The Role of Fiscal Decentralization in Promoting Participatory Development in Ethiopia

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I. Introduction

Development theories of the 1950's and 1960's were very much macro-economically and macro-regionally oriented, reflecting "intellectual centrism". Their basic assumption was that decentralization of benefits would occur by trickling down through socio-economic groups and by spreading over space. However, there is growing evidence from the development efforts of the last many decades that growth in national income often implied a worsening of personal income distribution and that growth poles, whether economic or spatial, have few spread effects but more polarizing ones.

The lack of progress in developing countries and the deterioration of the condition of rural people have become of increasing concern to development economists as well as to development agencies. The problem was initially thought to be technological, and later one of resource gap. Attempts were made to address the issue through transfer of technology and investment in capital formation to close the resource gap (Cohen and Uphoff 1980: 215).

By the end of the 1960's two decades of development efforts were examined and new conclusions were drawn. The conclusions became the basis for the revision of thinking about development concepts. One of the conclusions was that there appeared to be a critical organization gap in developing countries. It was found out that relations in most countries between national centers and rural communities were only one dimensional: top-down and extractive rather than co-operative and mutually supportive (Cohen and Uphoff 1980: 215). Thus a departure from the centrist view was made and new trends began with widespread moves towards decentralizing the management of economic and social development and increasing popular participation. Decentralization was advocated as a means of improving the planning and implementation of development activities (Rondinelli 1978; Cheema and Rodinelli 1983; Smith 1985).

Decentralization and participation were argued for on several grounds: they improve the implementation and sustainability of projects, lead to efficient allocation of resources by closing information gaps between the decentralized unit and the central actor (De Groot 1988), harmonize central and local government actions to the best interest of citizens (Moharran 1988) and more recently as a result of changes in the global order. In particular, the collapse of the socialist world order under the leadership of the former Soviet Union, and the transition of the countries of Eastern and Central Europe and the former Soviet Union from command economies to market economies have triggered new patterns of national and global governance which accommodate the rise of people's aspirations.

The new pattern envisages widespread participation, embracing every aspect of development. It requires markets to be reformed to offer everyone access to their benefits.
Governance needs to be decentralized to allow citizens greater access to decision making. And community organizations need to be allowed to exert growing influence on national and international issues (UNDP 1993: 2). Towards this end, a call has been made for societies to be built around people's genuine needs and for erecting new pillars of a people-centered world order (UNDP 1993: 2).

Falling in line with the new world order, the Transitional Government of Ethiopia (TGE), which was established after the collapse of the highly centralized Derg regime, initiated far-reaching institutional and political transformation. Important steps were taken to decentralize the government and restructure it along federal lines. A milestone along this direction is Proclamation No.7/1992 which provides for the establishment of "National/Regional Self Governments" which are entrusted with broad powers, including, inter alia, planning and directing economic and social establishments; preparing, approving and implementing their own budgets; borrowing from domestic sources; and levying taxes and dues.

The proclamation also established the woredas as the basic units of hierarchy for every national/regional government and delegated these governments to determine hierarchies below the basic units, including their powers and duties as well as their mode of participation in the social and political life of the country. It provided for the woreda leadership to be elected by the people of the woreda.

This was further supplemented by Proclamation No.33/1992, which defined the sharing of revenue between the central government and national/regional self governments. The objectives of fiscal decentralization are to assist national/regional governments to develop their regions on their own initiative and to narrow the existing gap in economic growth and development between regions.

The two proclamations established the legal framework for bringing governance closer to the people. However, the transition from a highly centralized system to extensive decentralization encounters many problems, both conceptual and practical. Experiences of many countries which have decentralized their systems (the fiscal system included) also reveal that the major problem lies in implementation.

The purpose of decentralizing governance is to promote participation and efficiency. But participation is a plant that does not grow easily in the human environment. Powerful vested interests, driven by personal greed, erect numerous obstacles to block the routes to people's political and economic power (UNDP 1993: 28).

In our case, the relation between development planning and decentralization is not yet clear. There is no institution to implement the decentralization program (the department in the Council of Ministers - "Kilil Zerf" - does not seem appropriate for the purpose). The level to which fiscal power has been decentralized does not correspond to the level at which popular participation is envisaged. It is in this context that this paper tries to look into how the process
of decentralization in general and fiscal decentralization in particular may be used to enable people to play a greater role both in government and in the process of economic and social development.

