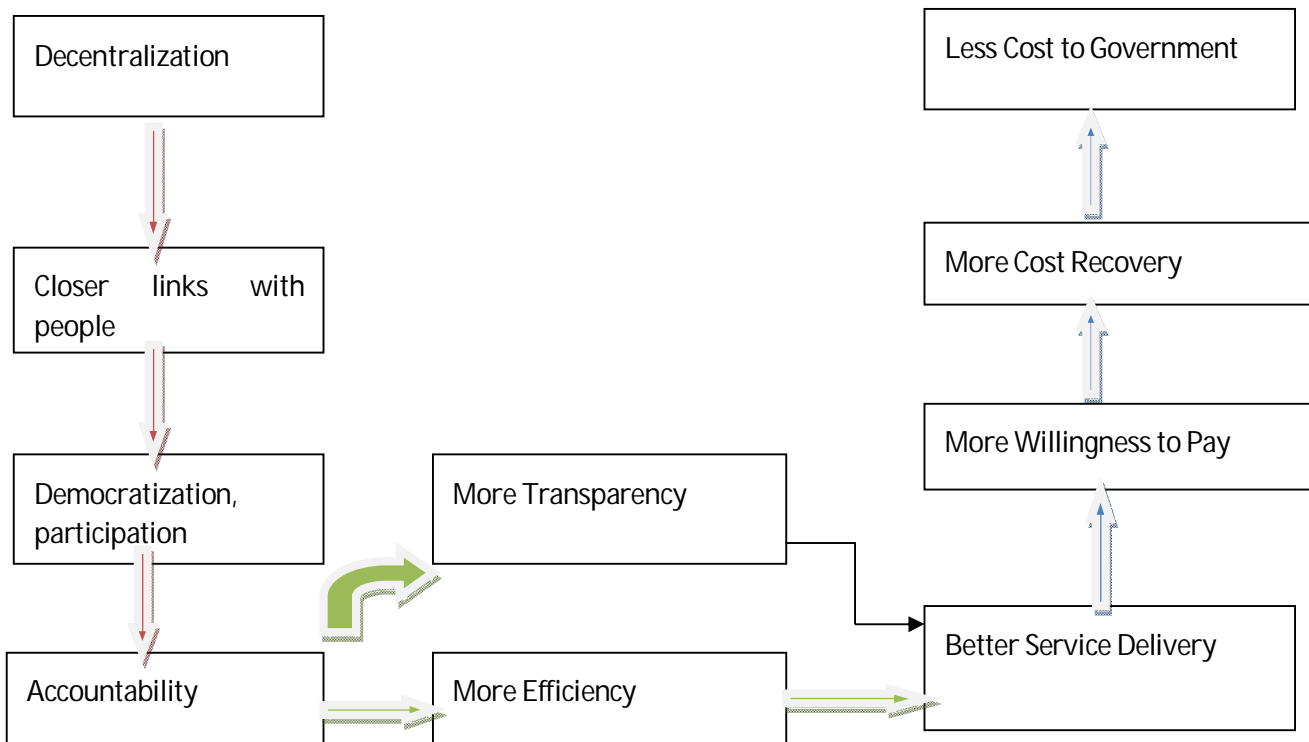
Still another argument in favor of decentralized service delivery is that individuals who are responsible for the results of their actions and who thus have ownership rights over the outcome are likely to have stronger incentives to perform better. Therefore, when local officials are directly responsible for providing a public service and are praised for success and blamed for failure, they will have a greater interest in succeeding (Bruno and Pleskovic: 1995).

Ekpo (2008, p. 2) attributed that Sub-national governments service delivery role can be justified from two angles. One, from the supply side that a local government is better placed at perceiving the desires and demands of its constituents for public services than a distant centralized government. Second, local people will have better opportunity and right to demand different types, quantities and qualities of public goods and services.

Lai, and Cisulli, in their study on decentralized development in agriculture pointed out the importance of decentralized service delivery in bringing responsive, effective, efficient and sustainable service

delivery at sub-national level. They indicate the interlocking between decentralization, and improved services, in terms of quantity, quality and reliability which ensue, would help increase the willingness of people to pay for them, resulting in better cost recovery, hence lower overall cost of government (as observed in Figure 1 below). All these are considered vital to achieving such societal goals as economic stability, sustainable growth and development, better living standards, and growth of the national economy (Lai, and Cisulli:2005).

Figure 1. Interlocking Between Decentralized Service Delivery & Efficiency



Source:- K.C. Lai, and Vito Cisulli, Decentralized Development in Agriculture: An Overview, Agricultural Policy Support Service, Policy Assistance Division, FAO, Rome, Italy, 2005

2.2 AID MODALITY

The effect of foreign aid⁵ on developing countries domestic savings, government budget and fiscal policy, the real exchange rate, the level of private investment, the rate of economic growth, and more recently poverty and the incentives for reform in the recipient country is no more a debt. (Hayman: 2010) But how to improve the delivery and use of development aid (assistance) to bring difference in the lives of the poor people around the world has been increasingly a concern of both the donor and recipients (CABRI: 2008,p.26).

An aid modality⁶ is a way of delivering official development assistance (ODA). Since the late 1990s there has been growing awareness that the effectiveness of aid is more hindered by the way it is delivered than the policy and institutional environment of the recipient country. (Lawson, and Kizilbash: 2008). Development assistance besides providing financial assistance it promotes the transfer of technology and enhances dialogue between donor and recipient. Various aid modalities are in practice in managing and delivering foreign aid. For the sake of simplicity this paper focused on project and program-based aid modalities.

2.2.1 PROJECT AID

Project aid is the most conventional aid modality implemented over the years. It is a form of aid to finance specific activities with a limited objective, budget and timeframe to achieve specific results. The principal objective is linking inputs to outputs (Booth: 2008). Project aid is based on the identification of a specific area of intervention for donor involvement, and the targeted use of funds for specific activities for which the objectives, outputs and inputs required to achieve them have been defined (GRIPS: 2004). Project aid was underpinned by the presumption that the main constraint to development was a lack of investment, which could be overcome by projects channeling capital investment to developing countries (CABRI: 2005,p.81).

⁵ For the purposes of this study, "aid" means Official Development Assistance (ODA), as defined by the OECD's Development Assistance Committee (DAC). ODA includes both grants and (soft) loans, as well as contributions in cash and in kind. Distinguishing between these different types of aid is important, since the use of particular forms of ODA affects the likelihood of aid being captured in budgets.

⁶ Aid modalities are defined as the broad categories of mechanisms by which donor aid funds are channeled to the activities to be funded (budget support, projects, and vertical funds). While useful for general discussion, these generic aid modalities capture only one or two dimensions of aid delivery however, focusing in particular on the way funds are transferred (Lister et al., 2006). We therefore follow in using the term 'aid instrument' to refer to specific aid deliver methods, providing a more systematic approach to identifying their many constituent

Project aid could be channeled through government systems or not. While project aid (including technical assistance projects) is often criticized for bypassing government systems and imposing transaction costs to the recipient government, a variety of options exist for its procedural arrangements. For example, there are cases where a donor directly controls all funds; but other cases exist where a donor disburses funds into a bank account maintained by the recipient government and entrusts the government to organize procurement. Some projects operate through Project Management Units (established within or outside the recipient institutions), while others do not (and directly work with counterpart personnel in the recipient institutions) (GRIPS: 2004).

Although in most cases arguments on aid modalities limited on project versus program based aid; the aid architecture ranges from projects using parallel systems at the ‘lower’ extreme, to general budget support (GBS) at the ‘higher’ end. The below table summarizes the main features of aid modalities.

Table 1. Types of Foreign Aid Flow Modalities

Aid Form	Conditionality	Earmarking	Accountability
Balance of payment	Macro	None	None
General Budget Support	Macro & budget	None or nominal	Govt. systems
Aid financed debt relief	Macro & budget	None(poverty virtual fund)	Government systems
Sector Budget Support	Sectoral	To sector	Government System
Sector earmarked	Sectoral	Within sector	Government System
Projects using govt. Systems	Sector (Project)	Project	Government systems
Projects using parallel systems	Limited by Law	Total	Donor

Source:- Foster and Leavy [2001].

The above table indicates that all but one (project aid using parallel systems) are implemented through government system. This implies that all other modalities have similarities although characterized with some special features objectives. However, in the past substantial proportion of aid was managed outside of the main government budget process. This was a serious challenge in fragmenting the funding of public services and making more difficult to facilitate effective and efficient spending (CABRI:2005,p.78) An important feature of the vicious circle of traditional aid is that it is underpinned by quite powerful incentives on both the donor and the recipient side. Without an appreciation of these

incentives, and the way they interlock, it is hard to explain why the traditional pattern of project aid is so persistent (Williamson and Kizilbash :2008).

Project management units that are set up in parallel with government departments and agencies pull talent and energy out of the civil service by offering better salaries and working environments. Indeed, the bypassing civil service departments are in part a response to justified doubts about their implementation capacity and/or about the orientation or seriousness of the prevailing policies. Nonetheless, such actions certainly aggravate the situation and never contribute to the improvement of the official government system (Lawson, & Kizilbash: 2008,p.5)

From the donor point of view, project aids offer the opportunity of a narrow, concentrated focus, visibility for the donor, and clear attribution of specific activities and outcomes to the donor intervention. But Irish study of the Aid Modality in Ethiopia stressed that the donor preference for projects exacerbates capital bias, fails to address key policy issues, multiplies the transaction costs imposed on the government, may substitute donor priorities for government's, tends to undermine budgetary discipline, and create unsustainable islands of efficiency that are inimical to the strengthening of government capacity (Lister, Oates and Desta: 2006)

Moreover, this danger is obviously greater in aid-dependent countries, where a large number of donors each pursuing different project modalities can result in high transaction costs, fragmentation of resources, and the undermining of government capacity. World Bank study on aid effectiveness disclosed that in 2007 donors made more than 15,000 visits to 55 partner countries. Vietnam alone received 782 missions in 2007, more than two per working day. In 1990s, Tanzania grappling with over 1,500 projects in health sector-each with its own reporting and oversight mechanisms (World Bank: 2009,p. 6).

Lawson points out that several evaluations of project aid had concluded that the practice led to, amongst other distortions: (i) a high administrative burden on recipients due to multiple reporting and accounting requirements; (ii) inefficient spending dictated by donor priorities and procurement arrangements; (iii) highly unpredictable funding levels; (iv) undermining of state systems through parallel structures and staffing; (v) corrosion of democratic accountability through mechanisms to satisfy donor rather than domestic accountability; (vi) difficulties in ensuring sustainability; and (vii) openness to corruption (Lawson: 2002).

A study by Ann Bartholomew articulates further disadvantages of project grant modalities in recipient countries budget management (CABRI: 2005,p. 81). These are (i) donor priorities being imposed on partner governments, leading to inconsistency in overall policy and inefficient public spending. (ii) bias towards capital investment rather than public spending, leading to imbalances between recurrent and capital spending and problems of sustainability due to inability to maintain capital investments and (iii) reliance on parallel off-budget systems, thereby undermining the effectiveness of government systems and the democratic accountability of partner government.

There are also additional problems for recipient government in a project-dominated environment. Most ODA funding was off-budget and, therefore, it was difficult for finance ministries to have a clear overview of aid flows and activities being undertaken in sector ministries. For instance, the vast majority of Liberia's foreign aid is off-budget. So the government of Liberia's official budget of USD 374million for Fiscal Year 2009-2010 includes USD 23 million of foreign assistance. In the same fiscal year, however, it is estimated that Liberia receives nearly USD 450 million through off-budget sources. This implies that Liberia's Finance Minister plan and budget with financial information that covers only 44 percent or less of the country's total resource envelop.⁷

Other aid modalities lie between project and program based aids were initiated by the International Monetary Fund and the World Bank structural adjustment operations. Several studies also attested that the experiences of structural adjustment operations largely depend on promises by recipient countries to undertake reforms were ineffective and undermined recipients' governments' ownership (World Bank: 1992, and Killick: 1998).

Eventually, both donors and developing countries in partnership agreed to push for change in key areas, namely strengthening country ownership, increasing alignment of donors to partner country priorities, ensuring that donor's actions are more harmonized and transparent; managing resources for results; and ensuring that both donors and partners countries are mutually accountable for those results (World Bank:2009,p. 7). This led to donors shifting to program based aid with reference to countrywide strategies, poverty reduction, and ownership by recipient governments to implement good policy (CABRI: 2005, p.83).

⁷ ([Http://blog.aiddata.org/2010/09/elusive-quest-for-effective-aid.html](http://blog.aiddata.org/2010/09/elusive-quest-for-effective-aid.html), October 2010).

2.2.2 PROGRAM BASED AID

The lessons learned from experiences with projects and structural adjustment aid and dissatisfaction of their outcomes call both donors and recipients to undertake a shift in aid management. This resulted in a move to Program-Based Approach (PBAs). Ways of implementing PBAs, ranging from General Budget Support (GBS)⁸ at one extreme, to Sector Budget Support (SBS) – where the funds are not earmarked but the policy dialogue is focused on a particular sector – to a variety of other forms of participation in “Sector-Wide Approach Programmes” (SWAps) (Geoff Handley:2009). But for the benefit of linking this section with subsequent discussions the writer prefers to focus on the nature and effects of General Budget Support.

Most donors acknowledged the need to build government capacities through direct support to the budget. They favor GBS rather than sector approaches to support home grown development efforts such as PRSP processes as they are best able to address government-wide weak capacities and inefficiencies. DFID as a pioneer donor in supporting the move from project to PBAs aid modality noted that in response to the drawbacks of traditional project aid; General Budget Support is the preferable aid modality (DFID: 2006). Several scholars in the area agree that at the turn of the millennium the debate on the preferred option to meaningfully assist governments of developing countries heightened, putting budget support in the limelight (Lawson and Booth: 2004; Hauck, Hasse and Koppensteiner: 2005). Budget support can be easily explained as the method of channeling international donor funds through the “national budget” using the national systems for its delivery as well as for the evaluation of its effectiveness (Hadziyiannakis & Mylonakis:2006)

Direct budget support also enables substantial savings in administrative and transactions costs of aid delivery by collapsing different project management and project implementation units into government systems (Government of Ghana: 2005,p.12). Ruffer and Lawson (2002) also reinforce this idea that GBS, lowers transaction costs, improves donor coordination and the predictability of aid flows, enhances the allocative efficiency of public policies, and enhances public sector performance and accountability. A study by USAID, however, identified that for both donors and host governments, staff time required to design, manage, and evaluate activities initially increased. It has been recognized

⁸ The term General Budget Support (GBS) and Direct Budget Support (DBS) are used interchangeably to explain ODA that is not linked to specific project activities which is channeled directly to partner governments using their own allocation procurement and accounting system.

that these costs will drop once programs are running and policies and procedures are more harmonized. (UDAID:2005)

GBS generally contains few elements of conditionality, and rarely earmarks donor contributions. Before GBS is provided, donors and governments must have agreed on rights and responsibilities in relation to the objectives of development cooperation.

Several proponents of GBS (Hadziyiannakis & Mylonakis: 2006, p.51) denote that budget support is an appropriate intervention to improve government-led strategies and related expenditure. GBS is preferable than project aid as it gives more flexibility, efficiency and effectiveness in the budget management. Moreover, GBS plays an important role in bringing the country's development partners behind a government led development process (USAID: 2005, UNACTAD: 2008).

But GBS is not free of tension between the aim to boost government ownership of the development process and its accountability to national stakeholders, and the need for donors to be accountable to their own taxpayers on how the aid budget is spent (DFID:2005). Most importantly donors are suspicious of the risks associated with direct transfers of resources into the Consolidated Fund to support budget implementation. The risks include the commitment of government to budget implementation, how broad-based is the budget, the technical capacity to implement the budget, the soundness of public finance management, the transparency of government systems and the feasibility of harmonization among donors themselves (Government of Ghana:2005. p.12).

Another risk is related to macroeconomic. The overriding objective of GBS is to promote predictability of aid. But its consequences will be damaging if anticipated GBS fund failed to come as it is incorporated in the ongoing budget. If the fund did not arrive as it is expected governments are forced to draw domestic borrowing or/and reduce expenditure. Furthermore while GBS is externally financed, the flows can have another macroeconomic effect. The funds are not raised from domestic taxation, and therefore have a potential impact on money supply and therefore inflation.

Another important consideration is related to how foreign funds can be used. Although GBS is not borrowing, avoiding using non domestic sources for fixed costs is advisable, i.e costs that do not vary with the amount of activity. For example, salaries are often treated as fixed costs because once people are recruited they are not easily fired. A good example is the financing of education, which is usually the prominent sector in a government budget, one of the most sensitive, and the largest employer. If

government expands its employment of teachers on the basis of the availability of GBS, it could be seriously exposed to risk. If the aid flow stops in any case the employment obligations will remain (GRIPS:2004).

