

Assessment of Fiscal Decentralization in Ethiopia: The Case Study of Selected Basic Sectors of Sibu Sire Woreda, East Wollega Zone, Oromia Regional State

Minhaj Alam¹

Debela Begna Gerbaba²

Email: minhajmu@gmail.com

Department of Governanve and
Development Studies
College of Law and Governance
Jimma University, Ethiopia¹
Department of Civics and Ethical
Studies
Wollega University, Ethiopia²

History

Received : June 13rd, 2019

Revised : June 22nd, 2019

Accepted : July 9th, 2019

To cite this article, please refer to:

Alam, Minhaj & Debela B.G. 2019.

Assessment of Fiscal Decentralization in
Ethiopia: The Case Study of Selected Basic
Sectors of Sibu Sire Woreda, East Wollega
Zone, Oromia Regional State. *Jurnal Studi
Pemerintahan*. 10(2). 124-142

<https://doi.org/10.18196/jgp.102101>

ABSTRACT

This research was conducted on fiscal decentralization in Ethiopia with the case of primary sectors of Sibu Sire Woreda, East Wollega Zone, Oromia Regional State. To attain the objective, researchers relied on primary data followed by secondary sources. To obtain primary data, a mixed approach with the descriptive design was considered. Probability and non-probability samplings were employed to get the sample of size of 96 whereas non-probability sampling technique was used to select 18 key informants' interviewees (KIIs) and 7 participants for focus group discussion (FGD). The findings of this research revealed that the principle of fiscal decentralization that is the autonomy of sectors is not found in practice. The selected areas were highly dependent on the allocated regional grant and had minimal capacity (null in some industries) to generate internal revenue. The expenditure responsibilities of the five selected sectors in the Woreda were limited to recurrent expenditures except for the road sector and some extent water sector. Data proved the existence of both vertical and horizontal imbalances in terms of revenue generation capacity and percentage of budget share of each industry that ultimately hinder the fiscal autonomy of the sectors in particular and that of the Woreda and local government in general.

Keywords: Fiscal Decentralization, Fiscal Imbalance, Fiscal Autonomy, Revenue and Expenditure, Sibu Sire Woreda, Oromia

ABSTRAK

Penelitian ini dilakukan pada desentralisasi fiskal di Ethiopia pada kasus sektor primer Sibu Sire Woreda, Zona Wollega Timur, Negara Bagian Oromia. Dalam mencapai tujuan penelitian, peneliti menggunakan data primer disertai data sekunder. Untuk mendapatkan data primer, dilakukan pendekatan desain deskriptif yang dikolaborasi dengan data sekunder. Sampel probabilitas dan non-probabilitas digunakan untuk mendapatkan sampel sebanyak 96 sedangkan teknik pengambilan sampel non-probabilitas digunakan dengan memilih 18 informan kunci dengan teknik wawancara (KII) dan 7 peserta untuk diskusi kelompok fokus (FGD). Temuan penelitian ini mengungkapkan bahwa prinsip desentralisasi fiskal yaitu otonomi sektor tidak ditemukan dalam praktiknya. Daerah yang dipilih sangat tergantung pada hibah daerah yang dialokasikan dan memiliki kapasitas minimal (nol di beberapa industri) untuk menghasilkan pendapatan internal. Tanggung jawab pengeluaran dari lima sektor terpilih di Woreda terbatas pada pengeluaran yang berulang kecuali untuk sektor jalan dan beberapa sektor air. Data membuktikan adanya ketidakseimbangan vertikal dan horizontal dalam hal kapasitas menghasilkan pendapatan dan persentase bagian anggaran dari masing-masing industri yang pada akhirnya menghambat otonomi fiskal dari sektor-sektor tertentu dari Woreda dan pemerintah daerah pada umumnya.

INTRODUCTION

Decentralization has become a momentum, especially in the last decade of the 20th century, both in developed and developing countries ([Kwon, 2002](#)). The reasons to justify decentralization are both economic and non-economic in their types ([Deribe A., 2015](#)). Fiscal decentralization as one of the kinds of devolution deals with the devolution of revenue and expenditure responsibilities down to local governments as well as to institutions of lower governments (Abraham, 2011). The Constitution of Ethiopia 1995 has provided a legal foundation to govern the principles of fiscal decentralization and autonomy of local governments in Ethiopia. Article 50 (4) of the Ethiopian Constitution directs the governments of regional states to grant adequate power to the lowest units of government. In the light of given provisions of the Federal Constitution, the Constitution of Oromia Regional State indicated that district administrations had been assigned revenue sources ([Desalegn, 2015](#)). [World Bank \(1997\)](#) as one of the significant financiers to the government of Ethiopia asserts the exercise of autonomy to the actors in decentralization like local institutions, committees, elected or appointed officials and individuals or corporates those have certain types of power over revenue sources and expenditure ([World Bank, 1997](#); [Abraham G., 2011](#)).

However, the findings of different researches conducted ([Melkamu, 2004](#)), ([Demelash, 2011](#)), ([Tesfaye, 2015](#)) and ([Alam, M. & Girma, 2017](#)) indicated that, fiscal decentralization in Ethiopia is constrained by imbalances, lack of capacity, centralization of revenue bases and inadequate devolution of functions. These researches revealed that the challenges of fiscal decentralization in the country at lower levels of government are exacerbated due to lack of autonomy in the sectors. The districts (Woredas) in Oromia regional state receive more budgets from the local government mainly to finance the expenditure requirements of the areas ([Fekadu, 2011](#)). On the other hand, there is an argument that the fiscal autonomy of local institutions (sectors) enhances the efficiency of service delivery. It is under this background; this research was conducted to assess the fiscal decentralization in the selected major areas of Sibule Woreda of Oromia regional state.

Fiscal decentralization strengthens federal units, local powers, and local institutions to be autonomous to generate revenue sources and to manage expenditures independently. The sharing of responsibilities between regional and sub-regional levels of government like Zonal, Woreda, and Kebele facilitates the performance of different sectors and ultimately promotes participation in service delivery. As stated earlier, the principle of fiscal decentralization requires fiscal autonomy of various organizations/industries. In Ethiopia, expenditure and revenue assignments are given to different layers of government, including the lower administrations. In the case of Oromia regional state, district administrations are constitutionally authorized with fiscal power to collect their revenue to meet their respective expenditure ([Desalegn, 2015](#)).

However, the problem of concerning the gap between the expenditure needs and revenue capacity at local tiers of government matters ([Meheret, 2007](#)). Even though district administrations have been constitutionally guaranteed of fiscal powers, there are different challenges. The challenges include economic gap, lack of adequate revenue bases, lack of capacity, etc. as pointed out in the works of ([Melkamu, 2004](#)) and (Tesfaye, 2015) that the prevalence of horizontal and vertical imbalance is the main challenges of fiscal decentralization in Ethiopia. On the other hand, there is inequality or disparities among major sectors at a lower tier of government ([Alam, M. & Girma, 2017](#)). From the perspective of this research, in addition to the above challenges, the challenge of fiscal decentralization includes the weak capacity of sectors at district (Woreda) level. The manifestation of this inadequate capacity includes little activity to generate own revenue from locally available resources, and thereby it evidences a mismatch between revenue and expenditure responsibilities to different sectors at the district level. This results in dependency on areas of Woreda on regional government. This dependency syndrome creates both vertical and horizontal imbalances among sectors as challenges of fiscal decentralization. Therefore, this research assessed the fiscal decentralization in *Sibu Sire Woreda*, with particular emphasis on selected sectors.

REVIEW OF RELATED LITERATURE

Conceptual Framework

Different scholars define the term decentralization in different ways, but there is a consensus among scholars that it refers to the transfer of authority and responsibility including fiscal responsibility down to lower levels of government and governmental institutions which are responsible for providing services to people at grassroots ([Abraham G., 2011](#)). However, to implement and to sustain local autonomy, fiscal decentralization must have necessary provisions along with adequate revenue bases. The revenue sources are not limited to those transferred from the central or regional government, but locally available revenue bases should be harvested. Fiscal decentralization can take many forms. One of the forms is that it includes co-financing by the participation of beneficiaries through monetary or labour contributions. Thus, it does not only take forms like an expansion of taxes and intergovernmental transfers ([Deribe A., 2015](#)).

Theoretical Arguments

Different scholars forwarded their ideas concerning fiscal decentralization. The most crucial benefit of fiscal decentralization is the gain that comes as a result of devolving or making governance closer to the people ([Bahil, 2009](#)). As pointed out in the work of ([Demelash, 2011](#)), fiscal decentralization improves the efficiency of the public sector and promotes long-term economic development. The local government is more effective than the central government in drawing up public policy. This idea is justified as the local government does not incur more cost to gather more information about residents' preference (ibid). Similarly, Oates argued that local governments have a better knowledge of local

condition and preferences than the top level of a government. This is due to physical and institutional proximity local administrations have, and so it enhances economic efficiency than centralization of power and responsibilities ([Oates, 1972](#)). On the other hand, local government can exercise power over resources and can spend according to local preferences. The principle of fiscal decentralization requires devolving of revenue and expenditure responsibilities down to the local institutions ([Abraham G., 2011](#)).

Helen stated that several accepted theories provide strong justification for devolved decision making on the grounds of efficiency, accountability, manageability and autonomy (Helen, 2010). As stated above, decentralization in general and fiscal decentralization, in particular, has a bulk of benefits for economic development. However, most of the time, challenges of implementing decentralization matters mainly in developing countries ([Demelash, 2011](#)). Further, [Helen \(2010\)](#) put forward the arguments for fiscal decentralization as:

A representative government works best the closer it is to the people, and people should have the right to vote for the kinds and amounts of public services they want. According to the principle of corresponding theory, (quoted from [Oates, 1972](#)), the jurisdiction determining the level of provision of each public good should include precisely the set of individuals that consume it. According to the decentralization theorem, each public service should be provided by the jurisdiction having control over the minimum geographic area that would internalize the benefits and costs of such provision. The principles of fiscal equivalency, from the literature of public choice, also propose equating the political jurisdiction with the benefit area.

However, Demelash argued that adopting decentralization is not a guarantee to bring economic transformation and failing to decentralize is not necessarily going to undermine development. The author substantiates it as follows:

The problem is to devise an appropriately structured system that mandates and provides incentives for responsible local government fiscal behaviour and enables the creation of a climate conducive to private investment and to develop the skills of local government employees to meet the requirements of the system and the abilities of central government officials to assist local governments in the process of their evolution to greater autonomy ([Demelash, 2011](#)).

Weingast further provided another role of fiscal decentralization that places sub-national governments in competition with one another. Hence, pressure from inter-jurisdictional competition may motivate local governments to be innovative and accountable to their residents and to foster local economic prosperity rather than costly market intervention, service to interest groups and corruption ([Weingast, 2006](#)). However, Kwon pointed out the challenges of implementing fiscal decentralization in developing countries when he argued that the decentralized provision of public goods would increase

efficiency in resource allocation might not work in developing countries. The reason is that since they have the non-administrative capacity to carry out their own fiscal decisions, most developing countries do not meet arguments forwarded by fiscal decentralization theory. The author stated that without independent decision-making capacity in determining the quantity and quality of public goods provided and sources of finance that internalize the costs, decentralized provision of local public goods might not increase efficiency ([Kwon, 2002](#)).