GBS is criticized for bias towards the expansion of public services, without enough attention to quality and for neglecting private sector growth and development. This could arise due to the nature of countries poverty reduction strategies which GBS supports. First generation PRS largely focused on quantity rather than quality as witnessed in several developing countries (ODi/Mokoro :2008).

While Ethiopia is one of the beneficiaries from the global aid architecture, developments in aid modalities have direct impact on its socio-economic performance. It has been indicated that Ethiopia receives much less aid per capita than the other developing countries (CABRI: 2005,p.99). Recent publication of the World Bank African Development Indicators 2011, on the other hand indicates that Ethiopia receives the highest official development assistance (ODA) in Sub-Saharan Africa (World Bank:2011b) . Whatever is the level of aid flows to the country, however, the country is not free from the adverse effects of the proliferation of donor projects. Thus the country involved in the various aid effectiveness global and regional forums and developed a set of aid policy reflecting the fundamental objectives of aid effectiveness (CABRI: et al p100).

Consistent with the global aid effectiveness agenda, the Ethiopian government developed home-grown poverty reduction strategy paper and showed its political commitment to undertake harmonization initiatives. In the light of this several multilateral and bilateral donors channeled their assistance through GBS. However, following the 2005 parliamentary election donors stopped to disburse through GBS and look for an alternative channel called Protection of Basic Service, which is the pivotal theme of the paper and the subsequent discussion.

CHAPTER THREE. PROTECTION OF BASIC SERVICE PROGRAM: - FINANCING DECENTRALIZATION

The foregoing discussions vividly indicate that in the contemporary development agenda decentralization in general and fiscal decentralization in particular plays critical role in bringing rapid, high and inclusive growth. The overriding objective of the research is to appraise the role of PBS program in promoting service delivery at grass root level in Ethiopia. Prior to dealing with the subject, however, it seems relevant to have an overall and clear picture of fiscal decentralization progress in Ethiopia as it can play an important role in interlocking the discussion between the previous section of the literature review and the subsequent discussion on PBS. To this end, this section starts by reviewing intergovernmental fiscal relations progress in Ethiopia.

3.1 GOVERNMENT STRUCTURE

The Federal Democratic Republic of Ethiopia (FDRE) Constitution establishes a four-tier⁹ systems of government in the administrative structure of the country: Federal, Regional, Woreda and Kebele; each of which has legislative, judiciary and executive branches. The country is divided into nine regional states and two special city administrations representing the two largest cities-Addis Ababa and Dire Dawa with a status equivalent to regional states. Currently the country has about 770 Woredas (671 rural and 99 Urban administrations) (World Bank Public Finance Review, 2010,p.14). The Woredas and Kebels are key local units of government in providing basic services at grass root level.

The decentralization process passed two phases. The first wave of decentralization created and empowered National/Regional governments at mid level decentralization. The second phase known as District Level Decentralization Program (DLDP) and Urban Management Program (UMP) devolved powers and responsibilities to the Woredas. This phase of decentralization is advocated as it empowered citizens to engage in development interventions, improve local democratic governance, and enhance the scope and quality of the delivery of basic services at the local level (Tegegn:).

⁹ There are various approaches on the federal structures in Ethiopia. Some consider three –tires of government excluding Zones and Kebeles. Some include Zones and exclude Kebeles. In most cases Zones are considered as coordinating and supervisory administrative structures with no executive or policy making authority except in Amhara and SNNPR.

3.2 INTERGOVERNMENTAL FISCAL RELATIONS PROGRESS IN ETHIOPIA

In accordance with globally recognized objectives of fiscal decentralization the Ethiopian Government designed a fiscal decentralization strategy with specific objectives aimed at (World Bank PER 2010,p.13): (i) devolving fiscal decision-making to lower tiers of government, (ii) enabling regional and Woreda governments/administrations to provide standard services in accordance with their functional assignments; (iii) narrowing the horizontal fiscal gap and enable horizontal equalization; (iv) promoting efficient allocation of financial resources; and (v) maintaining consistency between macroeconomic stability and fiscal decentralization.

3.2.1 EXPENDITURE ASSIGNMENT

Constitutionally in Ethiopia, the federal government's power and functions are more clearly defined and mainly encompasses all national public goods such as defense, foreign policy, fiscal and money policy, and designing of economic and social policies (Article 51). The constitution also assign other sector specific functions to the Federal Government such as building the capacities, ensuring food security, enacting laws for the utilization of natural resources, establishing and administering air, rail, water transport, regulate inter-regional trade, establishing national standard and basic criteria for public health, education, science and technology, and building major infrastructure such as, air, rail, shipping, postal, telecommunication and power. The Federal Government is also responsible to formulate the country's policies in respect of overall economic and social development, & draw up and implement plans and strategies for development. The constitution also assigns the responsibility of setting national policies, among other things for public health and education. While all other powers, including not given specifically to regions and the federal government are reserved for regional governments.

Concurrently, the Constitution assigns both other general and sector specific functions (Article 52 of the Constitution) to Regional Governments. General functions include: socio-economic development policies implementation, elaboration of strategies and plans, and administration of police, maintain peace and order. Likewise, regional sector specific functions include: regional water resource development and protection policy, human capital development, inter-Woreda and intra-regional roads, vocational and technical training, teacher training, medium level colleges, hospitals and referral hospitals, and regional health service standard setting. Regional governments therefore are responsible

for duties related to basic service delivery such as, primary and secondary education, health, water and sanitation, rural roads, agriculture and natural resources.

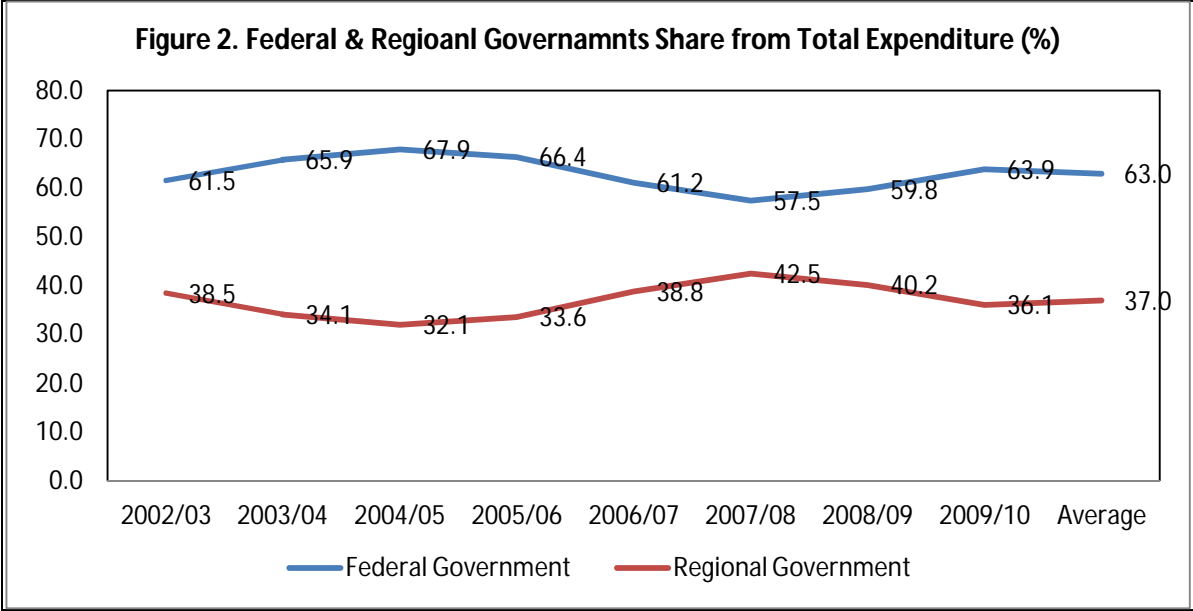
In a move to deepening the decentralization process in the second phase of decentralization the independent State constitutions delineate the following expenditure responsibilities to the Woredas. General functions include among others: implementing various types of policies and laws issued by their respective Regional Governments, prepare and approve district development plans, programs and budgets, administer and manage of the civil servants in the districts, maintain peace and security using the police and militia in the Woreda.

Sector Specific functions of Woredas include: primary schools (1st and 2nd cycles), coordinating primary health care preventive and curative activities (i.e., the functions of health posts and health centers), managing and maintaining rural roads, coordinating agricultural development activities, and making access to drinking water supply.

It is apparent that consistent with global practices in Ethiopia Federal Government is responsible for the provision of non-rival and indivisible public goods and those related to macroeconomic stabilization and income distribution. Whereas, regional and Woreda administrations have significant responsibility for the provision of basic services targeted to reduce poverty. Virtually there are various dimensions of expenditure developments pertinent to decentralization over the last one and half decade. However, it will be wise to limit the discussion only those related to basic service provision at sub-national level. To this end, the following figures are presumed to shade lights on the overall fiscal decentralization endeavor.

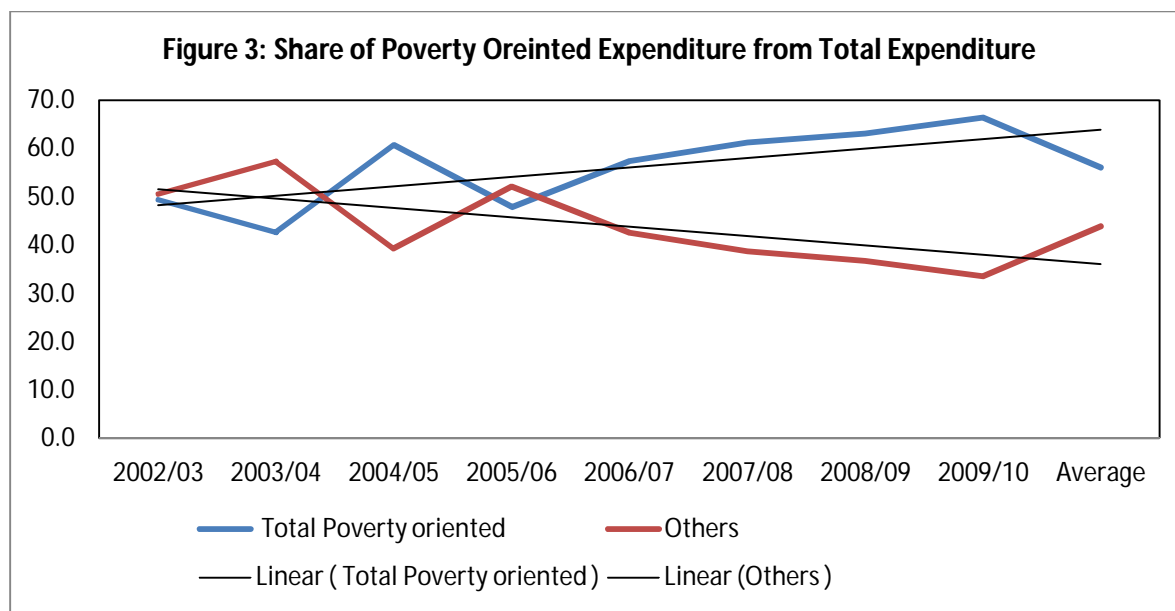
Figure 2 below designates the share of federal and regional governments from the overall national expenditure over the last decade. It is worth mentioning that regional governments own revenue share (figure 2 below) experiences a declining trend. Owing to the increased Federal Block Grants transfer, however, regional governments' expenditure share nearly maintained its position¹⁰.

¹⁰ It should be noted that specific purpose grants including food security and productive safety net which are accounted under the federal government expenditure but expended in the regions are on the increasing trend in recent years. MoFED data indicates that food security expenditures doubled in Fiscal Years 2007/08 and 2008/09 from previous level.



Source:- Generated based on data from MoFED

The following figure also indicates how poverty oriented (basic service delivery) expenditures on education, health, agriculture, water and road share increased compare to other expenditures. Other expenditures often comprise defense, debt servicing, foreign affairs, finance, industry, trade, housing and other social and community development expenditures. In this connection, if one deviates from the traditional definition of poverty related sectors and include housing, small scale industry, youth and women which are also recently recognized as poverty affiliated sectors and have significant expenditure share the overall poverty related sectors share could be in a more rising trend.



Source: Generated based on data from MoFED

3.2.2 REVENUE ASSIGNMENT

In Ethiopia, proclamation No. 33/1992, which defines the sharing of revenue between the central government and the regional self-governments, clearly delineated taxes into Federal, regional and joint revenues. This has been ratified by the Constitution later without major changes.

The underling objectives of tax assignments in Ethiopia include the following (Proc. 33/92):- (i)To enable the central and regional governments efficiently carry out their respective duties and responsibilities, (ii)To assist federal and regional governments develop their regions on their own initiatives, (iii)To narrow the existing gap in development and economic growth between regions and, (iv) To encourage activities that has common interest to regions.

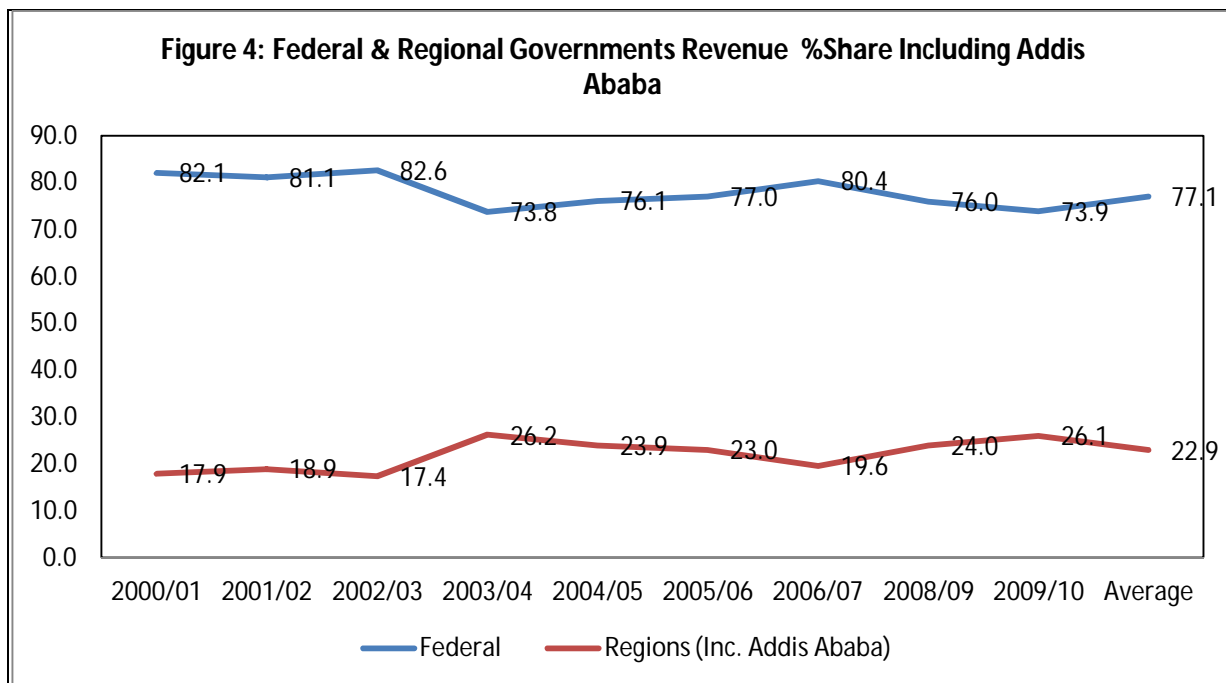
To achieve the above mentioned objectives the revenue sharing mechanism also followed the following principles;- (i) Ownership of source of revenue, (ii) The national or regional character of the sources of revenue, (iii) Convenience of levying and collection of the tax or duty, (iv) Population, distribution of wealth, and standard of development of each region, and other factors those are necessary for an integrated and balanced economy.

Thus, in agreement with such country specific objectives and global practices taxes that are highly progressive, have redistribute nature, and important for economic stabilization are assigned to the Federal Government jurisdiction. In this regard tax bases, with international trade, personal incomes

from federal and international employees, profit taxes from federal government owned enterprises, are the major sources of revenue for the federal government (Article 96).