Similarly, the other argument against fiscal decentralization is that it can reinforce inequities due to imbalances in resources and tax sources and regional disparities in terms of infrastructure, education, health care, climate, culture differences and distance from the centre which may be an obstacle to full use of production factors ([Demelash, 2011](#)). Helen also pointed out that there would be a difference of real implementation of devolved powers and functions between advanced regions and local authorities which have access to more significant resources and dominance on the one hand and backward/more impoverished regions and localities which lack adequate resources. In light of this fact, the regions in Ethiopia cannot equally implement fiscal policies and strategies because of inequities in powers, resources, capacity etc. Thus, since regions and local powers in Ethiopia are not equal in terms of human power, resources, revenue bases, infrastructure and investment opportunities they vary in solving their respective local problems and to practice fiscal decentralization in the real sense ([Helen, 2010](#)).

In many developing countries, as observed by World Bank, local governments or administrative units possess the legal authority to impose taxes, but the tax base is so weak and the dependence on central government subsidies so ingrained that no attempt is made to exercise that authority (World Bank, 2001). However, to overcome this challenge, the World Bank suggested as to how to structure an appropriate balance between local autonomy and central control that would allow regions and local powers to grasp the fruits of fiscal decentralization. Fiscal decentralization requires considerable capacity building like the training as well as empowerment to exercise fiscal autonomy, e.g. how to overcome the challenge of useful revenue collection and how to make use of that revenue efficiently (*ibid.*).

Fiscal Decentralization in Ethiopia

According to the definition of fiscal decentralization, Meselu interpreted that the devolution of functions and responsibilities to Woreda government is the primary issue that needs to be addressed in the design of fiscal decentralization ([Meselu, 2014](#)). She further pointed out that the definition of powers and duties down to the Woreda government in Ethiopia is evolving and is functioning almost in the absence of a clear legal framework. Despite the lack of legal framework, Meheret observed that the trend and experience across regions in the country is towards decentralizing essential service delivery functions to the Woredas while assigning higher-order functions to regional governments ([Meheret, 2010/11](#)).

Kinds of literature revealed that district-level fiscal decentralization in Ethiopia is substantial by African standards if one takes into account intergovernmental transfers. With the decentralization to local government in 2002, a transparent formula based on a general-purpose grant that gives autonomy to local governments was introduced in four regions: Amhara, Oromia, SNNPRS, and Tigray. Dickovick observed that after 2002 in Ethiopia, regions used to allocate grants to Woreda based on some criteria like population, development level, and revenue collection effort. These three criteria/principles were used at the time for federal block grant allocations to the regions ([Dickovick, 2010](#)). However, Meselu, 2014 revealed that one of the merits of a decentralized system in Ethiopia is that regions are free to choose their criteria for allocation of the block grant to the lower tier of government (i.e. Woreda), but it has to be done in a transparent way ([Meselu, 2014](#)). Accordingly, after 2003/2004, the formula is changed to unit cost approach (need-based approach). As Meselu indicated, the formula was pioneered first by the Southern Nations, Nationalities and Peoples' Region (SNNPR) and later followed by other regions.

[Meheret \(2007\)](#) critically observed that the authority and functions of lower tier of government in Ethiopia with respect to the source of revenue is limited. *Woreda* governments do not have the power to decide on the rate and base of taxes. Their responsibility and authority is limited to collecting and using taxes and passing a designated portion of it to regional government. Regional governments have the primary saying in determining both the tax rates and bases. As a result, mismatch occurred between expenditure responsibilities and revenue needed to cover or discharge those responsibilities that is one of the typical distinctive characteristics of Ethiopian district level decentralization (*ibid*). As mentioned in the work of Meselu, this limitation is the initial cause of the obstacles to the fiscal autonomy of Ethiopia's local governments ([Meselu, 2014](#)). In the absence of low level of private economic activities, the limitation with respect to tax base at *Woreda* level especially in rural areas is exacerbated. This results in dependence of local levels of government on the top level of a government which leads to a heavy reliance on intergovernmental fiscal transfers to finance the bulk of expenditure responsibilities assigned to them ([Tesfaye, 2015](#)). Tesfaye indicated that *Woredas* rely heavily on regional governments' transfers which range in between 80-90% (*ibid*).

Other evidence that realizes *Woredas* are not practicing real fiscal decentralization is the maximum amounts of budgets transferred from the top are generally used for recurrent expenditure, rather than for capital expenditure. As pointed out in the work of [Meheret \(2007\)](#) that nearly 91% of *Woreda*'s budget earmarked for administrative and operational expenditures. Therefore, most capital activities at the *Woreda* level are financed from donors and aid agencies. On the other hand, the capital expenditures are covered by revenue from specific purpose grants from the region. Meheret further pointed out that on these allocated grants, authorities at the lower level do not have much say. This undermines the fiscal

autonomy of lower tier of government and it implies that even from the expenditure part only recurrent expenditure is decentralized while capital expenditure rests in the hand of central and regional government ([Meheret, 2007](#)).

Different other empirical literature on fiscal decentralizations in Ethiopia reveals the same facts. [Demelash \(2011\)](#) explained that though theoretical background and general principles of fiscal decentralization are useful in intergovernmental fiscal relations, practical experience shows that country's specific factors have significant role to play. The practice of fiscal decentralization is determined by conducive environment, capacity and adequate revenue bases which are at large not found at *Woreda* level. In Ethiopia, Proclamation No.33/1992 is considered as important legal instrument in the fiscal decentralization. As per the Proclamation, sharing of revenues between the federal government and federal units is to enable the central government and local governments to carry out their functions and responsibilities and to narrow the gap in development and economic growth between/amongst regions. In practice, the balance between expenditure and revenue generation capacity is rarely achieved and therefore, neither the center nor the region is able to cover its expenditure from its own fiscal resources (Eshetu C. , 1994). World Bank (2000) also observed the limitation of the capacity of the sub-national and sub-regional government in Ethiopia with respect to tax administration often coupled with centralization of productive revenue sources by the Central Government which results in the emergence of vertical imbalance ([World Bank, 2000](#)).