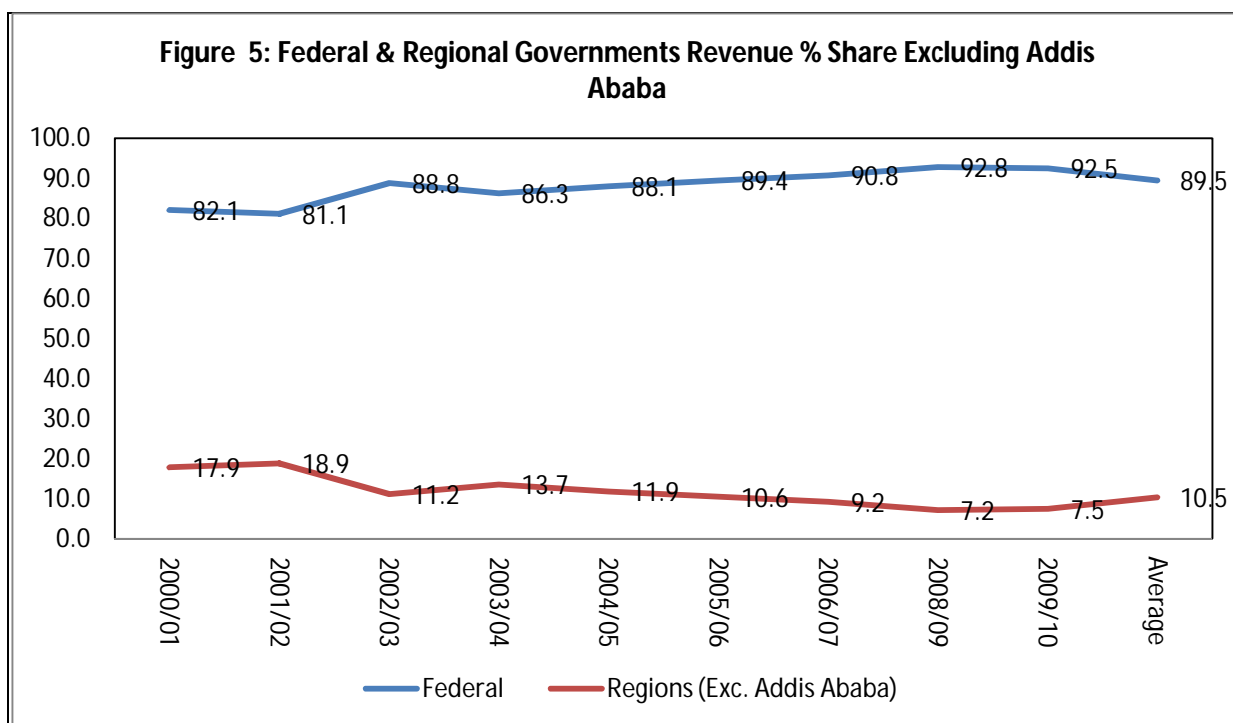
Tax bases, with regional location and ownership such as individual profit taxes, agricultural land use fee and income taxes, are under the jurisdiction of the regional governments (Article 97). Joint Federal-Regional revenue arrangements are placed along with assignments of tax responsibilities (Article 98) for taxes such as: profit, excise and personal income taxes, on enterprises jointly established by the Federal Government and Regional States, profits of companies and on dividends due to shareholders, and on incomes derived from large scale mining and all petroleum and gas operations as well as royalties on such operation.

Given the comparative advantage of the Federal Government in undertaking redistributive and stabilization functions, more buoyant and lucrative taxes are left to it. As a result even over the years share of regional revenues declined as depicted in the following tables. Figure 4 exhibited revenue mobilization efforts of the federal government and all regions including Addis Ababa. In this table the average revenue share of federal Government vis-vis regions for the last 10 years turned out 77:23.



Source: Generated based on data from **MoFED**

While Addis Ababa is not eligible for block grant it would be reasonable to exclude from the analysis in order to observe other regions contribution in financing their functions. In this connection the following table clearly indicates federal government and all other regions (excluding Addis Ababa) have an average share of 90:10 over the last 10 years. Moreover, regions' share experiencing a declining trend in recent years. A number of factors could be accounted for the decline in regional revenue share. Among them (i) Federal Government revenues from trade taxes significantly increased in recent years owing to their tax base elastic nature. Import values which are the base to calculate all taxes from the sector steadily increased following the successive devaluation of birr together with high import prices¹¹.



Source:- Generated based on data from MoFED

The foregoing empirical evidences proved that in Ethiopia the gap between sub-national government expenditure responsibilities and their own revenue is not only high but demonstrates an increasing trend. Thus, intergovernmental transfer in filling such gap is indispensable as it is observed next.

¹¹ Foreign trade tax contributed 59% and 53% of the total federal tax revenue in FY 2008/09 and 2009/10 respectively.

3.2.3 INTERGOVERNMENTAL TRANSFERS

The assignment of most revenue yielding taxes to the federal government and the devolution of important expenditure responsibilities to the regional governments obviously create a high degree of vertical fiscal imbalances in Ethiopia. Therefore, intergovernmental transfer or grant system plays significant role in closing the fiscal imbalances of sub-national governments.

Like any other federal governments; in Ethiopia both General-Purpose (GPG) and Specific - Purpose Grant (SPG) are in practice. General-purpose grant (GPG) has been implemented since 1992/93. However, a formulaic approach in allocating transfers of grant to regional states was first initiated in 1994/95 (According Article 62 of FDRE Constitution 1994). Since then the Federal Government resolved to design a fair, transparent and equitable formulaic grant transfer system. The grant formula and the methodology used to design the formula have been reviewed several times to refine the system in a more fair and equitable manner. The grant formulas applied over the years, largely consider indices of population, development level, expenditure needs and revenue collection efforts of each region. They were established as a relatively better proxy to allocate the block grant, albeit characterized with several shortcomings (Solomon: 2006).

The current formula designed to allocate block grant transfers to regions based on regional governments' expenditure need and revenue potential. It is being implemented since fiscal year 2009/10 and serves for three consecutive fiscal years. But frequent revisions of the formula, as it has been observed in the past have its own limitation. It provides incentive to regional governments to challenge the design process of the formula and has drawback on predictability of region's grant level. In this regard, the study team which recommended the prevailing formula advised to conduct the revision of the formula every five years, though the Federation Council ratified the current formula to serve only for three years (FDRE Federation Council:2010).

The objective of providing a SPG is to fulfill the goals of national priorities and also encourage performance improvement (Shah:2007) . SPG in the Ethiopian context is provided for expenditure assignments that are under the Federal Government or for implementation of Federal program at sub - national level. In the light of this major SPG currently in practice are (i) Public Sector Capacity Building Program (PSCAP)- aimed at building and ensuring minimum capacity of sub-national level which is federal mandate, (ii)Food Security- Addressing food security in the country which is also a national goal, (iii)Productive Safety Net Program (PSNP) - is a complementary to ensuring food

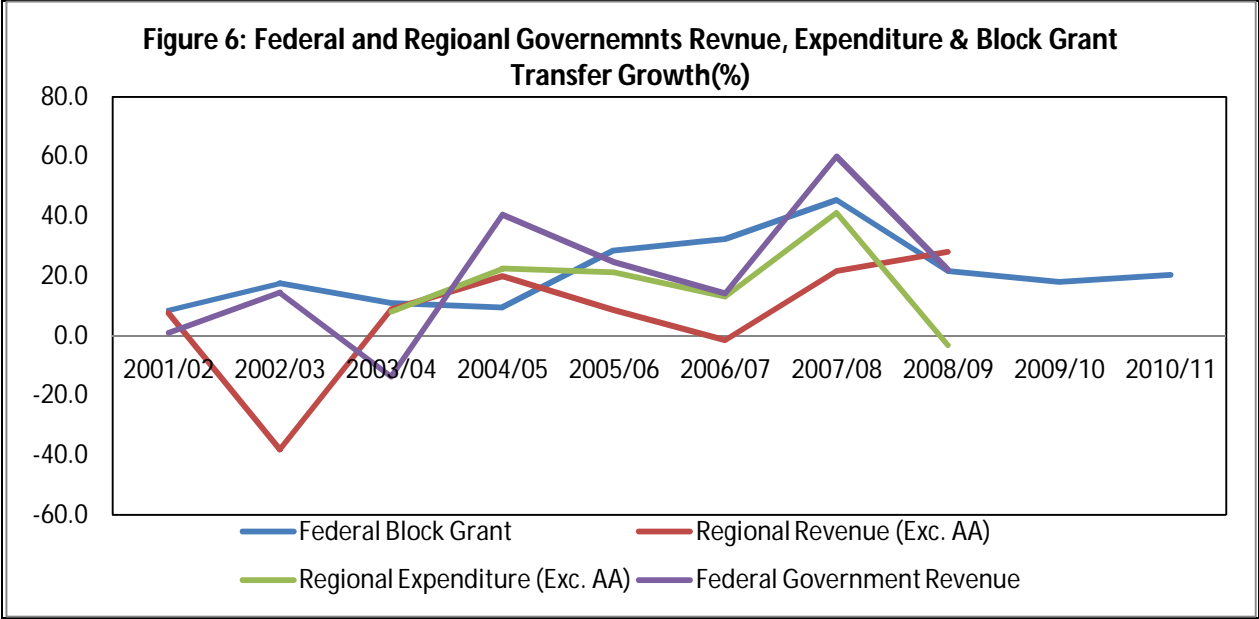
security and support disadvantage section of the society (iv)Local Investment Grant – Pilot Capital investments for local level, and (v)Urban Local Government Development Program (ULDP) – Capital investment for Urban local governments (Birhanu:2010).

In fact the extent of SPG compared to GPG is small due to the various objectives attached to the latter besides financing expenditures. But Degefu (2003) quoting Bevan argues that in Ethiopia there is little enthusiasm for introducing conditional grants which permit the federal government to influence the composition of regional spending.

Concomitantly, Regional State implemented GPG to Woredas. Apparently the objective and principle of Regional transfer to Woreda is to empower Weredas to decide on the use of financial resources. The transfer formula is designed by Bureau of Finance and Economic Development and approved by the Regional cabinet and then by Regional Council. In most regions the Woreda GBG formula has been designed according the principles of efficiency, equity, adequacy, comprehensiveness, transparency, non-manipulability, stability and predictability. For instance, Oromia Regional Government transfer block grants to Woredas through a transparent and agreed formula since EFY 1997 designed and approved based on the aforementioned principles (World Bank: 2010).

Indeed having an in-depth analysis of the grant formula is beyond the scope of the research. But it is apparent that brief review of the scale of GPG at least transfer from the Federal Governments to Regions might be useful to comprehend PBS implication in financing decentralization in Ethiopia¹².

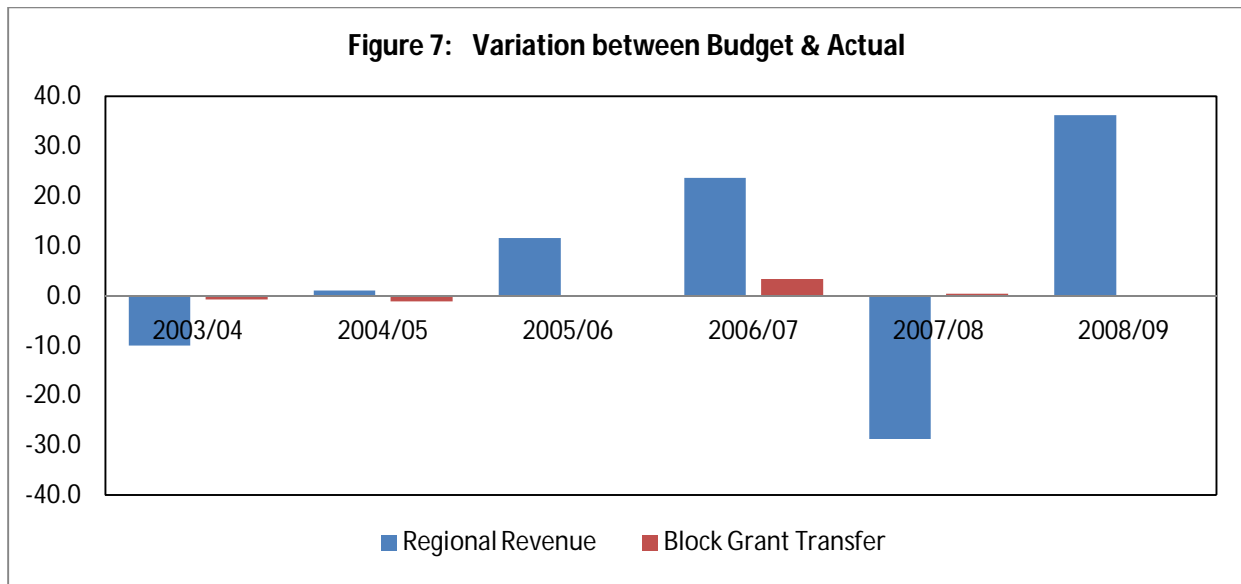
¹² The analysis would be limited at Federal-Regional transfers. Further review of transfers from Regions to Woredas will be more beneficial for the analysis of PBS role in promoting service delivery at Wroeda and Kebele level. But due to data limitation the researcher is not in a position to go further.



Source: Generated based on data from MoFED

As it can be observed from the above figure, block grant transfers growth has never affected even when federal revenue was in unfavorable condition. Similarly the block grant transfer protected regional expenditures during the slack period in their revenue performance. Moreover, the federal government maintained its commitment even during its development partners withdrew from Direct Budget Support.

One important nature of an optimal intergovernmental transfer system is its predictability. To this effect actual federal government transfer is entirely consistent with the initial budget, while regional governments' revenue outturn significantly deviates from their projection as depicted in the following Graph.



Source: Generated based on data from MoFED

According to the above figure the variation between initial budget and actual generation of regions revenues varies between a short fall of 30percent and an over performance of more than 35percent representing significant unpredictability. Apparently block grant transfer, however, remained very consistent with initial budget level, providing firm predictability to sub-national governments. Moreover each regional government is receiving its recurrent component block grant from the federal government at the beginning of each month based on an equally divided 12 installments without any precondition, irrespective of the Central Treasury cash liquidity position.

3.2.4 DECENTRALIZED SERVICE DELIVERY

The intergovernmental fiscal relations discussed above have helped promote decentralized service delivery in Ethiopia. According to Article 50 (4) of the federal constitution, regional states can establish their own governments and create other administrative levels that are found necessary and appropriate. Accordingly, regional governments empowered the Woredas with adequate power to provide basic services to their constituency.

The administration and governance structure of regions and Weredas are organized in a manner that resembles organization of the machinery of the Government at the federal level. Each one has its own elected council that oversees the administration and development of the entity. With regard to service

delivery responsibilities of each tiers of Government the following table delineated the various decentralized functions in Ethiopia taking the education sector as a prototype.

Table 2: Education Decentralization in Ethiopia: Functions Devolved

Functions	National	Regional State	Woreda District	Kebele/School
Policies	X	X		
Planning – Long-term strategic plan	X	X		
Planning Annual and Short-term plan		X	X	X
Administrative –Secondary, Technical and Vocational, Teacher Training Institutes for Primary and Junior Secondary)		X		
Administrative - Primary and secondary schools			X	
Administrative - Higher Education	X			
Curriculum and Textbook - Secondary	X			
Curriculum and Textbook - Primary		X		
Grade 8 National Examination		X		
Grade 10 and 12 National Examination	X			
Fiscal		X	X	X

Source:- Abera Mekonnen, Decentralization: Ethiopian Experience, Monrovia, Liberia, April, 2011.

Apparently, the second phase of decentralization establishes the foundations for consolidating accountability mechanisms, and enhances the scope and quality of the delivery of basic services at the local level. It devolves responsibility for service delivery to local governments. The new framework also devolves substantial control over real resources (personnel, assets, and finances, through block grants) to sub-national governments. In the last two years the fiscal devolution pushed down further and schools at the grass root level have started receiving block grants and they have the power to plan and execute their program in the school with approval by the Woreda Education Office (Abera :2011).

The Woreda executive offices such as education, health, and agriculture have a strategic position at the local level and can thus be key actors in the implementation process of decentralized policies. The devolution of responsibility and authority was reinforced by the District Level Decentralization and Urban Management Program. The Program established enabling legislation for the local governments, fiscal reform, institutional restructuring and capacity development. In a way strengthening institutional capacity Weredas establish more offices, strengthen by deployed civil servants from regional and zonal offices and recruit more. Such improved institutional capacity, though remained below the required

level; together with the expenditure assignment resulted in improved decentralized service delivery (World Bank: 2010).

While Ethiopia has made notable progress in decentralizing service delivery, but capacity is still a critical challenge. Lack of resources of all kinds, therefore has hampered the ability of Woreda and Kebeles in promoting basic services. Moreover, while the Kebele (the lowest level) council is the forum where citizens could play a role in enforcing accountability of service delivery, the system is still evolving and a lot of strengthening effort is required (Abera:2011).

By and large, most including the World Bank agree with that decentralization has improved the delivery of sub-national level services (World Bank: 2010). The Bank asserts that before decentralization, there was no fiscal transfer to Woreda and meager resources were remaining at the zonal levels. With decentralization and capacity-building measures, basic services under Woreda mandate such as education, health, water supply, rural roads, agriculture extension and natural developments and protection activities are assigned where they can be better performed. Thus, there is no doubt that given the very low capacity of sub-national governments own revenue mobilization, block grant transfer plays decisive role in promoting decentralized service delivery. This implies that resources which constitute the federal block grant envelope, which one of them is the PBS program are the heart of reducing poverty and attaining the MDGs in Ethiopia. What has been and will be the roll and contribution of PBS in such endeavor is the focus of the next section.