The study undertaken by Fekadu revealed that a high level of dependency of regions on central government and *Woredas* on the regional government resulted in inefficiency problems. The regions and local authorities do not fully internalize the costs of public expenditure. Thus, they are supported by transfers from other parts of the country. Since regions and local tiers of government are not equal in terms of resources, ability to mobilize revenues and in terms of unequal location of resources, there is horizontal imbalance among them ([Fekadu, 2011](#)). Furthermore, the study conducted by [Girma Chuluke & Minhaj Alam \(2017\)](#) indicated that the horizontal imbalances are not only found among tiers of government but also sectors. For instance, the horizontal imbalance between or among sectors occurred when the budget allocation and utilization between/among the sectors is not uniform across the sectors. On the other hand, it is noted by the Annual Report of World Bank (1997) and corroborated by ([Abraham G., 2011](#)) that actors in fiscal decentralization include:

Appointed or elected officials, NGOs, Chiefs, influential individuals or corporate bodies such as communities, cooperatives, and committees. Each of these actors is typically located in particular relations of accountability and has certain types of powers.

This implies that in the local arena, influential individuals and appointed officials can exercise their expertise for revenue generation and expenditure management. Accordingly, sector offices should be encouraged to generate some revenues and to cover some part of their expenditure needs rather than depending on the budget from the regional government.

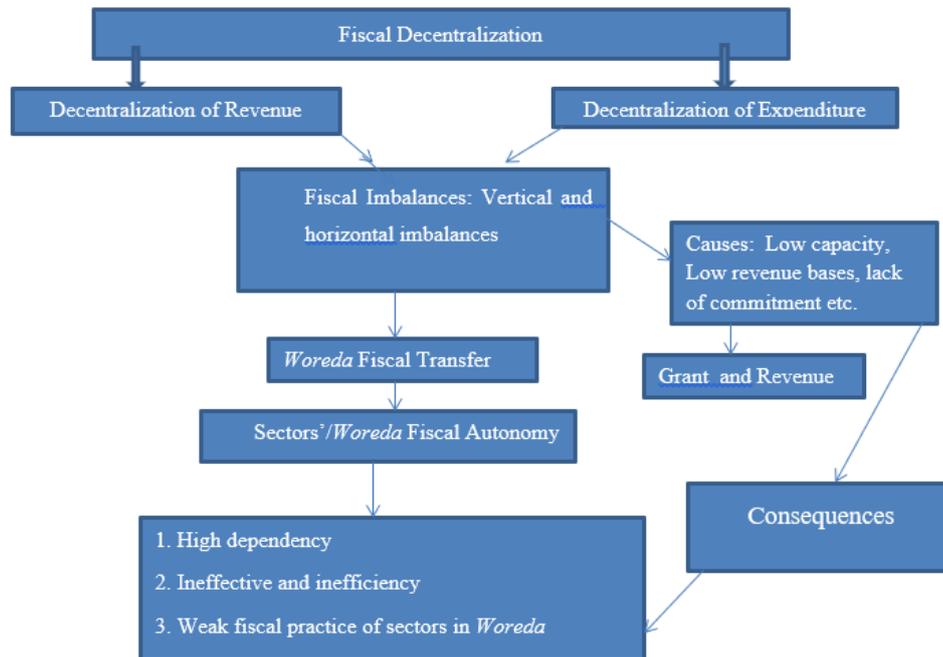


Figure 1. Conceptual Framework

RESEARCH METHODOLOGY

The study is conducted in Sibu Sire Woreda, East Wollega Zone of Oromia Regional State, Western Ethiopia. It is one of the districts in East Wollega Zone and is located 281 Km in West from Addis Ababa and 50 km East from Nekemte, the administrative town of the Zone. The study area has a total population of 124,304. From this population, 6744 are male urban dwellers, and 6954 are females, whereas 54,920 are male rural dwellers and 55,686 are females. Sibu sire district has an estimated population density of 27.8 people per square kilometer. In order to achieve the intended objective of the study, the descriptive design is used because it incorporates both quantitative and qualitative instruments of data collection.

There are 33 sector offices in the Sibu Sire Woreda. Out of these, five primary sectors were selected by using non-probability (purposive) sampling technique: i) Agriculture, ii) Education, iii) Health, iv) Rural Road Authority, and v) Rural Water Supply. The first reason to apply non-probability is that they are the primary sectors; secondly, these are the sectors where a significant proportion of the Woreda budget is allocated. Besides, two Woreda Offices (Woreda Office of Finance and Economic Development (WOFED) and Revenue Office) were taken into account because their inclusion is vital for undertaken research to assess the challenges and performances of fiscal decentralization at Woreda. For determining the sample size, researchers applied probability sampling formula determined by Yamane (1967). After the

determination of sample size, researchers applied probability proportional to size (PPS) to obtain representativeness of the population. Accordingly, 96 respondents were selected for the questionnaire distribution.

$$n = \frac{N}{1 + N(e)^2}$$

Where: n = the desired sample size N = Universe population e = the level of precision

$$n = \frac{183}{1 + 183(0.07)^2}$$

$$= 96$$

Table 1. Probability Proportional to Size (PPS)

S/N.	Name of the Sectors & Offices	No. of Staffs	PPS
1	Education Sector	31	16
2	Health Sector	29	15
3	Agricultural Sector	31	16
4	Rural Road Sector	9	5
5	Rural Water Sector	13	7
6	WOFED Office	45	24
7	Revenue Office	25	13
	Total	183	96

Source: Woreda Office of Finance and Economic Development (WOFED) 2018

After determination of sample size, respondents were selected by considering different criteria like specialized knowledge, service duration, the duty, responsibility and power they have regarding the issue under study, and therefore, non-probability sampling was used to select the questionnaire participants from each sector.

Table 2. Key Informants

S/N.	Name of the offices	Number	Positions
1	Woreda Office of Finance and Economic Development	2	Office head and expert
2	Woreda Education Office	2	Office head and expert
3	Woreda Administration Office	1	Woreda Administrator
4	Woreda Revenue Office	2	Office head, expert
5	Woreda Health Office	2	Office head and expert
6	Woreda Water Office	2	Head office and expert
7	Woreda Civil Service Office	1	Office head

8	Woreda Road Sector Office	2	Head office and expert
9	Woreda Agriculture Sector Office	2	Office head and expert
10	Zonal Revenue Authority Office	1	Head of the office
11	ZOFED	1	Deputy head and expert
Total		18 key informants	

Source: Designed by Researchers, 2018

Members of FGD were a mix of respondents from the five selected sectors and from WOFED as well as from the Office of Woreda Revenue Authority. They were seven in numbers and were heads of planning unit of each sector. This means one participant from each office. Collectively, three instruments of data collection were applied: questionnaire respondents = 96, key informants' interviewees (KIIs) = 18 and one focus group discussion (FGD) = 7. In this way, researchers got 121 total respondents for quantitative and qualitative tools

FINDINGS AND DISCUSSION

Data revealed that there are sectors which have some revenue sources and so that the Council of the Woreda declares the generated revenue by the respective sectors as internal revenue of the sectors. In line with the principle of fiscal decentralization, the finding indicates that the local beneficiaries finance some part of the expenditure requirements of the sectors. The fiscal autonomy of sectors adds undeniable value for the efficiency of the sectors and devolvement of expenditure responsibilities to improve the quality of service delivery which maybe because of the factors like matured age, the experience of service in particular sector and level of education. Further, it can be observed that three sectors (education, health and road) out of five in the study area are practising in a way that they can finance at least meagre amount of their expenditure from their revenue. However, the observation of Meselu (2014) that the Woreda government in Ethiopia is evolving and is functioning almost in the absence of a clear legal framework is found in the study area. The respondents said that they are facing the challenges of fiscal autonomy of sectors in terms of independent decision-making of revenue generation and utilization.

The number of respondents from selected sectors was 96, and the non-responsive rate was zero. Hence, 96 questionnaires were filled and returned with 23 females and 73 males. The distribution of the respondents is shown in the following table below:

Table 3. Characteristics of the Respondents for the Study

Sectors/offices	Sex		Age		Service Year	Level of Education		Total
	M	F	Below 35	35 & above	Above 5	Diplom a	BA/ BSC & above	
Education	12	4	6	10	13	5	11	16

Health	11	4	6	9	11	6	9	15
Agricultural	13	3	4	12	12	4	12	16
Road	3	2	1	4	3	2	3	5
Water	7	-	2	5	5	3	4	7
WOFED Office	17	7	10	14	19	6	18	24
Revenue Office	10	3	5	8	8	6	7	13
Total	73	23	34	62	71	32	64	96

Source: *Field Survey, 2018*

The prime purpose of the set of questionnaires to triangulate the information gathered from key informants and details of quantitative data of revenue generation and revenue expenditure from the selected offices. Table 4.1 above shows the characteristics of the respondents in terms of sex, age, service year and level of education. Data indicated that there were 73 Males and 23 Females. From this, it can be inferred that gender balance in the appointment is low. Concerning age, 62 respondents are above 35 years of age, whereas 34 respondents are below 35 years of age. It shows that the majority of respondents are matured enough. Experience and level of education, 71 respondents have above five years of experience, whereas 64 respondents are degree holders of either B.A, B.SC and above. The experience and educational background of respondents served the purpose of getting more accurate information about fiscal decentralization in the study area.

Revenue and Expenditure Responsibilities in the Selected Sectors

The arguments and principles of fiscal decentralization require the sectors to generate their revenue and exercise adequate expenditure responsibilities. Financial decision-making autonomy in particular and decentralization, in general, should be devolved down to sectors to elected or appointed governing bodies. In line with this, the sectors in the Woreda under study are assumed to generate revenue internally to cover some portion of their expenses and on the other side to become a backbone for the Woreda's autonomy.

Trend of Budget Expenditure in Education Sector

As indicated in the constitution of Oromia National Regional State (Article, 77) that the Woreda administration must provide primary education service up to 10th grade. For this purpose, the education sector in the selected Woreda depends on different revenue sources like revenue from the regional government through Woreda (block grant), own revenue generated by the sector itself and from other sources. In table 4.2 (A) below budget expenditure for the education and the extent of dependency of the sector is described.

Table 4. Pattern of Budget for the Education Sector and its Fiscal Imbalance in (ETB)

Year	Grants/Allocation		Total (C+R)	Revenue	Gap/Imbalance	% of imbalance
	Recurrent (R)	Capital (C)				
2012/13	15,533,300	169,341	15,702,641	310,566	15,392,075	98
2013/14	16,348,755	_	16,348,755	297,969	16,050,786	98.2
2014/15	18,764,418	_	18,764,418	1,170,000	17,594,418	93.8
2015/16	27,112,693	1,423,296	28,535,989	200,000	28,335,989	99.2
2016/17	28,318,719	886,883	29,205,602	201,730	29,003,872	99.3

Source: Researchers' Calculation, 2018

ETB: Ethiopian Birr

As observed in table 4 above it shows how the education sector depends on the budget allocated by the regional bureau through the Woreda. Throughout the years under discussion, the sector depends 97.7% on the regional government. On average, the sector covers only 2.3% of its budget requirements. Table 4 above also shows that most of the budget expenditure of education sector goes to the recurrent expenditure which proves that there is almost no fiscal autonomy in this sector.