3.3. PROTECTION OF BASIC SERVICE PROGRAM (PBS)

In Ethiopia delivering of basic services are mainly the responsibilities of the sub-national governments which include regional, Woreda and Kebele administrations. To finance such responsibilities regional governments receive block grant transfers from the federal government allocated through legally approved formula. Since 2002 the devolution process has further pushed to the Woreda and Kebele level and similar process is being practiced in transferring resources. Accordingly, the block grant transfer is the most important source of funding for service delivery by sub-national governments.

Recognizing the need to protect service delivery at sub-national levels the country's major development partners, designed the Protection of Basic Services (PBS) project/program. The Protection of Basic Services (PBS) program was introduced following the decision of a number of development partners to end their pledge through Direct Budget Support, in response to the political crisis following the 2005

Parliamentary election. The then World Bank, Ethiopia and Sudan Country Director pointed out that providing "direct budget support" to the Government of Ethiopia has been suspended since December 2005, because of the perceived risks of providing fully discretionary funding without strong mechanisms which would provide information to the Bank and other direct budget support that funds had been used for intended purposes only¹³. PBS is therefore initiated to finance basic services at sub-national level utilizing public financial management systems of the government.

3.3.1. OBJECTIVES & COMPONENTS OF PBS

The primary objective of PBS is to protect and promote the delivery of basic services by sub-national governments while deepening transparency and local accountability in service delivery.

The program constitutes of the following four components.

Component 1: Basic Services Program:- contains the largest resource which aimed at financing basic services in education, health, agriculture and water at regional and Woreda levels. It has two sub-components which the first focused on financing the recurrent costs of basic services, while the second one support the introduction, on a pilot basis, of a multi-sector Specific Purpose Grant (SPG) from the Federal Government, for capital investment in the following sectors: health, education, agriculture, natural resources (including water) and roads.

Component 2: Promoting the Health Millennium Development Goals, Subprogram B:- allocate resources for funding high-impacted health commodities as well as capacity building activities in the sector. It has two parts including ***Critical commodity support & System strengthening and capacity building.***

Component 3: Strengthening Governance Systems on Financial Transparency and Accountability, *This component intended to enhance transparency in public budget processes and management. It finance several initiatives designed to promote financial transparency and accountability at sub-national levels. It strengthens MoFED/BoFED/OFAG/ ORAG accounting, reporting and auditing capacity. It also finance the development of various Financial Transparency & Accountability (FTA) templates aimed at enhancing citizens' awareness and participation in local government finance, budgeting and service delivery.*

13 (http://www.ethiomeia.com/carepress/world_bank_response_051706.html).

Component 4: Social Accountability:- This component aimed at engaging citizens and civil society organizations in social accountability. It strengthens citizen voice and enhances the accountability of public sector service providers. It finances large-scale pilot initiatives aimed at strengthening citizen voice and enhancing accountability of decentralized public sector service process. The SA component of the PBS program was initiated to bring the following basic results: (i) Created increased awareness of rights, responsibilities and entitlements among citizens, (ii) empowered service users (iii) improved accountability of local governments (iv) Provided space for collaborative efforts.

3.3.2 PRINCIPLES OF PBS

On top of providing financial resources to augment Federal Block Grant (FBG); PBS also aimed to support Government's commitment to good governance and service delivery at all levels of governments. PBS donors also agreed to put in place strong mechanisms which would provide information that funds had been used for intended purposes only. Thus, PBS implementation is scrutinized by the following principles: additionality, fiduciary, fairness, and accountability, as discussed below.

Additionality:- In line with the Government's own commitment to scaling-up basic services, the program confirms the *additionality* of resources available to sub-national governments for this purpose each year of the program. In line with these PBS disbursements for basic services requires continued increase in Federal financing for Regional levels via the block grant, as well as an increase in the budget allocated for basic services at sub-national levels. In other words the additionality principle is based on increased allocation of block grant transfer from the federal government to regions and from regions to Woredas and scaling up financing of the basic service sectors at all levels.

Fiduciary:- Under *fiduciary responsibility* the program is being monitored on the basis of more extensive and more regular reporting on the transfer and use of grant proceeds for the intended purpose.

Fairness:- This principle also evaluates resource allocation mechanisms to regions and Woredas. It assumes budget allocations of block grants from the Federal government to the regions, and from the regional governments to Woredas, to be done on transparent, fair and rules-based formulae. Moreover, actual transfers of these grants are expected to be equal or close to their budget allocations.

Accountability: - As indicated above components 3 and 4 support a program to reinforce and enhance accountability mechanisms in the public finance arrangements at the sub-national level. Accountability in service delivery is a key principle of the PBS, assuring that whether from the government side transparency and openness are maintained, or from the side of the public, where increased participation and access to information is promoted. The program therefore, assesses the success of its efforts to enhance accountability and transparency.

3.3.3 CONTRIBUTION TO PROMOTE SERVICE DELIVERY AT SUB-NATIONAL LEVEL


It is evident that basic service coverage and quality particularly at sub-national level are profoundly dependent on adequate levels of financing and equitable methods of raising finances. First, as is widely recognized, levels of public expenditure on basic health and education services in many poor countries are inadequate to provide quality services which can fulfill their social protection potential. It is clear that education and health expenditure per capita in most developing countries remained very low. Among other issues, this impacts on staff training, pay and motivation, the availability of resources (e.g. teaching aids) and equipment (drugs, medical equipment). As a result, health services frequently fail to cure or prevent illness, often pushing people into poverty cycles; education services often fail to provide basic skills, let alone enable people to escape poverty.

Cognizant of this fact and realizing government's commitment to reduce poverty and attain the MDGS, Ethiopia's development partners designed PBS. The design of the program entrusted to define a credible mechanism to address fundamentals, including: (i) earmarked funding for basic service delivery, which is the mandate of Woreda or local governments (ii) requiring the use of government channels, using existing public service providers and avoiding parallel structures; (iii) clear accountability safeguards, timely reporting and independent verification; (iv) avoiding any political bias in public fund allocations or service delivery decisions; and (v) financing at a sufficiently large scale to enable the promised scaling up of services to be sustained, with rapid disbursements needed by the end of FY2005/06 (World Bank: 2010).

To attain such outcomes and impacts the endeavor has its own process from availing the financial input, enhancing the provision of basic services, and bringing the intended outcomes and impact on poverty reduction and achieving the MDGs goal. Notwithstanding, the inherent complexity to evaluate output, outcomes and impact of the program, this section provides emphasis on PBS contribution for the financial inputs, enhancing basic service delivery at sub-national level and thereby ensue the

intended outputs and impacts. It is hoped that box 2 below will help facilitate our understanding how to evaluate PBS progress in view of the objectives of the research.

Box: 2. Typology of Indicators



```
graph LR; Input[Input] --> Output[Output]; Output --> Outcome[Outcome]; Outcome --> Impact[Impact]
```

- **Input** measures the financial, administrative and regulatory resources (often called “process”) provided by the Government and donors. It is necessary to establish a link between the resources used and the results achieved in order to assess the efficiency of the actions carried out. *Ex: Trends on budget allocation between central government and sub-national governments , Share of the budget devoted to education, health, agriculture, etc. expenditure,*
- **Output** measure the immediate and concrete consequences of the measures taken and resources used: *Ex: Number of schools built, number of teachers trained; number of health professionals trained*
- **Outcome** measure the results at the level of beneficiaries. *Ex: school enrolment, percentage of girls among the children entering in first year of primary school*
- **Impact** measures the consequences of the outcomes. It measures the general objectives in terms of national development and poverty reduction. *Ex: Literacy rates, unemployment rates,*

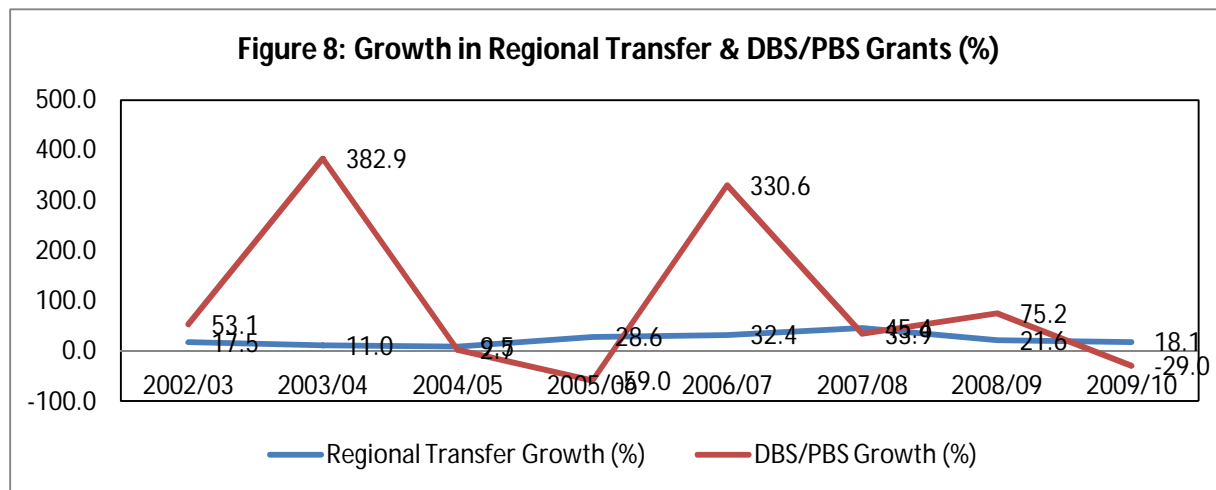
Adopted:- European Commission, DG Development EC Budget Support: An Innovative Approach To Conditionality, February 2005

3.3.3.1 PBS Financial Contribution to Government Budget (Input measurements)

The ultimate objective of PBS is financing basic service delivery in education, health, agriculture and water by sub-national governments through the Federal Block Grant (FBG) scheme. Federal Block Grant resource envelops consists of local resources generated from tax and non tax resources and foreign untied aid. Thus it is clear that PBS provides financial input to the federal government to be combined with domestic revenues and transferred through the Block Grant allocation formula to Regional governments. In turn funds transferred to regions are the major component of Block Grant resources at Regional level to allocate to Woredas, given the narrow resource base of Regions. Eventually, these block grants contribute to enhance basic service delivery at the grass root level and contribute to achieving MDGs goals.

Component One:- Block Grants Transfer :In order to gauge whether PBS achieved its objectives in contributing to augment Federal Block Grant (FBG), it is important to evaluate developments in federal block grants and the commensurate increase in block grant transfers to Woredas from regional governments. As mentioned earlier the additionality principles of PBS required the Federal

Government to increase its annual allocation from its own sources. To this effect, the following figure indicates disbursements of PBS donors to the Ethiopian Government and Federal Government response for the additionality principle.

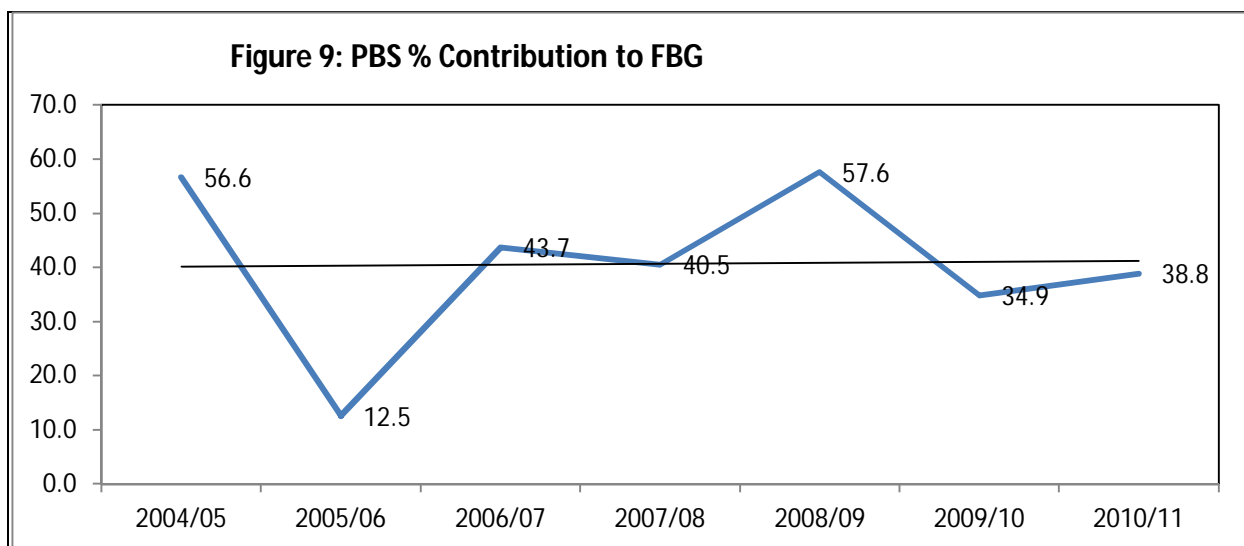


Source:- Generated based on data from MoFED

Empirical evidences prove that the Program has been successful in bringing major multilateral and bilateral development partners. By doing this the program witnessed an increase of financial resources following the withdrawal of direct budget support in 2005/06. In absolute terms in FY 2008/09 total PBS grant amounted to Birr 9.5 billion, registered an increase of over 300 percent compared to Birr 2.3 billion of FY 2004/05 of DBS.

Despite the volatile growth of PBS flows to the Central Treasury block grant transfer from federal government to regions steadily increased. Therefore, on top of contributing in financial resources PBS encourages the Government to increase its own resources to the block grant transfer to sub-national governments. PBS donors regular assessment proves that the increases in the total federal block grant (FBG) were underpinned by the requirements of the additionality test (an annual 10 percent increase in dollar terms of the government's own financing for the FBG), which the government surpassed. They have asserted that without PBS, it is unlikely that there would have been increases in the FBG to the degree observed (World Bank:2010).

PBS/DBS contribution to the Federal Block Grant (FBG) drastically fell due to the aftermath of the June 2005 Parliamentary election results. The design of PBS enables to mobilize more untied aid since 2006/07 as depicted in the following table.



Source:- Generated based on data from MoFED

While the PBS adds financial resources to support recurrent expenditures of sub-national governments, the government's fiscal space for capital expenditure has been promoted. In this connection, the share of capital expenditure reached more than half of the aggregated national expenditure, which elevated Ethiopia to have the highest capital: recurrent ratio in Africa (World Bank:2009b). Apart the block grant PBS finances other components of the program as presented in table 3 below.

Table 3: PBS donors Financial contribution in million USD as of July 7, 2009.

Component	IDA	DFID	CIDA	Irish Aid	Netherlands	AfDB	EC	KfW	Australia	Spain	Total	Share from total (%)
CI Block Grant	376	350.6				120.7	198.7	29.3	1.45	12.9	1089.69	87.0
C1b LIG	20										20	1.6
C2 Health	46.9	22.49	33.02	4.71	11.48		6.26				124.85	10.0
C3 Transparency	1.96	3.08				2.92	2.58				10.54	0.8
C4 Accountability		1.64	0.77	0.88	1.82		2.37				7.48	0.6
Total	445	377.8	33.79	5.59	13.3	123.7	209.9	29.3	1.45	12.9	1252.56	100.0
<i>% Share</i>	<i>35.5</i>	<i>30.2</i>	<i>2.7</i>	<i>0.4</i>	<i>1.1</i>	<i>9.9</i>	<i>16.8</i>	<i>2.3</i>	<i>0.1</i>	<i>1.0</i>	<i>100.0</i>	

Source :- The World Bank, PBS Report No: ICR00001569, Implementation Completion And Results Report, June 30,2010

As the above table indicates of all PBS financial contribution the Block Grant accounted about 87 percent of the total pledge. This undoubtedly enhances sub-national governments' budget allocation to basic service delivery as it has been discussed earlier. Under component one the Government and PBS donors particularly The World Bank introduced a Local Investment Grant (LIG) sub-program. It supports the introduction, on a pilot basis, of a multi-sector Specific Purpose Grant (SPG) from the Federal Government which is used exclusively for capital investment, implemented by local

governments, in the following eligible sectors: health, education, agriculture, natural resources (including water) and roads.

A total of fifty-one (51) Woredas from five (5) regions were selected for the first round which commenced in EFY 2001. In the second round, which commenced in EFY 2002, an additional forty eight (48) Woredas were selected bringing the total number of Woredas now participating in the Pilot LIG to ninety nine (99) in nine (9) regions.

Component 2:- The health sector apart from benefited from the block grant transfer, it is also supported through Component 2 of the program. Donors granted USD 125 million to procure critical health commodities for distribution to lower levels (e.g. insecticide-treated bed nets, vaccines, contraceptives, anti-malarial medications, and equipment for health posts and centers).