Table 5. Share of Education Budget out of the Total Woreda Budget (ETB)

Year	Woreda Budget	Education Budget	Education Budget Share
2012/13	34,938,739	15,702,641	44.9%
2013/14	42,620,752	16,348,755	38.4%
2014/15	58,801,002	18,764,418	31.9%
2015/16	78,968,275	28,535,989	36.1%
2016/17	82,943,317	29,205,602	35.2%

Source: Researchers' Calculation, 2018

As observed in table 5 the budget allocated for education takes the lion's share of Woreda's budget expenditure. It takes 37.3% on average. This reflects the high priority that education occupies at the lower level of government. However, the financial discretion of the Woreda is constrained by limited financial resources as can be observed from the data.

Trend of Budget Expenditure in Health Sector

Article 77 of the Oromia Regional State Revised Constitution indicated that Woreda administration is responsible for the provision of health services for the residents and to construct health centres and posts as well as to administer intermediate primary health establishments. Accordingly, Woreda government and the sector office are charged with the responsibilities and are highly dependent on grants

to fulfil the responsibilities. Table 6 shows the amount of budget allocated for the health sector and its extent of dependency on the Woreda from 2012/13 – 2016/17.

Table 6. Pattern of Budget for the Health Sector and the Fiscal Imbalance of the Sector (ETB)

Year	Grants/Allocation		Total (C+R)	Revenue	Gap/Imbalance	% of imbalance
	Recurrent (R)	Capital (C)				
2012/13	3,195,656	148,516	3,344,172	399,200	2,944,972	88
2013/14	4,178,059	23,203	4,201,262	532,113	3,669,149	87.3
2014/15	5,470,600	553,026	6,023,626	1,631,000	5,860,526	97.3
2015/16	7,915,595	1,070,054	8,985,649	950,000	8,035,649	89.4
2016/17	8,494,746	140,000	8,634,746	950,000	7,684,746	89

Source: Researchers' Calculation, 2018

It can be observed from table 6 that there is a high fiscal imbalance in the health sector of Sibu Sire Woreda, which is negatively correlated with the principle of fiscal decentralization. The primary source of revenue for the sector is the grant, which accounts for 90.2% on an average throughout the years under discussion. This implies that this sector highly depends on the grant for its expenditure requirements whereas its revenue contribution on an average to the total budget of the sector is 9.8%.

Table 7. Share of Health Budget out of the Total Woreda Budget (ETB)

Year	Woreda Budget	Health Sector Budget	Education Budget Share
2012/13	34, 938,739	3,344,172	9.6%
2013/14	42,620,752	4,201,262	9.9%
2014/15	58,801,002	6,023,626	10.2%
2015/16	78,968,275	8,985,649	11.4%
2016/17	82,943,317	8,634,746	10.4%

Source: Researchers' Calculation, 2018

From table 7, it can be inferred that throughout the consecutive five years under discussion, the health has an average share of 10.3% from the total budget of the Woreda. The share of the education sector is 37.3%, which is 3.6 times greater than the health sector. The participants of crucial informants and FGDs clarified that the gap between two sectors is because of the priority the government has given to the education sector in the study area.

Trend of Budget Expenditure in Agricultural Sector

Article 77(d) of Oromia Regional State Revised Constitution states that the Woreda government has responsibilities to preserve and administer essential agricultural services and natural resources in its jurisdiction and the sector office is responsible for the mandate. Thus, to execute the mandated

responsibilities, table 8 shows the budget allocated for the agricultural sector in the Woreda in terms of recurrent and capital as well the extent of the fiscal imbalance in the sector.

Table 8. Pattern of Budget for Agricultural Sector and the Fiscal Imbalance of the Sector (ETB)

Year	Grants/Allocation		Total (C+R)	Revenue	Gap/Imbalance	% of imbalance
	Recurrent (R)	Capital (C)				
2012/13	2,260,003	547,486	2,807,489	0	2,807,489	100%
2013/14	3,151,884	634,510	3,789,394	0	3,789,394	100%
2014/15	3,506,906	594,090	4,100,996	0	4,100,996	100%
2015/16	5,338,564	1,012,444	6,351,008	0	6,351,008	100%
2016/17	3,949,418	889,305	4,838,723	0	4,838,723	100%

Source: Researchers' Calculation, 2018

It can be observed from table 8, similar to other sectors like education and health that the budget for capital expenditure is low. The recurrent and capital budget allocated for the sector is on an average 83.2% and 16.8% respectively, the difference of which makes the sector to lag in adopting projects for the improvement of the sector. The other fact revealed from the table is the total incompatibility of the principle of fiscal decentralization in the agricultural sector in the study area. According to the key informants, which the sector has not been capacitated to generate its revenue throughout the years under discussion, which led the sector to depend 100% on the grant. They pointed out that farmers are not educated and therefore they lack the willingness to adapt the scientific means of agriculture on the one hand and lack of awareness and training to equip with the modern farming system on the other. All participants of FGD univocally reasoned out that the condition is more or less equal to the subsistence farming in the study area which does not give any scope for revenue generation.