Component 3 & 4:- PBS was also initiated to promote accountability and transparency because the benefits of shifting service delivery closer to people would be lost if beneficiaries were not in a position to put demand-side pressure on local governments to perform. In effect PBS donors provided financial inputs to component 3 and 4 to enhance transparency and accountability in public financial management at sub-national level. PBS fund flows to the country not only support sub-national government budget, but also significantly prop up the country's hard currency need over the implementation period.

3.3.3.2 PBS Financed Basic Services Outputs Results

It is clear that measuring PBS contribution merely in terms of financial input would not provide clear picture regarding its impact on reducing poverty and promoting basic services. Outputs of government expenditure through BPS targeted sectors include among others number of teachers, schools build, health post, health extension workers (HEWs), Kebele development agents (DAs).

Education Outcomes:- Government and its development partners recognize the critical value of education and the need to enhance its quality for the attainment of poverty reduction and the millennium development goals. That is why PBS ultimately finances education particularly basic education at sub-national level. In terms of education outcomes number of primary teachers showed an annual average growth of 9.5 percent while secondary school teachers by 22 percent between 2005/06 to 2009/10. Similarly Primary education schools grew by 8.5 percent annually compared to 12.4 of secondary education schools within the same period.

Output	2005/06	2006/07	2007/08	2008/09	2009/10	AAGR(%)
Primary Teachers (1-8)	203,040.00	225,319.00	253,629.00	270,594.00	292,130.00	9.5
Senior Secondary Teachers (9-12)	20,795.00	28,183.00	33,736.00	37,333.00	46,060.00	22
Schools	20,247.00	21,612.00	24,432.00	26,409.00	28,286.00	
Primary Education (1-8)	19,412.00	20,660.00	23,354.00	25,212.00	26,951.00	8.5
Secondary Education (9-12)	835.00	952.00	1,078.00	1,197.00	1,335.00	12.4
Source:- Ministry of Education Annual Statistics Bulletin 2009/10 (EFY 2002)						

Agriculture Sector outputs:- The Ministry of Agriculture notes that the agriculture sector has grown on average by more than 10 percent per year since 2004/05 up until 2008/09. During the same period, major crop production and average sector productivity rose by 14 percent and 21 percent, respectively. Major food crop productivity reached 17 quintals per hectare in 2009/10. The food poverty headcount has fallen from 44 percent in 1999/00 to under 30 percent in 2009/10, while meat production rose by 6.9 percent between 2004/05 and 2009/10 (JRIS May 2011).

Outputs of Component 3 (Financial Transparency):- To enhance MoFED's and BoFEDs capacity on core financial operations and reporting, PBS finances hiring of accountants and IT personnel, as well as procuring hardware and software. To this end, MoFED and BoFEDs hired accountants and procure essential equipment to deliver the required financial reports regularly and timely and promoting financial accountability and transparency.

This component also supports the Office of the Federal Auditor General through procuring office equipment and vehicles as well as providing training, allowed it to carry out quarterly continuous audits at the Woreda level in about 95 percent of all Woredas nationwide (730 out of 770).

The Financial Transparency and Accountability (FTA) stream supported activities designed to increase citizens' knowledge of budgets, expenditures and service delivery by local governments. This support initiated the introduction of transparency and accountability concepts in public financial management system of the country. Four core prototype Financial Transparency and Accountability (FTA) tools such as Laypersons' Budgets, standardized Laypersons budget & expenditure formats, and Service delivery templates were developed, validated, and disseminated to regions and posted on the MoFED website. Furthermore, the first baseline Financial Transparency and Accountability Survey (FTAPS) was conducted in June 2009 to put the foundation for further improvements in the area.

Recent PBS joint review attested that regional governments are using the customized templates for budget transparency and have distributed these tools to the Woredas. Budget literacy training has been conducted for more than 49,000 citizens. Women's participation has increased, though there is still room for improvement. The range of tools being used to disseminate budget information has expanded considerably in some regions, including the use of regular radio broadcasts and artistic media, such as poems, drama, and announcements over community loudspeakers. The use of radio and artistic media has proven especially effective in regions with long traditions of oral communication. Perhaps of greatest interest is that citizens are now starting to provide feedback on the training they have received. Inter-regional experience-sharing workshops have been undertaken in order to refine the budget transparency tools, training, and arrive at new approaches to gathering citizen feedback. This component of the PBS Project is gaining international profile and efforts are being made to share FTA experience with other countries (PBS Aide Memoire May 2011).

Outputs of Component 4 (Social Accountability):-. The social accountability (SA) component aimed at strengthening the demand side of improving service delivery by providing citizens with the tools and capacity to interact with local governments and service providers. Social Accountability is a constructive dialogue which brings ordinary citizens, CSOs, local government institutions and public sector service providers towards a common vision of effective service delivery and improved accountability. PBS recognizes the importance of CSOs for enhancing local level accountability in a decentralized service delivery. It was strongly believed that by engaging citizens and CSOs in the social accountability components of the PBS, that citizens voice shall be enhanced and helps improve the accountability of public sector service providers.

Ultimately 12 lead CSOs in cooperation with 33 other partner organizations completed the implementation of pilot SA initiatives in 80 Woredas, and 6 towns and sub-cities. In the second phase of this component, scale-up geographic coverage to more than 170 Woredas, expand the number and combination of SA tools, and increase the number and range of stakeholders involved. The component enhanced the use of Citizen Report Cards, Community Score Cards, and Participatory Budgeting tools in implementing SA activities. These tools had been implemented successfully and resulted in greater public awareness as to how financial resources should be used in service delivery (World Bank: 2011b).

3.3.3.3 PBS Financed Basic Services Recent Outcomes

PBS contribution in providing financial inputs which intern result in the production of service providing human resource and institutional capacity undoubtedly led to enhanced results on the ground in terms of specific service delivery outcomes. Primary and secondary education enrolment and enrolment rates, child immunization rate, rural water access rate are some of the outcomes PBS. **Education:-** is one of the most important pro-poor basic service which also consists of the largest share of expenditure at sub-national level. Education sector outcomes are divided into access and quality indicators. With regard to access net enrollment rate (NER)¹⁴ in primary education is pertinent. It is a good measure of how well the education system is supporting on time enrollment. In this regard, the below table indicates that net primary school enrollment rate increased from 77.5 percent (2005/06) to 82.1 percent in 2009/10. Among education quality indicators both student to class and student to teachers' ratio at primary school decreased from 69 of 2005/06 to 57 in 2009/10 and from 61 of 2005/06 to 51 in 2009/10 respectively.

¹⁴ NER is the percentage of pupils at a particular grade level, who are of the official enrollment age for that level, compared to the corresponding school age population.

Table 5: Education Outcome indicators						
	2005/06	2006/07	2007/08	2008/09	2009/10	AAGR (%)
Gross Enrolment Ratio (%)						
Primary Education	91.4	91.7	95.6	94.4	93.4	0.6
1st Cycle (1-4)	117.6	117.1	127.8	122.9	118.8	0.3
2nd Cycle (5-8)	58.6	61.1	60.2	63.2	65.5	2.7
Secondary Education	19.1	22	22	22.6	22.6	4.3
1st Cycle (9-10)	33.2	37.3	37.1	38.1	39.1	4.2
2nd Cycle (11-12)	3.9	5.5	5.8	6	7	15.7
Net Enrollment (%)						
Primary Education	77.5	79.1	83.4	83	82.1	1.5
1st Cycle (1-4)	73	79.9	90.1	88.7	86.6	
2nd Cycle (5-8)	37.6	39.4	39.9	46	46.4	
Secondary Education						
1st Cycle (9-10)	13.2	14.7	13.6	13.5	16.4	5.6
2nd Cycle (11-12)	2.3	3	2.9	2.8	2.4	
Student Section Ratio (Regular)						
Primary education	69	64	62	59	57	4.7
Secondary education	82	79	74	68	64	6
Pupil-Teachers Ratio (Regular)						
Primary education	61	59	57	54	51	4.4
Secondary education	54	48	43	41	36	9.6
Percentage of female students						
Primary education	45.3%	45.9%	46.5%	47.2%	47.4%	1.1
Secondary education	36.4%	37.5%	39.4%	41.9%	43.7%	4.7
Percentage of female students						
Primary education	35.7%	37.0%	37.1%	36.7%	36.3%	0.4
Secondary education	9.6%	11.0%	11.5%	11.8%	9.6%	-0.5

Source:- Ministry of Education Annual Statistics Bulletin 2009/10 (EFY 2002)

Health:- Health is another basic service delivered at sub-national level. Child immunization rate increased from 70 (2005/06) to 81.6 percent (2009/10) through placement of 35,000 health extension workers nationwide, so that two trained workers are in every new health post in every community in the country and essential immunization materials are available in each of these health posts (World Bank: 2010).

PBS financing health is expected to improve health facilities at sub-national level. Health post facilities to population ratio improved from 1:11,637 of 2006/07 to 1:5630 in 2009/10. Likewise health centers shows improvements from 1:113,457 in 2006/07 to 1:37,299 in 2009/10 (FDRE, MOH, Health and Health indicators, 2009/10). The following table also indicates the various health service indicators developments over the period of PBS implementation.

Table 6: Health Service Indicators (2005/06-2009/10)

	2005/06	2006/07	2007/08	2008/09	2009/10
Reduced IMR per 1,000	69	62	56	50	45
Reduced under-five mortality rate per 1,000	114	106	99	92	85
Reduced MMR per 100,000	808	750	696	646	600
Contraceptive prevalence rate (%)	20	26	34	45	60
Proportion of births attended by skilled health personnel (%)	12	14	20	26	32
Percentage of households in malarious areas with two ITNs (%)	3	6	16	40	100
Primary health service coverage (%)	75	81	87	93	100
Doctors to population ratio	1:26,527	1:24,000	1:21,000	1:18,000	1:14,662
Nurses to population ratio	1:4,572	1:4,100	1:3,600	1:3,100	1:2,515
Health extension workers to population ratio	1:25,000	1:19,000	1:13,000	1:7,000	1:2,500

Source: MoFA APR-PASDEP

Rural Water: - Rural access to potable water in Ethiopia increased from 44 percent (2005/06) to 80 percent (2009/10) as indicated below.

Table 7: Access to Safe Water Indicators (2005/06-2009/10)

	2005/06	2006/07	2007/08	2008/09	2009/10
Total population with access to safe drinking water (rural and urban) (%)	51.5	60.4	68.8	76.8	84.5
Rural population with access to potable water within 1.5 km (%)	44.0	53.0	62.0	71.0	80.0
Urban population with access to potable water within 0.5 km (%)	80.7	83.5	86.1	89.2	92.5

Source:- MoFED, APR, PASDEP

Rural road:- Supported by the recently developed Local Investment Grant program of PBS, rural roads construction has shown important progress in terms of increasing the number of Kebele centers connected by all-weather roads (rising from 20 percent in 2007 to 39 percent at December 2010), and ensuring that the Woreda Roads Offices (WROs) have the necessary staff and resources (World Bank: 2011b).

Financial Transparency and Accountability: - Although the subject is relatively difficult to quantify outcomes PBS regular reviews indicate that public financial transparency is improving as all regions and 90 percent of local governments posted budgets in public places. In an effort to strengthen

accountability and fiduciary systems at sub-national level, Office of the Federal Audit quarterly audits reached at 95 percent of local governments nationwide (730 out of 770) (World Bank:2010b).

3.3.3.4 Impact of PBS on Service Delivery Performance

The overriding objective of both the government and donors is to bring visible changes in the living standard of the entire population particularly those marginalized and disadvantaged sections of the society. Hence, the important issue in this regard is what impacts PBS brought at the grass root level. Indeed measuring changes in the lives of citizens caused by PBS is a challenging task with several levels of complexity. The nature of the change itself can be hard to measure. Characteristics such as social capital and empowerment are fraught with problems of how to define by objectively verifiable indicators. Measurement itself may depend on the extent to which indicators can be quantified and exist for independent inspection, or of necessity are only reported by memory recall (Geoff Handley: 2009).

Measuring magnitude of change is also difficult particularly with short period of span. To recognize positive and negative developments of a specific program, measurement before and after the implementation period is desirable. Data with specific nature and disaggregated level with time series has significant importance to measure changes. Despite such complicated nature of the task measuring the impact of PBS in promoting service delivery at the grass root level is the heart of the research. To this end, in order to vividly present PBS impact on the intended objectives, the need to compile primary data supported with field work research, compiling time series and disaggregated data along with comparative analysis against other developing countries experience are crucial.

However, impact analysis of the paper is largely based on the third Woreda and City Benchmarking Survey (WCBSIII)¹⁵. In fact WCBS is not a statistical collection effort, but from the supply side it tries to capture the institutional and managerial capacity of local administrations in delivering service (WCBS III Supply –side Report: July 2010). Furthermore, the demand side components aims to collect and analyze the views, opinions and perceptions of citizens with regard to governance and service delivery at the local administration level. It

¹⁵ The Government in collaboration with PSCAP Donors has conducted three Woreda and City Benchmarking Surveys (WCBS). The main purpose of those surveys was to establish a wider information base and benchmarks for monitoring changes in institutional capacity, financial autonomy, service delivery and accountability of Woredas and cities over time. The surveys have both supply side and demand side modules for monitoring development efforts.

provides a snapshot of citizens' views at the time of the survey but cannot attribute levels or changes in these views to any particular program or intervention (WCBSIII Citizens' Report Card). As a whole, WCBS is intended to measure the impact of public service delivery at a given point in time. Accordingly as PBS engaged in promoting capacity in service delivery, there is no doubt that PBS has a role in service delivery outcome/impact which is monitored through WCBS.

Enhanced service delivery through PBS inputs, outputs and outcomes which has been observed in the previous discussions has direct impact on improving the living conditions of citizens particularly at sub-national level. PBS finance agriculture. WCBS III¹⁶ demonstrated that the efficiency of agriculture inputs distributed or sold by agricultural services led to an increase of yield per hectare between 21% in Beneshangul–Gumuz and 38% in Gambella. The inputs have also contributed to bring an increase of farmers' agricultural income, ranging between a mean of Birr 734 in Afar to high Birr 6975 in Somale (WCBS III Supply-side Report).

It has been stated that PBS has a health specific component aimed at financing the procurement of critical health equipment and medicines. With regard to the availability of basic equipment at local health posts WCBS III reveals that negative responses possess (no basic equipment available at all) 8% at city governments 6% Woreda and 60% at municipality level. (WCBS III Synthesis Report).

The precise impact of PBS here is hard to quantify, and the counterfactual cannot be observed. But it is at least plausible, and indeed probable, that the aforementioned inputs and outcomes of PBS promote service delivery at local levels. WCBSIII reveals service recipients' perceptions on some basic services as indicates in box 3 below.

¹⁶ WCBS III comprised 384 jurisdictions, of which 315 were Woredas, 20 municipalities and 69 city governments. Supply side captured with a questionnaire addressing local jurisdictions, whereby chief executive officers and heads of desks are asked. Demand side captured with (i) a questionnaire-based citizens report card; (ii) open forums with key information and (iii) open forums with focus group discussions. ,

Box 3. Demand – Side Information from WCBS III

Health

- Comparison of the 2008 and 2010 data reveals a very large increase in the proportion of those in City Administration using government Health facilities (50% to 73%) and large increase for those in primarily rural Woredas (77% to 87%).
- The increase in access to government health facilities has been accompanied a perception of increased service quality over the past two years. Nearly 60% of those in rural Woredas and nearly 70% in city Administration witness that the quality of Government health facilities has improved.

Agriculture

- A large majority of respondents from the matched set of Woredas who were involved in any form of agriculture reported that they had an agriculture extension officer in their Kebele (95% in WCBSII and 94% in WCBSIII). This reflects a near 100% converge for sample sites in Amhara, Oromia, SNNP and Tigray and 82% coverage for the WCBII sample in the Afar region.
- Overall there has been a significant decline in the proportion of respondents who find that the information provided by their extension agent is “very useful” (52% to 38%). In 2008 most respondents said that the information received was “very useful” but in 2010 most felt it was only “quite useful”. This reflects reduced impacts of extension services on agricultural income and food security.
- It is important to note that despite the decline in the proportion believing this service is very useful, overall satisfaction levels with agricultural extension services remain high (90% of those receiving this service in 2008 and 84% in 2010).

Water

- In major urban areas (City Administrations), satisfaction levels have risen overall between 2008 & 2010 and the proportion saying they are satisfied has risen sharply (24% to 35%).
- In primarily rural areas (Woredas), satisfaction levels have fallen overall and proportion saying they are very dissatisfied has risen sharply (16% to 29%).

Source:- WCBSIII Citizens’ Report Card (CRC) Survey of Service Delivery Satisfaction Status, July 2010, Addis Ababa

One important component of PBS addressing demand side service delivery is component four Social Accountability. It aims at strengthening the use of social accountability approaches by citizens and CSOs as a means to make basic service delivery more *efficient, effective, transparent, responsive and accountable*. In line with this outputs of this component have been discussed in the previous section. What is intended to review here is what impacts brought those outputs financed by PBS.

Although evaluating impacts of SA in view of its objective requires sufficient time of implementation, a number of assessments have been conducted to indicate what progresses achieved so far. Non State Actors Coalition (NSAC)¹⁷, study on social Accountability Initiative within the PBS has confirmed that SA/PBS initiative has achieved the following: (i) created

¹⁷ NSAC is legally registered coalition of Ethiopian and Foreign Charities dedicated to the facilitation/promotion of non-state actors ‘participation in international development cooperation and partnership issues in Ethiopia.

increased awareness of rights, responsibilities and entitlements among citizens; (ii) empowered service users (iii) improved accountability of local governments; (iv) provided space for collaborative efforts (NSAC: 2011).

Moreover, Marito Garcia and Andrew Sunil Rajkumar,(2008) , in their decentralized service delivery assessment recognized that: (i) Under fiscal decentralization, the block transfers, though not adequate to cover all the expenses of the Weredas, enabled them to exercise planning and budgeting, originally done by the zonal and regional authorities. (ii)The devolution of power and resources from the federal and regional governments to woredas appears to have improved the delivery of basic services, especially education and health. (iii) The decentralization tended to narrow differences in per capita expenditures on education across woredas. (iv) Decentralization narrowed the gap in educational outcomes between disadvantaged and better-off woredas. (v) Enhance the role of communities - Community involvement in service delivery has been increasing in Ethiopia. In many regions, communities help out by providing financial contributions and by building schools. Increasingly, community organizations like the parent-teacher associations (PTAs) are assisting in mobilization and have helped increase enrolment rates in many parts of the country. (vi)Regional experiments involving PTAs in the management of schools have been successful in improving service delivery.

Eventually, recognizing decentralized service delivery in bringing sustainable, robust and pro-poor economic growth and realizes the MDGs in Ethiopia, PBS contribution in mobilizing the necessary financial resources, building capacity, and promoting financial transparency and accountability has brought significant impact on all aspects of basic services at sub-national level. However, in some aspects citizens' perception in service delivery lacks consistency. For instance, WCBS III indicates that agricultural extension service receivers' satisfaction deteriorated in the latest survey compared to the previous one. This implies that there is a failure in bringing sustainable impact through the service delivery.

3.5 PROMOTING AID EFFECTIVENESS

As an effective instrument to support the government's commitment to local basic services, PBS has been supported by 10 development partners. The guiding principles for donor participation in the PBS Program are harmonization of aid and integration with the government of Ethiopia's financial systems. As the program's primary motivator, the World Bank took responsibility for

harmonizing donor contributions, co-chairing the PBS Development Partners group to seek consensus, and channeling funding on donors' behalf. PBS involved donor provides their financing through IDA-administered trust funds. These trust funds used pooled arrangements subject to common procurement and financial management processes. To accommodate individual donors' interests to support different sub-programs, IDA managed a large portfolio of 19 multi-donor trust funds, including recipient and IDA-executed parent and child trust funds.

Harmonization of aid and integration to the GOE's financial systems has been guiding principles for donor participation in the co-financing of PBS. In this respect, success has been substantial. Major bilateral and multilateral partners continued to provide aid when there was a risk of their withdrawing it, and their resources were harnessed in support of a commonly agreed government program that successfully spent most money through established national systems. It provides a means for a number of multilateral and bilateral development partners of the country to come together around a common instrument, a common approach, a common M&E framework and largely a common financing mechanism. Towards this end, it has been recognized that the proportion of PBS/DBS in the national budget tripled between FY 2002/03 and 2007/08, and has increasingly focused on financing recurrent expenditures for human resource development and for safety net (WB: 2009).

Another important factor in aid effectiveness is its predictability. PBS as an important instrument to scale up Federal Block Grants to Regions, its predictability not only affects Federal programs but largely hinders critical activities targeted to attain the MDGs. Fortunately; the advent of PBS enhance aid predictability in the country (World Bank: 2009).

3.6 OPPORTUNITIES AND CHALLENGES OF PBS

As repeatedly stated PBS supports the Government's ambition in reducing poverty and achieving the MDGs. It mobilizes the necessary financial resources from the country's development partners, enhance quality of public financial management, and harmonize aid flows. In this connection a number of performance review reports of the World Bank and other PBS donors attested that (i) follow-through on the commitment to scale-up financing and delivery of basic services, thus protecting the poor from suffering unduly as a result of the political crisis; (ii) support continued strengthening of local government service delivery systems; (iii) help with next steps in the decentralization agenda, including placing financial information in the public

domain and giving greater voice to citizens and civil society actors; and (iv) sustain aid inflows and thus avert a macroeconomic crisis involving deep fiscal cuts, which would have both inhibited the government's ability to finance further service delivery expansion out of domestic revenues and stifled longer-term growth. Sustainability of the program is ensured since it is a program owned by the government of Ethiopia and financed in large part by its own resources, and by using the country systems while strengthening capacity for improved public financial management and accountability (World Bank: 2010b). Particularly in terms of financial resources over the last five years nearly 43 percent of the Federal Block Grant was financed from PBS.

However, as PBS mobilizes significant level of financial and technical resources from abroad it is contingent to external shocks. Therefore, sustainability of the program could be questionable beyond internal weaknesses. The situation is more serious in relation to the current uncertain global economic and financial crisis. As the donor countries internal financial position remains feeble, they will tend to internal financial consolidation having negative impact to their pledge to the developing countries including Ethiopia.

Although PBS has critical role in harmonizing foreign aid and bringing aid flows to the country financial system, enormous aid flows still remain outside the budget. Various factors accounted for donors to be outside PBS. Government's and PBS donors weakness in selling the importance of the Program in promoting aid effectiveness, supporting service delivery at the grass root level and building capacity at the public sector could be sighted as a critical case. The good governance package at the Woreda level and efforts to promote financial transparency and accountability under the PBS operation are not properly publicized in order to bring donors into the country's financial system. Even donors those supports should further strengthen aligning their resource flow with the Government budget cycle; and work toward securing agreements on multi-year financing plans.

PBS components 3 and 4 have the intention to promote transparency and accountability in the public finance management. Component 4 particularly is expected to place financial information in the public domain and giving greater voice to citizens and civil society actors. To this end, the Program developed various templates and budget literacy instruments. Although in recent years

concepts of budget transparency and accountability became part of citizens concern, designed templates are not properly utilized.

The Woreda City Administration Benchmark Survey Synthesis Report (FDRE, Ministry of Capacity Building: 2010) indicates that data from Citizens Report Card (CRC) shows that citizens' awareness for the jurisdictions budget is comparatively low. This finding is also supported by outcomes of the Focus Group Discussions (FGDs) that quite a number of FGD participants were not familiar with the idea that local administrations share information such as budgets or strategic plans with them. Furthermore, they pointed out that there are certain types of people who felt excluded from such information. The poor, the youth and those not affiliated with the ruling party-coalition perceived that information is less likely to reach them.

Study on Social Accountability Initiative within the PBS by Non-State Actors Coalition (NSAC) (July 2011) indicates that SA/PBS did not enhance budget transparency, but it did create the need for budget transparency. The gap in budget transparency has started being visible. Thus PBS over the past couple of years created a general consensus that the need and the knowledge of budget transparency have been grasped. Thus the need to sustain the situation is critical. In this regard, to sustain the momentum there is a need to engage service users and community leaders and put on the drive. To make it more effective, service users should be participate in PBS monitoring and evaluation process along with the government and donors.

Despite the various efforts undertaken and achievements gained to attain the objectives of PBS in enhancing public finance management and promoting financial accountability and transparency, Government budget management particularly misuse of PBS resources is still aired. In fact such misunderstanding is the result of failure in understanding the status of public finance management of the country in general and PBS in particular. One important aspect of PBS program is channeling the foreign resources through the country public financial management system. It is disbursed through the annual budget process intermingled with local finance collected from tax and non-tax sources. It finances local level recurrent expenditures such as hiring of teachers, health officers, agriculture experts and others hired by government budget and their operating expenses. Thus any complaint regarding misuse of PBS finance by local governments cannot be alienated from the overall budget management of the country or sub-national governments.

It is true that budgetary allocation at Woreda level is inadequate even in financing personnel emoluments and the remaining balance for other operating expenditures is very limited. Such conditions minimize the chance to misuse or abuse of government funds. Although the argument particularly related to PBS have no credible evidences, their impact on the foreign aid flows and credibility of the public financial management system of the Government should not be understated as they are propagated by the global high profile institutions such as the Human Rights Watch.

CHAPTER FOUR. CONCLUSION AND THE WAY FORWARD

The second phase of decentralization in Ethiopia deepened the decentralization process and empowered citizens to engage in development interventions, improve local democratic governance, and enhance the scope and quality of the delivery of basic services at the local level. While the process is touted as an important mechanism to promote public service delivery its effectiveness is handicapped by lack of commensurate revenue assignments and lack of capacity at sub-national level. It is believed that block grant transfer from the Federal Government to Regions and from Regional Governments to further Woredas and Kebeles plays significant role in filling the gap.

Federal Government overall resources emanated from domestic and external sources. The later is also contingent on the aid modalities that the donors follow to release their assistance. The only grant from the country's development partners that could be added to overall resource envelop for the purpose of allocating the block grant transfer is that flows in the form of Direct Budget Support (DBS). In other words, all other project and sector grants could not be part of the block grants as they are attached with specific projects and locations.

In view of the foregoing discussions, given unbalancing own revenue mobilization capacity and huge expenditure responsibility of sub-national governments in Ethiopia, empirical evidences prove that PBS contribute to augment block grant transfers both at Federal and Regional level. Apart from its financial contribution PBS plays significant role in promoting basic service delivery at sub-national level in the following basic aspects:- (i) encourages government to steadily increase its own resource to the block grant transfer to sub-national governments, (ii) improve quality of public finance management through enhancing public finance management from the supply side and promote budget literacy, and financial transparency and accountability at local level from the demand side; (iii) harmonize foreign grants and promote aid effectiveness.

The design and implementation of PBS undoubtedly supports the FDGE's development endeavor and promotes basic service delivery at sub-national level and serves as an important forum for aid harmonization and effectiveness which is a failure promise of the donor community. It encourages and put impetus to the Government to focus on fiscal decentralization and support basic service delivery at lower level. The last couple of years move in attaining remarkable progress in education, health, agriculture, and rural water and road would not be successful without the support of Ethiopia's PBS development partners'.

PBS provides important lessons for the donor community to revisit their aid modalities. Unlike the traditional direct budget support management, PBS requirements incorporate factors promoting fiscal decentralization and empowering lower level governments along with the traditional governance conditionalities. It finances recurrent expenditures of sub-national governments which is critical for provision of basic services. Decentralized service delivery is the only way of promoting good governance, strengthening citizens' participation, enhancing accountability and transparency all important ingredients of reducing poverty and attaining the MDGs. Thus PBS success pleases donors to persuade their development partners in focusing decentralized service delivery.

Through PBS component 3 and 4 over the past few years the Government developed various Financial Transparency and Accountability tools to create awareness of rights, responsibilities and entitlements among citizen's, empowered services users, and improved accountability of local governments. It is believed that PBS has gain international profile and can share such experiences to other developing countries.

However, as PBS mobilizes significant level of financial and technical resources from abroad its sustainability is critically important. It should be considered as a transitional resource mobilization instrument to build internal resource capacity. The need to strengthen internal tax revenue mobilization to protect the danger of unsustainable external aid flows should be a medium to long term strategy of the government. Another related issue to sustainability is the recent move in emplacing financial transparency and accountability tools at all level of governments. It is useful to keep up the momentum in promoting budget literacy and citizens' participation in the public financial management and basic service delivery process at sub-national level. To this end, it is desirable to enhance CSOs capacity in supporting service users' voice in order to improve accountability of local governments.

Despite the various progresses achieved in all aspects of its objectives and principles, cynical views on PBS are common. As repeatedly stated, PBS supports five specific service sectors such as health, education, water, agricultural extension, and rural roads which are delivered at the local level by civil servants. Thus PBS finance salaries of Woreda and Kebele officials, teachers, nurses, development agents, doctors, and Ministry of Health officials. In view of this the protest on partisan allocation of PBS resources or using the resource to benefit one political party followers at the expense of others, as specified by the Human Rights Watch (Human rights

Watch: 2010) implies that all sub-national budget is implemented in the same manner. In reality budgetary allocation at Woreda and Kebele level is often inadequate to finance personnel costs and little is remained for operating expenses. It is believed that government service providers financed by government budget serve citizens on non-partisan basis.

On the other hand PBS has strengthened Ethiopia's fiduciary systems, by encouraging quarterly audits in local governments nationwide. It also reinforced accountability mechanisms, including through stronger public financial management systems, enhanced local transparency and accountability for service delivery, and better verification of basic service results. Accordingly, PBS donors approach in financing service delivery at sub-national level is significantly important to support Ethiopia's development effort in reducing poverty and attaining the MDGs. Moreover, as it has been emphasized by the Human Rights Watch (Human Rights Watch:2010 p.30) PBS is one of the largest and most complex development programs in the world which can be replicated to other developing countries.

However, due to lack of public relation works in popularizing the objectives, efforts, outcomes and results of the program, its significance has been understated and remained subject to skepticism. In fact this is not unique to PBS. It is the strong perception of the writer that in Ethiopia all efforts lack promotion. Thus it is essential to provide emphasis to inculcate the efforts done in designing and implementing PBS in supporting decentralized service delivery at the grass root level and its exemplary performance to other developing countries. This has dual advantages in bringing more donors to finance the program and promote citizens participation in realizing the objectives of the program.

Bibliography

- Abera Mekonnen, (2011) “Decentralization: Ethiopian Experience”, Prepared for a *Decentralization Workshop, LTTP II/AED*, Monrovia, Liberia,
- Adam B. Elhiraika,(2007): *Fiscal Decentralization and Public Service Delivery in South Africa*, Economic Commission for Africa, Addis Ababa
- Ahmed, Ehtisham and Mansor, Ali (2002) Indonesia: Managing Decentralization, *IMF Working Paper*, Fiscal Affairs Department. WP/02/136
- Bahl, Roy and Martinez-Vazquez, Jorge (2003), *Fiscal Federalism and Economic Reform in China: International Studies Program*, working Paper 03-13, Georgia State University, Andrew Young School of Policy Studies, Atlanta Georgia, USA
- Bird, R (1990), “Intergovernmental Finance Relations in China,” *Policy Research Working papers WPS 863*. Washington DC: World Bank.
- Boadway, R and Shah, A, (Eds.)(2007) . *Intergovernmental Fiscal Transfer: Principles and practice*, World Bank, Washington DC.
- Boex,J (2009) Fiscal Decentralization and Intergovernmental Finance Reform as an International Development Strategy , Urban Institute Center on International Development and Governance *IDG Working Paper No. 2009-06*
- Booth, D. (2008)” Good Governance, Aid Modalities and Poverty Reduction: From Better Theory to Better Practice”, Final Synthesis Report, and Overseas Development institute, February 2008.
- Bruno, Michael and Pleskovic, Boris (Eds) (1995) ,” Annual World Bank conference on Development Economics, “World Bank, Washington DC.
- Collaborative Africa Budget Reform Initiative (CABRI) and African Development Bank (2008),” Budget Practices and Procedures in Africa.”, Johannesburg, South Africa
- Collaborative Africa Budget Reform Initiative (CABRI) (2005) Budget Reform Seminar, Managing Complexity : From Fragmentation to Co-ordination, Johannesburg, South Africa
- DFID (2005)” Partnership for poverty reduction: Rethinking Conditionality” – a DFID policy paper, Department for international Development,
- _____ (2008) Poverty Reduction Budget Support: *A DFID Policy Paper*, London, UK.
- EC (2005),” Budget Support, An Innovation Approach to Conditionality,” European Commission DG Development, February, 2005
- Ekpo, A. (2008), *Decentralization And Service Delivery: A Framework*, African Economic Research Consortium (AERC), Nairobi, Kenya APRIL, 2008.
- Elhiraika A. (2007),” Fiscal Decentralization and Public Service Delivery in South Africa”, *Africa Trade Policy Center, Work in Progress No. 58*. Economic Commission for Africa,
- Federal Democratic Republic of Ethiopia (FDRE)(1994): The Ethiopian Constitution.
- _____ (2010) “Woreda and City Administrations Benchmarking Survey III, “Addis Ababa, Ethiopia.
- Fjeldstad, Odd-Helge (2001), -Intergovernmental fiscal relations in developing countries. A review of issues, Chr. Michelsen Institute Development Studies and Human Rights, Burgen, Norway.
- Garcia, Marito and Rajkumar, Andrew .s (2008) *Achieving Better Service Delivery: Through Decentralization in Ethiopia*, the World Bank working Paper No. 131, Washington DC