Table 9. Share of Agriculture Budget out of the Total Woreda Budget (ETB)

Year	Woreda Budget	Agriculture Budget	Education Budget Share
2012/13	34,938,739	2,807,489	8%
2013/14	42,620,752	3,789,394	8.9%
2014/15	58,801,002	4,100,996	7%
2015/16	78,968,275	6,351,008	8%
2016/17	82,943,317	4,838,723	5.8%

Source: Researchers' Calculation, 2018

Table 9 shows the share of the agricultural sector from the Woreda's total budget from 2012/13 to 2016/17. It can be observed that the share of the budget is much low, that is, on an average 7.4% while comparing with other two sectors discussed previously were education and health share 37.3% and 10.3%

respectively from the total budget of the Woreda. Data further revealed the trends of these three sectors where the education sector shows a decreasing trend; health sector shows increasing trend and agriculture sector shows an almost similar trend with low budget. Key informants said that agriculture is not given much priority, which is reflected in the share of this sector from the total budget. Participants of FGD further pointed out that this may be one of the factors for nil revenue generation.

Trend of Expenditure Budget in Road Sector

Decentralization involves the devolution of the provision of roads as part of responsibilities to the local level of government. In line with this fact, it is stated in the work of Fekadu (2011) and Desalegn Chala (2015) that the provision of the road in Ethiopia ought to be a shared power and responsibility. They explained that the main factor of relevance in the assignment of expenditure to local authorities in Ethiopia is the scope of the benefits of the service.

The respondents explained that even though the sector requires more budgets for the expansion of rural roads, the budget allocated from the regional bureau is small. One of the key informants from the sector informs:

Most of the time, the allocated budget is less than 60% of the planned budget. For instance, in the budget year of 2015/16, the allocated budget for the road sector was 2,466,138 while the planned budget was 4.5 million birr.

Table 10. Pattern of Budget for Road Sector and the Fiscal Imbalance of the Sector (ETB)

Year	Grants/Allocation		Total (C+R)	Revenue	Gap/Imbalance	% of imbalance
	Recurrent (R)	Capital (C)				
2012/13	303,449	1, 011,203	1, 314,652	1,169,000	145,652	11
2013/14	355,420	912,434	1,267,854	965,258	302,596	24
2014/15	427,732	2,609,043	3,036,775	1,708,602	1,328,173	43.7
2015/16	666,138	1,800,000	2,466,138	811,537	1,654,601	67
2016/17	974,376	1,301,082	2,275,458	500,000	1,775,458	78

Source: Researchers' Calculation, 2018

Table 10 shows that even though the road sector has high dependency syndrome, it has a better capacity of revenue generation comparing to other undertaken sectors. The revenue capacity of the sector shows fluctuation, and on an average, the sector depends 44.74% on the grant for its expenditure requirements. In other words, it means that the sector can cover 55.26% of its expenditure requirement by generating its revenue. On the other side, data shown in table 10 indicated the reality on the ground regarding the accessibility of rural road to residents and because of which capital budget allocation is much higher than other selected sectors of the Woreda. Key informants pointed out that the given budget

for this sector is not sufficient, and it is half of the expenditure requirement. Participants of FGD revealed the potential capacity of revenue generation of this sector if it were in proportion to the planned budget.

Table 11. Share of Rural Road Budget out of the Total Woreda Budget (ETB)

Year	Woreda Budget	Road Budget	Education Budget Share
2012/13	34,938,739	1,314,652	3.8%
2013/14	42,620,752	1,267,854	3%
2014/15	58,801,002	3,036,775	5.2%
2015/16	78,968,275	2,466,138	3.1%
2016/17	82,943,317	2,275,458	2.7%

Source: Researchers' Calculation, 2018

Table 11 indicated that the share of road sector throughout the years under discussion is less than 3.56% on an average. The share of the sector shows that fluctuation expects little improvement in the year 2014/15. The table further shows that the rural road in the Woreda is not getting much attention comparatively. As clarified by the key informants that this sector is one of the least sectors in terms of Woreda's share of the budget, therefore, to minimize the challenge, the sector practices some revenue generation activities mainly by mobilizing the beneficiaries.

Trend of Expenditure Budget in Water Sector

One of the assigned responsibilities to the Woreda is related to the provision of rural water supply for the residents, which needs an adequate budget for the purpose. Budget allocation for the sector and its fiscal imbalance is presented as follows:

Table 12. Pattern of Budget for Water Sector and the Fiscal Imbalance of the Sector (ETB)

Year	Grants/Allocation		Total (C+R)	Revenue	Gap/Imbalance	% of imbalance
	Recurrent (R)	Capital (C)				
2012/13	404,287	303,680	712,967	0	712,967	100%
2013/14	457,908	317,059	774,967	0	774,967	100%
2014/15	513,395	600,000	1,113,395	0	1,113,395	100%
2015/16	712,345	400,660	1,113,005	0	1,113,005	100%
2016/17	898,722	330,511	1,229,233	0	1,229,233	100%

Source: Researchers' Calculation, 2018

From table 12, it can be inferred that the water sector has shown nil in its revenue generation to cover its expenditure. Lack of autonomy of the sector exacerbates the dependency of the Woreda on the regional government. This situation is explained by the critical informant while giving justification for the mismatch between expenditure requirement and the budget allocation, he says:

For instance, in 2017, we had planned to develop 35 springs, and we achieved only 15. Even from the 15 springs, only three were covered by the budget allocated for this sector. A fund developed three springs mobilized through community participation besides the support from the regional sector bureau, and World Vision developed nine springs in the Woreda. Every year, we used to face a similar challenge of budget inadequacy.

Table 13. Share of Rural Water Budget out of the Total Woreda Budget (ETB)

Year	Woreda Budget	Water Budget			Water Sector Budget Share
		Recurrent	Capital	Total	
2012/13	34,938,739	404,287	303,680	712,967	2%
2013/14	42,620,752	457,908	317,059	774,967	1.8%
2014/15	58,801,002	513,395	600,000	1,113,395	1.9%
2015/16	78,968,275	712,345	400,660	1,113,005	1.4%
2016/17	82,943,317	898,722	330,511	1,229,233	1.5%

Source: Researchers' Calculation, 2018

As indicated in table 13, water sector's share from the total budget of the Woreda is the least from the sectors under discussion which are 1.72% on an average throughout the five consecutive years 2012/13 to 2016/17.