- Gorelik, Michel (2008) , Decentralization, Service Delivery and the “Rehovot Approach” to Integrated Development, *International cooperation of the Weitz Center for Development Studies*,
- Government of Ghana Centre For Policy Analysis, (2005) *Multi-Donor Direct Budget Support In Ghana: The Implications For Aid Delivery And Aid Effectiveness*, Selected Economic Issues No. 11, Accra, Ghana.
- Government of Rwanda Ministry of Local Government, Community Development And Social Affairs And Ministry Of Finance And Economic Planning (2006), *Fiscal And Financial Decentralization Policy, Good Governance*, Kigali, Rwanda.
- Hadziyiannakis, Y & Mylonakis, J. (2006),” The Budget Support Instrument New Paradigm: Can it Enhance Ownership in Development Assistance?” *International Research Journal of Finance and Economics* ISSN 1450-2887 Issue 3 (2006) © Euro Journals Publishing, Inc. 2006 <http://www.eurojournals.com/finance.htm>
- Handley, G. (2009), “*Sector Budget Support in Practice: “Overseas Development Institute 111 Westminster Bridge Road London SE1 7JD pp4*
- Hayman, R. (2008), “*A new twist in the conditionality tale: using budget support to foster good political governance,*” Centre of African Studies, University of Edinburgh,
- House of Federation (HOF) (2009) the Federal Budget Grant Distribution Formula to Regional States,
- Human Rights Watch, (2010):- *Ethiopia: Development without Freedom*. How Aid Underwrites Repression in Ethiopia, USA, Retrieved August 20, 2011, from <http://www.hrw.org>
- Kelly, R. (1999), “Intergovernmental revenue allocation theory and practice: An application to Nepal” , *Asian Journal of public Administration*, vol.21, No.1, 1999.
- Klick, T. (1998) *Aid and the political economy of policy change*, London, Routledge/ Overseas Development Institute.
- Lai, K. and Cisulli, (2005), Decentralized Development in Agriculture An Overview Agricultural Policy Support Service, Policy Assistance Division, FAO, Rome, Italy, 2005
- Lawson A. (2005) Does general budget support work? Evidence from Tanzania, *Overseas Development Studies*. London:
- Lawson. A, Booth, D. Harding. A, Hoole, D. and Naschold F. (2002) General Budget Support Evaluability Study, Phase 1. Final Synthesis Report, Report to UK Department of International Development.
- Lister,S, Oates,P. and Desta, F(2006), Aid modalities in Ethiopia, Development Cooperation Ireland.
- Llanto, G. (2009), Fiscal Decentralization & Local Finance Reform in the Philippines, *discussion Paper Series No, 2009-10*, Philippine Institute for Development Studies, Makati city, Philippines.
- Mikesell, L. (2003), Fiscal Administration: Analysis and Application for Public Sector, Sixth edition, Indian University, 2003.
- Non State Actors Coalition (NSAC), (2011),” Study on Social Accountability Initiative within the PBS,” Addis Ababa, Ethiopia
- Oates, W. (1972), *Fiscal Federalism*, New York: Harcourt Brace Jovanovich.
- _____ (1993) “ Fiscal Decentralization And Economic Development,” *National Tax Journal* Vol. 46, no. 2, (June, 1993), pp. 237-43
- ODI/Mokoro (2008) Sector budget Support in Practice, Inception Report November, *Overseas Development Institute*, 111 Westminster Bridge Road London SE1 7JD.

- OECD-DAC (2005) “ Paris Declaration on Aid Effectiveness: Ownership, harmonization, Alignment, Results and Mutual Accountability” High Level Forum” March 2005, Paris.
- Peterson, J (2001), Sub-national Debt, Borrowing Process, and Creditworthiness www.decentralization.org (World Bank),
- Prud’homme, R (1995), The Danger of Decentralization, World Bank Research Observer. Vol. 10. No.2 1995, Washington
- _____ (2001), *Fiscal Decentralization and Intergovernmental Fiscal Relations: A summary report prepared for the UNCDF symposium on Decentralization Local Governance in Africa, University Paris XII, Draft Papers for the 2001 Cape Town Symposium*
- Ribot, J. (2002), “African Decentralization: Local Actors, Powers And Accountability,” *UNRISD Programme on Democracy, Governance and Human Rights* Paper Number 8, December 2002
- Schroeder, L and Smoke, P (2003), *Intergovernmental Fiscal Transfer in Asia: Current Practice and Challenges for the future*, Manila : Asian Development Bank Press.
- Shah, A and T. Thomson (2004) “Implementing Decentralized Local Governance: A treacherous Road with Potholes, Detours, and Road Closures, *Policy Research Working Paper 3353*. The World Bank, Washington DC.
- Singh, N (2007), *Fiscal Decentralization in China and India: Competitive, Cooperative or Market Preserving Federalism?* Santa Cruz Center for International Economics, University of California, Santa Cruz, January 2007
- Smoke, P. (2001),” Fiscal Decentralization in Developing Countries: A Review of Current Concepts and Practice,” *United Nation Research Institute for Social Development, Democracy, governance and Human rights program* Paper No.2
- _____ (2000), *Fiscal Decentralization in East and Southern Africa: A Selective Review of Experience and Thoughts on Moving Forward* Prepared for: Conference on Fiscal Decentralization International Monetary Fund Washington, DC November 20-21, 2000)
- _____ (2004) “ Fiscal Decentralization for Good Governance and Effective Service Delivery”
- Stein, Ernesto (1998), *Fiscal Decentralization and Government Size in Latin America*, Inter-American Development Bank,
- Tanzi, V(2001) Pitfalls on the Road to Fiscal Decentralization, *Economic Reform Project Global Policy Program*, Number 19 April 2001 working Papers, Carnegie Endowment for International peace, Washington DC.
- Tegene Gebre-Egziabher, A brief Review of Decentralization in Ethiopia, Institute of Regional & Local Development Studies, Addis Ababa, Ethiopia
- Ter-minassian (Eds.) (1997), *Fiscal Federalism in theory & Practice*, International Monetary Fund, Washington DC.
- _____ (1997)”Borrowing by Sub-national Governments Issues and Selected International Experiences, Mimeo, IMF,
- Tiebout, M. (1961), An Economic Theory of Fiscal Decentralization, NBER, 1961
- UNACTAD, (2008), Budget Support: *A Reformed Approach or Old Wine In New Skins* Discussion Paper, No. 190
- USAID (2005), General Budget Support Key findings of five USAID studies, PPC Evaluation Paper No.7
- USAID (2009), Democratic Decentralization Program Hand Book, Washington.

- Work, Robertson, *Overview of Decentralization Worldwide: A Stepping Stone to Improved Governance and Human Development*, United Nations Development Programme,
- World Bank (1992) Adjustment lending and mobilization of private and public resources for growth, Washington DC: Country Economics Department.
- _____ (2000a) , Decentralization: Rethinking Government, World Development Report 1999/2000 World Bank. Page 108)
- _____ (2000b), Emerging the 21st Century, World Development Report 1999/2000, New York: Oxford University Press for the World Bank.
- _____ (2001), Decentralization in the Transition Economies: Challenges and The Road Ahead, The World Bank,
- _____ (2007) Project Paper on a Proposed Additional Financing of PBS, Human Development III Country Department East 3, Africa Region, The World Bank, Washington DC.
- _____ (2009) Ethiopia, Public Finance Review, Report No. 50278-ET, Poverty Reduction and Economic Management 2, Africa Region, World Bank
- _____ (2010) *Implementation, Completion and Results Report*, Report no: ICR00001569, Social Protection Unit, Human Development Department, Africa Region, World Bank, Washington DC.
- _____ (2011a) Ethiopia, Public Finance Review 2010, Report No. 54952-ET, Poverty Reduction and Economic Management 2, Africa Region, World Bank
- _____ (2011b) Protection of Basic Services (PBS) Program, Phase II Joint review and Implementation Support Mission (JRIS), May 9 – 19, 2011, Aide Memoire, Addis Ababa, Ethiopia.
- _____ (2011c): African Development Indicators 2011. www.worldbank.org/adi

ANNEX 1

Dissertation Proposal

On

Financing Decentralization in Ethiopia:-
The Case of protection of Basic Services program

Indira Gandhi National University: School of Social Sciences

Prepared by: - Fantahun Belew Asfaw
Supervisor: - Ayalew Abey (Mr.)

Dissertation Proposal

Candidate Name :- **Fantahun Belew Asfaw**

Program Code:- **MPA**

Course Code:- **MPAP-002**

Enrollment No:- **099110450**

Regional Center

Study Center:- **St. Mary's university College**

Study Center Code:- **8105**

Address:- Fantahun Belew Asfaw

P.O. Box 27793

Addis Ababa

Ethiopia

Title of Dissertation:- **Financing Decentralization in Ethiopia:- The Case of Protection of Basic Services Program**

Certification of Approval

I hereby certify that the proposal for the dissertation entitled: - **Financing Decentralization in Ethiopia:- the Case of Protection of Basic Services program** by Fantahun Belew Asfaw has been prepared after due consultation with me. The Proposal has my approval and has to my knowledge, the potential of developing into a comprehensive Dissertation Project. I also agree to supervise the above-mentioned Dissertation till its completion.

Signature:- _____

Name: Ayalew Abey

Designation: -Mr.

Address:- Addis Ababa

Tel: 0911344031

Email: ayalewabey@gmail.com

CHAPTER ONE:- INTRODUCTION

1.1 BACK GROUND

Most argue that decentralization plays important role in promoting the coverage, efficiency and effectiveness of service delivery at lower level of governments (Ekpo: 2008). But there is also a counter argument that implementing decentralization policies does not necessarily improve or transform service delivery (Gorelik:2008). Nevertheless, financing decentralized service delivery is the most challenging aspect of fiscal decentralization in discharging expenditure responsibilities of those institutions in charge of providing basic services at grass root level irrespective of the two divergent views.

In Ethiopia the process of financing decentralization is governed by the Federal and the respective Regional Governments Constitutions which stipulated sources of revenue and expenditure responsibilities of each tiers of government. Due to various reasons, the revenue assignments allocated to the lower level governments is not commensurate with expenditure responsibilities. Consequently, the lion share of both the Regional and Woreda governments expenditure responsibilities are financed from block grant transfers from the Federal Government.

The overall resource envelope of the Federal Government available to finance expenditures of both the Federal Government and block grant transfers constituted local and foreign sources. Currently, of all the foreign resources; it is only grants mobilized through the Protection of Basic Services Project/Program (PBS); contributes to the resource envelope set aside to allocate to sub-national governments through the block grant transfer formula. On top of providing financial resources; PBS designed to promote decentralized service delivery and engaging dialogue with government in building financial accountability and transparency. With this background this is a research proposal intended to examine issues related to the role, benefits, achievements and challenges of PBS Program in financing decentralized service delivery, enhancing capacity, and promoting transparency and accountability in government budget management at Regional and Woreda level in Ethiopia.

1.2 STATEMENT OF THE PROBLEM

Except the Addis Ababa City Government, sub-national governments in Ethiopia on the average can finance only one tenth of their expenditure assignments from own sources; the rest is financed through Federal Government block grants. Federal Government overall resources emanated from domestic and

external sources. The later is also contingent on the aid modalities that the donors follow to release their assistance. The only grant from the country's development partners that could be added to overall resource envelop for the purpose of allocating the block grant transfer is that flows in the form of direct budget support (PBS grant in the case of Ethiopia at this point in time). In other words, all other project and sector grants could not be part of the block grants as they are attached with specific projects and locations.

Over the last few years, PBS has contributed a lot to the revenue basket of the Federal Republic Government of Ethiopia. Moreover, the requirements of PBS grants disbursements encourage both the Federal and Regional Governments to steadily increase the block grant transfers, to allocate the block grant transfer in fair and transparent manner and promoting accountability and transparency in public finance management. Consequently, PBS has introduced a new sort of conditionality which recognizes decentralization as a motto to bring visible changes in empowering citizens at local level.

Decentralization which is implemented through intergovernmental transfers in Ethiopian has been a cornerstone of socio-economic transformation and service delivery. But research works with regard to its sources and effectiveness in promoting economic growth, improving public service delivery, and poverty reduction are limited. Indeed, some attempts are made here and there to analyze the content and nature of Ethiopian block grant transfers, but PBS which accounts for the major part of the block grant received little attention so far.

Amidst of this fact, some concerns are raised from practitioners, national and global human right advocacy groups with regard to the effectiveness of PBS in achieving its objectives. Further, some are also skeptical with regard to the adherence of government to PBS inherent guiding principles. Even some openly claim that the incumbent government practices misuse of PBS funds for political purposes (Human Rights Watch:2009). Therefore, a prudent research work is in order to find out whether PBS is effective or not in meeting its designed objectives.

In short, this research focus on issues so far marginalized in the ubiquitous researches of fiscal decentralization particularly how the global donors can contribute in promoting basic service delivery and help the country to attain the MDGs through attaching their disbursement conditions with regard to decentralization.

1.3 OBJECTIVES OF THE RESEARCH

As repeatedly stated Ethiopia's fiscal decentralization characterized with a vertical fiscal imbalances, where little own revenue mobilization is occurred at local level. Accordingly, expenditure responsibilities of Regional and Woreda administration rely largely on block grant transfers from the Federal Government. Supporting the Governments endeavor to enhance basic services such as education, health, agriculture, water and rural road, the country's development partners determined to provide their grant through the PBS program (World Bank:2007). The overriding objectives of the intended research include the following among others:-

- Evaluate how PBS contribute to finance decentralized service delivery (input);
- Appraise how PBS contribute to enhance basic services and achieve the Millennium Development Goals (output, outcome and impact),
- Assess how PBS promote budget literacy, and financial transparency and accountability at local level (impact),
- Examine how PBS objectives and principles preserved over the implementation period,
- Assess challenges and weaknesses of the program,
- Evaluate its contribution in harmonizing foreign grants and promote aid effectiveness and assess its unique features against the traditional aid modality,
- Examine its impact on the country's budget administration if it fails to continue,

1.4 RESEARCH QUESTIONS

PBS implementation reviews attested that given the complexity of the project, the challenges it faced and the political context, implementation of PBS met its objectives by and large though it experienced delays in some activities (World BanK:2010).

Since its inception, however, a number of issues raised whether its objectives and principles are met or not. In this regard the following issues will be center of the research to be evaluated.

- Does the necessary finance to promote decentralized service delivery mobilized from the country's development partners as it is promised?
- Does the program help brining steadily increase in the intergovernmental transfer?
- Do intergovernmental transfers disbursed and services provided without partisan or political bias?

- Do financial inputs bring the intended results? Is there significant departure in promoting service delivery at sub-national level including education, health, water, agriculture and rural road?
- Does the program promote citizens participation and promote financial transparency and accountability at sub-national level?
- Does the program enhanced aid harmonization? Or is there any lesson for others in promoting service delivery at sub-national level?
- What will be the consequences to the country's budget administration, if it will fail to sustain in the medium or long term? Does it promote aid dependency on the country?

Evaluating such issues will be the theme of the intended research.

1.5 RESEARCH METHODS

The research is initiated to evaluate how decentralized service delivery is financed in Ethiopia with particular reference to the Protection of Basic Services program which mobilized foreign grant. As PBS is earmarked to finance basic services at sub-national level of the entire country both aggregated and specific data from the three tiers of government will be analyzed. The research will involve information from national, regional and Woreda. It will depend largely on a qualitative analysis of hitherto relevant academic literatures, books, articles, internet publications and PBS implementation reports. Official data of the government will be major tool to analyze PBS contribution in terms of input, output and impact in enhancing decentralized service delivery.

PBS has regular review forums and produce joint reports since its inception. Those documents released after each review, will serve as important sources of information. Indeed producing and disseminating budgetary and financial reports at each tier of government is one of the major important components of the program. Thus, the research will be benefited from the Ministry of Finance & Economic Development website, Regional Finance & Economic Development Bureaus publications as well as PBS financiers' including the World Bank reports, review documents and publications.

One aspect of the research is to evaluate how PBS contributes on aid harmonization and effectiveness. To this end there will be comparative analysis of the PBS with other aid modalities practicing in Ethiopia and elsewhere.

While fiscal decentralization is wide and rigorously researched subject, the literature review section of the research would be narrowed down to focus on financing decentralized service delivery to the extent possible. The review will be supported with analytical framework for factors influencing service provision at local level and promote pro-poor development and sustainability. The framework will indicate enhancing the relationship between service providers (supply side) and service receivers (demand side).

The ultimate objectives and principles of PBS include promoting budget literacy, enhancing financial accountability and transparency at local level. To evaluate whether its implementation achieved such objectives and principles there is a need to assess outcomes and impact of the program over its implementation period. While PBS funds are mixed with other government revenue and administered as a single budget, it might be difficult to single out its outcomes and impacts. However, there are rigorous attempts by the country's development partners and CSOs to evaluate their intervention in basic service delivery. Thus, the research will depend on various studies conducted to evaluate basic service delivery efforts including the Woreda and City Administrations Benchmarking Surveys.

1.6 SIGNIFICANCE AND LIMITATION OF THE RESEARCH

Over the past two decades the fiscal aspects of decentralization has been an important development debate particularly in developing countries. Decentralization has three fundamental and interrelated dimensions including political, institutional (local and intergovernmental) and fiscal(Smoke:2004) . Ethiopia's decentralization is not unique. Indeed rigorous academic research has been done on how the political, institutional and fiscal aspects of the Ethiopian decentralization prevailed. Specifically the role, importance, strength and weakness of fiscal decentralization have attracted most researches and studies.

Such researches also paid attention to analyze the content and nature of Ethiopia's block grant transfer. This research in particular shade lights on how foreign aid contributes to Block Grant transfers to finance basic services at sub-national level. how Ethiopia's development partners contribute to promote basic service delivery at the grass root level and also encourage the government to focus on decentralization in all aspects. Moreover, it will provide empirical evidences on recent developments regarding the role of intergovernmental transfer in promoting economic growth, improved public service delivery, and poverty reduction.

By providing empirical analysis the research allows readers to recognize how the PBS adds resources to the overall Federal government resource envelope which determines the block grant and encourages the government to constantly increase allocation to sub-national governments. It also provides information how PBS builds capacity in the supply side of the provision of basic services by local governments on one side and creates awareness and encourages enquiring their rights of citizens in government budget and financial management process from the demand side on the other.

Unlike the traditional direct budget support management, PBS requirements incorporated factors promoting fiscal decentralization and empowering lower level governments. It finances recurrent expenditures of Woredas, which is critical for provision of basic services. The research seeks to spell out unique experiences against the traditional aid modalities.

The research will analyze issues remained contentious during PBS implementation. Some local and global human rights advocacy based institutions expressed their concern on some issues related to PBS implementation. They protest the incumbent government practicing misuse of PBS funds for political purposes (Human Rights Watch:2010): The research therefore will critically review how PBS preserved its objectives and principles. It may also share the experience to other developing countries and pose issues for donors to examine their aid modalities effectiveness.

Despite its significance in providing information and analyzing the pros and cons of the program in financing decentralized service delivery the research would not be free from shortcomings. The research largely will depend on information and data from secondary sources including previous studies and reports available from internet, books, articles as well as government and donors' reports and documents. Although the researcher wishes to enshrine the quality of study through evidences from primary sources and evaluate the outcomes and impacts of the program by field based survey; due to resources constraints the research is limited on desk based data. Thus, I have a trust that the research could be more enriched through incorporating field based quantitative survey and comparative analysis of other developing countries experiences.

1.7 ORGANIZATION OF THE RESEARCH

The research will be divided into four major chapters. Chapter one deals with the introduction of the research dealing with statement of the problems, objectives, significance, limitation and methods of the study. The second chapter devoted to conceptual issues on sub-national governments financing, decentralized service delivery as well as aid modalities and instruments. The third chapter provides

brief review of developments in Ethiopia's fiscal decentralization. The fourth chapter which is the theme of the research will be devoted to highlight objectives and principles of PBS, analyzing its contribution in financing basic services, promoting service delivery, enhancing accountability and transparency at local level, and promoting aid effectiveness and harmonization in Ethiopia. Finally chapter five will address conclusion and the way forward.

CHAPTER TWO:- CONCEPTUAL ISSUES (LITERATURE REVIEW)

The topic financing decentralized service delivery with specific reference to the Protection of Basic Service in Ethiopia incorporates critical concepts such as financing decentralization (fiscal decentralization), basic service delivery and Protection of Basic Service program (a sort of aid modality). Under the conceptual issues literatures will be reviewed around these concepts. The concept fiscal decentralization will be an entry point to the research. Thus emphasis is given to shade lights on global and country specific practices of fiscal decentralization. While fiscal decentralization is a broad subject and treated widely in several academic and empirical studies, here attention will be given to its implication to decentralized service delivery. Concomitantly, conceptual issues on the role and benefits of decentralized service delivery will be reviewed.

The Protection of Basic Services Program has been developed in response of donors' budget support suspension following the 2005 Ethiopia's parliamentary election. In view of this the program is organized to protect service delivery at sub-national level channeling grants through the country's financial system. Thus it is assumed to supplant the previous direct budget support aid modality. Indeed some called it disguised budget support. The literature review in this connection will help identify whether the program is unique to the country and if that is the case lessons could be drawn to other developing countries. To this end, the research will briefly highlight current developments in aid modalities in the global context.

CHAPTER THREE- PROTECTION OF BASIC SERVICE PROGRAM: - FINANCING DECENTRALIZATION IN ETHIOPIA

3.1 OVERVIEW OF FISCAL DECENTRALIZATION IN ETHIOPIA

Before discussing the role of PBS in financing decentralized service delivery in Ethiopia, it is worth having an overall and clear picture of fiscal decentralization progress in Ethiopia as it can play an

important role in interlocking the discussion between the previous section of the literature review and the subsequent discussion on PBS. To this end, this section will review the nature and developments of fiscal decentralization in Ethiopia.

The Federal Democratic Republic of Ethiopia (FDRE) Constitution establishes a four-tier¹⁸ systems of government in the administrative structure of the country: Federal, Regional, Woreda and Kebele; each of which has legislative, judiciary and executive branches. The country is divided into nine regional states and two special city administrations representing the two largest cities-Addis Ababa and Dire Dawa with a status equivalent to regional states. Currently the country has about 77019 Woredas (671 rural and 99 Urban Administration). The Woredas and Kebeles are key local units of government in providing basic services at grass root level.

The decentralization trajectory in Ethiopia has followed two phases. The first stage (1991-2001) was focused on creating and empowering Regional Governments as stipulated in the Constitution. The second generation reform emplaced enabling legislation for local tiers of governments, to deepen and broaden the decentralization process to Woredas and Kebeles by transferring a number of responsibilities including fiscal empowerment. Since then a number of activities have been taken place to strengthen local level governance and to pave the ground for making Woredas and Kebeles as a center of socio-economic development.

In Ethiopia delivering of basic services are mainly the responsibilities of the Regional and Woreda administrations. To finance such responsibilities regional governments are entitled to block grant transfers from the federal government allocated through legally approved formula. Since 2001 the devolution process has further pushed to the Woreda level and similar process is being practiced. Accordingly, the block grant transfer is the most important source of funding for service delivery by both the regional governments and Woredas.

Recognizing the need to support such activities at lower levels the country's major development partners, designed the Protection of Basic Services (PBS) program aimed at financing basic services at sub-national level utilizing public financial management systems of the government contingent to a number of commitments of the government.

¹⁸There are various approaches on the federal structures in Ethiopia. Some consider three –tires of government excluding Zones and Kebeles. Some include Zones and exclude Kebeles. In most cases Zones are considered as coordinating and supervisory administrative structures with no executive or policy making authority except in Amhara and SNNPR.

¹⁹ World Bank Public Finance Review, 2010:14

3.2 OBJECTIVES & COMPONENTS OF PBS

The primary objective of PBS is to protect and promote the delivery of basic services by sub-national governments while deepening transparency and local accountability in service delivery (World Bank:2007). For the purposes of the PBS, basic services have been defined to cover the basic service key sectors including: primary and secondary education, health, and agriculture and natural resources (including water). The Local Investment Grant (LIG) Subcomponent supports these sectors and the rural road sector (World Bank:2008).

The program constitutes the following four components:-

- Financing Basic Services
- Promoting the Health Millennium Development Goals,
- Strengthening Governance Systems on Financial Transparency and Accountability:-
- Promoting Social Accountability:-

3.3 PRINCIPLES OF THE PBS

The PBS is aimed to support Government's commitment to good governance and service delivery Regional and Woreda level. Thus the PBS components have been designed around a set of principles which attempt to capture this commitment – additionality, fiduciary responsibility, fairness, and accountability.

3.4 CONTRIBUTION TO PROMOTE SERVICE DELIVERY AT SUB-NATIONAL LEVEL

PBS is envisaged to contribute enhancing service delivery at grass root level through:-

- Providing financial support,
- Supporting the country's foreign exchange earnings,
- Building capacity at all tiers of government,
- Encourage the government in promoting budget literacy, financial accountability and transparency,
- Engaging tripartite dialogue among the Federal Government, Regional Governments, and the donor community, and
- Enhancing social accountability and promoting Civil Society participation.

3.5 PROMOTING AID EFFECTIVENESS

As an effective instrument to support the government's commitment to local basic services, PBS has been supported by 10 development partners. The guiding principles for donor participation in the PBS Program are harmonization of aid and integration with the government of Ethiopia's financial systems. As the program's primary motivator, the World Bank took responsibility for harmonizing donor contributions, co-chairing the PBS Development Partners group to seek consensus, and channeling funding on donors' behalf.

Harmonization of aid and integration to the GOE's financial systems has been guiding principles for donor participation in the cofinancing of PBS. Major bilateral and multilateral partners continued to provide aid when there was a risk of their withdrawing it, and their resources were harnessed in support of a commonly agreed government program that successfully spent most money through established national systems.

One of the strengths of PBS is its multi-donor nature, providing a means for ten key development partners to come together around a common instrument, a common approach, a common M&E framework and largely a common financing mechanism (World Bank:2010).

3.6 OPPORTUNITIES AND CHALLENGES OF THE PROGRAM

The foregoing discussions indicted that PBS has designed to promote basic service delivery and introducing and reinforcing financial transparency and accountability at the local level. However, generic capacity problems particularly at Woreda level remained critical challenges to implement objectives and principles of PBS. It has been recognized that donors especially the World Bank timeline requirements for financial reporting and annual audits are not well suited for PBS, with broad geographical coverage using country systems given weak Woreda capacity. The research will address these and other critical challenges and weaknesses of the Program.

WORK PLAN OF THE RESEARCH

Essential data and information of the study and sources of literature review have already assessed and ready for drafting the research proposal. Against this background it is intended to finalize the research by October 31, 2011 as indicated below. To this end the following tentative work plan has been designed.

Work Plan of the Research

Activities	2010	2011									
	Dec.	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct
Identifying dissertation topic and prepare proposal											
Submit the proposal for the supervisor and incorporate comments											
Draft literature review chapter and submit for the supervisor											
Conduct interviews & opinion Survey											
Draft over view of the Protection of Basic Services Program Chapter & submit for the Supervisor											
Incorporate comments of the Supervisor and produce final version of the Research											
Submit the research to the Faculty											

TENTATIVE TABLE OF CONTENT OF THE RESEARCH

Chapter One: Introduction

- 1.1 Background
- 1.2 Statement Of The Problem
- 1.3 Objectives Of The Research
- 1.4 Research Questions
- 1.5 Research Methods
- 1.6 Significance And Limitation Of The Research
- 1.7 Organization Of The Research

Chapter Two: - Conceptual Issues (Literature Review)

- 2.1 Overview Of Fiscal Decentralization
 - 2.1.1 Expenditure Responsibilities
 - 2.1.2 Assignment Of Revenue
 - 2.1.3 Intergovernmental Transfers
 - 2.1.4 Decentralized Service Delivery
- 2.2 Aid Modality
 - 2.2.1 Project Aid
 - 2.2.2 Program Based Aid

Chapter Three. Protection Of Basic Service Program: - Financing Decentralization

- 3.1 Government Structure
- 3.2 Intergovernmental Fiscal Relations Progress In Ethiopia
 - 3.2.1 Expenditure Assignment
 - 3.2.2 Revenue Assignment
 - 3.2.3 Intergovernmental Transfers
 - 3.2.4 Decentralized Service Delivery

3.3. Protection Of Basic Service Program (PBS)
3.3.1. Objectives & Components Of PBS
3.3.2 Principles Of The Pbs.....
3.3.3 Contribution To Promote Service Delivery At Sub-National Level.....
3.3.3.1 PBS Financial Contribution To Government Budget (Input Measurements).....
3.3.3.2 PBS Financed Basic Services Outputs Results
3.3.3.3 PBS Financed Basic Services Recent Outcomes
3.3.3.4 Impact Of PBS On Service Delivery Performance
3.5 Promoting Aid Effectiveness
3.6 Opportunities And Challenges Of PBS
Chapter Four: Conclusion And The Way Forward
Bibilography

BIBLIOGRAPHY

Sources of the research references include various books, articles, web-sites, governments, regional and international organizations reports and publications. The following are indicative sources of the research.

- Ahmed, Ehtisham and Mansoor, Ali, Indonesia (2002): Managing Decentralization, IMF working Paper wp/02/136, August 2002.
- Asia-Pacific Aid Effectiveness Portal :- 2009 <http://www.aideffectiveness.org/Tools-Aid-modalities.html>
- Berhanu Legesse, (2008): Note on Fiscal Federalism, Service Delivery and Capacity Building, The Case of Ethiopia, January 2008.
- Birner, Regina (2008): Decentralization and Service Delivery, International Food Policy Research, 2008.
- Boex, Jamie (2009): Fiscal Decentralization and Intergovernmental Finance Reform as an International Development Strategy, IDG Working Paper No. 2009-06 June 2009
- Development Cooperation Ireland, Aid Modalities in Ethiopia, WWW.dci.gov.ie
- Development Gateway Foundation (2005): Ethiopia a case study in Managing Aid for Results, October, 2005.
- DFID, Choice of Aid Modalities, www.dfid.gov.uk
- Ekpo, Akpan H. (2008): Decentralization and Service Delivery: A Framework, April 2008.
- Elhiraika, Adam B. (2007): Fiscal Decentralization and Public Service Delivery in South Africa, Economic Commission for Africa, 2007.
- Epple, Dennis & Nechyba, Thomas, Fiscal Decentralization,
- Garcia, Marito and Rajkumar, Andrew Sunil (2008): Achieving Better Service Delivery Through Decentralization in Ethiopia, 2008.
- German Development Institute (2010): Integrated Fiscal Decentralization, Taking New Aid Modalities to the Local Level, December, 2010.
- Gorelik, Michel (2008): Decentralization, Service Delivery and the “Rehovot Approach” to Integrated Development, Weitz Center for Development Studies, 2008.
- Government of Liberia (2010): Declaration of Principles on aid effectiveness and NGO intervention in Liberia, April 2010.
- Human Rights Watch (2010): Ethiopia: Development without Freedom, October 2010.
- Jesse C. Ribot (2002): African Decentralization Local Actors, Powers and Accountability, United Nations Research institute for Social Development, December 2002.
- Kauzya, John-Mary, Political Decentralization in Africa: Experience of Uganda, Rwanda, And South Africa.
- Kullenberg, Laura and Porter, Doug (1998): Accountability in Decentralized Planning and Financing for Rural Services in Uganda, 1998.
- Llanto, Gilberto M. (2009): Fiscal Decentralization and Local Finance Reforms in the Philippines, April 2009.
- Marcus, Rachel (2004): Basic Services and Social Protection, September 2004.

- Martines, Pedro. (2007): M.G The Fiscal Impact of Aid Flows:- Evidence from Ethiopia, September 2007.
- Ministry of Finance & Economic Development (2008): PBS Project Operation Manual, Addis Ababa, January 2008.
- OECD, Effective Aid Management (2008): Twelve Lessons from DAC Peer Review, 2008.
- Okidi, A, John and Guloba Madina (2006): Decentralization and Development:- emerging Issues form Uganda's Experience. September, 2006.
- Republic of Rwanda (2006): Fiscal and financial Decentralization Policy, 2006.
- Republic of Rwanda (2006): Making Decentralized Service Work in Rwanda, October 2006.
- Republic of Rwanda (2007): Ministry of Local Government, Good Governance, Community Development and Social Affairs, Rwanda Decentralization Strategic Framework, August 2007.
- Smoke, Paul (2000): Fiscal Decentralization in East and Southern Africa: A Selective Review of Experience and Thoughts on Moving Forward, November 2000.
- Smoke, Paul (2004): Fiscal Decentralization for Good Governance and Effective Service Delivery-2004.
- Solomon Negussie (2006): Fiscal Federalism in the Ethiopian Ethnic-based Federal System, 2006
- Tegene Gebre-Egziabher, A brief Review of Decentralization in Ethiopia, Institute of Regional & Local Development Studies, Addis Ababa,
- The Economist, the Economist on Aid Effectiveness: on a Dilemma in the Horn, February 22, 2007.
- USAID (2009): Democratic Decentralization Programming Handbook ,June 2009
- World Bank (2002): Project Appraisal Document on Capacity Building for Decentralized Service Delivery Project, June 27, 2002.
- World Bank (2007): Project Paper on Additional Financing of PBS, November 2007.
- World Bank (2010), Implementation, Completion and Results Report, Report no: ICR00001569, June 2010.