Theoretical Interpretation of Findings

The findings supported the theoretical interpretation of Kwon who pointed out that most of the developing countries have the non-administrative capacity to carry out their own fiscal decisions and they do not meet arguments forwarded by fiscal decentralization theory. After observing the level of imbalances and autonomy of sectors in the study area, the author has rightly stated that without independent decision-making capacity in determining the quantity and quality of public goods provided and sources of finance that internalize the costs, decentralized provision of local public goods may not increase efficiency (Kwon, 2002). The proposition of Helen matched with the observation of researchers in the study area in terms of human power, resources, revenue bases, infrastructure, investment opportunities which vary in solving particular local problems and to practice fiscal decentralization in the real sense (Helen, 2010). Pragmatism of World Bank found in the study area because constitutionally, the local government of Woreda or administrative units/sectors must possess the legal authority to impose taxes but the tax base is so weak and the dependence on regional/central government subsidies so ingrained that no attempt is made to exercise that authority ([World Bank, 2001](#)).

CONCLUSION

This research has undertaken two variables to analyze revenue generation capacity and percentage share of revenue allocation/grant of each sector out of the total budget of Woreda to check the autonomy of the sector in fiscal decentralization. From the first variable of revenue generation, the average share of five undertaken sectors of education, health, agriculture, rural road and water supply is 2.3%, 9.8%, nil, 55.26%, and nil respectively. This proves that there is a high prevalence of vertical imbalance in terms of revenue generation capacity and expenditure requirement in the study area, which at the same time is antithetical to the principle of fiscal decentralization. Concerning the second variable, out of the total budget of the Woreda, data revealed that undertaken five sectors of education, health, agriculture, rural road and water supply, the percentage share is 37.3%, 10.3%, 7.4%, 3.56% and 1.72% respectively. It can be observed that there is a high prevalence of horizontal imbalance among the sectors where the highest grant allocated sector is education, and the lowest one is the water sector. Based on these two main types of fiscal imbalance found in the study area, it can be concluded that the very purpose of implementing the fiscal decentralization does not fulfil the criteria of fiscal autonomy to the study Woreda in particular and the local government in general.

REFERENCES

- Abraham, G. (2011). [Assessment on the Implementation of Woreda Decentralization in Gambella Regional State: The Case of Abobo and Lare Woredas](#), Ethiopia
- Alam, M. & Girma Ch. (2017). Challenges and Opportunities of Fiscal Decentralization in Sidama Zone. *Indian Journal of Politics*, 51/3&4
- Bahil, R. (2009). Promise and Reality of Fiscal Decentralization, Georgia State University.
- Demelash, N. (2011). [Fiscal Decentralization in Somali National Regional State](#), Ethiopia
- Deribe, A. (2015). [Fiscal Decentralization in Ethiopia: Achievements and Challenges](#);Ethiopian Civil Service University. *Public Policy and Administration Research*,, 5/8.
- Desalegn, C. (2015). [District Decentralization and Service Delivery: The Study of Water Supply in Chalia](#), Oromia, Ethiopia
- Dickovick, J. (2010). [Comparative Assessment of Decentralization in Africa: Ethiopia Desk Study](#). USAID. ARD, Inc.
- Eshetu, C. (1994). [“Issues of vertical Imbalances in Ethiopia’s emerging system of fiscal decentralization”](#) [Federal Democratic Republic of Ethiopia](#). (n.d.). *ethiopia.gov.et*. Retrieved 04, 04, 2019
- Fekadu, M. (2011). *Assessment of Expenditure Assignment Practice to Local Government in Oromia Regional State: The Case of Kuyu Woreda*.
- Helen, D. (2010). [A Critical Examination of Fiscal Autonomy of Addis Ababa City Administration](#).

- Kwon, O. (2002). [The Effects of Fiscal Decentralization on Public Spending: The Korean Case](#). *School of Public and International Affairs*.
- Meheret, A. (2007). A Rapid Assessments of *Woreda* Decentralization in Ethiopia'. In Forum for Social Studies, Addis Ababa.
- Meheret, A. (2010/11). Assessment of Decentralized Education Service Delivery: A Case Study of Dubti *Woreda* Afar National Regional State,.
- Melkamu, B. (2004). *Fiscal Decentralization in Benishangul Gumuz Region: A Review of Problems of fiscal Imbalance*.
- Meselu, A. (2014). [Linking Fiscal Decentralization and Local Financial Governance: A Case of District Level Decentralization in the Amhara Region, Ethiopia](#). University of the Western Cape.
- Oates, W. (1972). [Fiscal Federalism](#). New York; Harcourt, Brace, Jovanovich. .
- Tesfaye, A. (2015). [The Extent and Impacts of Decentralization Reforms in Ethiopia](#).
- Weingast, B. (2006). [Second Generation Fiscal Federalism: Implications for Decentralized Democratic Governance and Economic Development](#).
- World Bank. (1997). [Annual Report](#). Washington DC: Oxford University Press.
- _____. (1999/2000). [Entering the 21st century. World Development Report 1999/2000](#) . Oxford University Press.
- World Bank (n.d.). [World Bank Intergovernmental Fiscal Relations](#). Retrieved 3, 29, 2019, from worldbank.org
- _____. (2001). *Ethiopia, Focusing Public Expenditures on Poverty Reduction, Public Expenditure Review of Oromia Region, Africa Region*. World Bank, Country Department 6. World Bank Country Office in Ethiopia