II. Concepts of Decentralization and Participation

Decentralization and participation are words which tend to be used very loosely to refer to a variety of significantly different things. Thus, in order to avoid ambiguity in the process of discussing the two interrelated terms, it is important to establish the conceptual framework of analysis.

A. Decentralization

Decentralization is used to denote the transfer of responsibility from central government bodies and its agencies to field units of the central government, and semi-autonomous private or voluntary organizations (Rondinelli et al 1984). This definition is obviously too broad and loose. In this paper, decentralization refers to the transfer of power and/or authority to plan, make decisions, raise and allocate resources, and/or manage public functions from a higher level of government to lower ones (Conyers 1990: 19). This will limit our attention to changes in the territorial distribution of power within government, thus excluding reforms which involve no more than changes in the location of government activity as well as multiple forms of decentralization.

The forms of decentralization can either be explained by the modalities applied or simply by the key dimensions or variables in the decentralization exercise. Those who follow the model approach (Rondinelli et al 1984, UNDP 1993) identify three main types of decentralization, i.e., deconcentration, delegation and devolution. The first is limited to passing down administrative discretion to local officers of central government ministries. Although it does result in some dispersal of power, few decisions can be taken without reference to the centre. Delegation involves passing some authority and decision making power to local officials while the central government retains the right to overturn local decisions and to take these powers back. Devolution is the strongest form of decentralization and it grants decision making powers to local authorities and allows them to take full responsibility without reference to the central government. These include financial power as well as authority to design and execute local development projects and programs.

Those who concentrate on the key dimensions or variables (Conyers 1990) of decentralization examine five important dimensions of decentralization, i.e., the type of activity over which power or authority is transferred; the type of power or authority which is transferred; the level to which power is transferred; the individuals or organizations to which it is transferred; and finally the type of political and administrative or legal machinery used to make the transfer.
With respect to types of activity, decentralization that limits the responsibility of local councils to traditional public services such as urban service, minor roads, primary education, and primary health care, and excludes production-oriented activities reduces the control of lower units of government over development planning in their areas.

As far as type of power or authority is concerned, decentralization can be effective if it involves transfer of power to make decisions, allocate the resources needed to implement these decisions, and actually execute them. Many decentralization programs fail to have the impact anticipated because they do not include all these powers, particularly the power to allocate resources. The most powerful resource for plan implementation is usually finance, and so effective decentralization must include some decentralization of control over finance. The ideal way of ensuring such control is for local level governments to have the power to raise sufficient revenue to meet their own needs.

The extent to which decentralization results in a genuine appreciation of local needs and effective popular participation depends on the level in the political and administrative hierarchy to which power is decentralized. Thus, decentralization from federal to state and local governments is more effective and participatory than decentralization from federal to state governments alone.

Power may be decentralized to individuals or to groups. The extent to which the general public participates in decentralized government and the members of the general public who participate will depend very much on which individuals hold power and on what sort of links they have with the local community as a whole and with particular sections or interest groups within it. There is a tendency to assume that locally elected representatives inevitably provide the best channel of participation; however, although this is often the case, it is not necessarily so, since it depends very much on the sort of relationship they have with their electorates.

There are two main ways in which power or authority can be decentralized: by legislation or by non-legal means. In the case of legislation, the most important distinction is between constitutional and ordinary legislation, the former being common in federal states and the latter in unitary ones. Non-legal measures can take many different forms, from political direction to various administrative devices, including financial and public service rules and regulations. The means used to transfer power affect planning indirectly rather than directly, in that they determine the effectiveness with which decentralization is adopted.

The correlation between decentralization and popular participation in governance has aroused increased interest in measuring the degree of decentralization. Explaining decentralization by several models or by key dimensions may not be sufficient, and it is necessary to subject some aspects, if not all, to quantitative measurement. For instance, local autonomy related to the judicial system, the operation of the police force, or social and cultural affairs cannot be subjected to quantification, whereas financial flows and government employees are open to objective statistical analysis. However, quantitative estimation of
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...decentralization, using financial flows and government employees, should be treated with caution and has to be complemented by broader knowledge and understanding of the concerned country to take account of the size of population (UNDP 1993: 68-69).

Table 1 expresses financial decentralization using several statistical ratios for selected developing countries. These are:

a) local government expenditure as a percentage of total government expenditure;
b) local government expenditure as a percentage of total government expenditure, less defense expenditure, less debt service;
c) local government revenue as percentage of total government revenue, and
d) local government revenue as a percentage of local government expenditure

Table 1: Financial Decentralization in Provincial Government in Selected Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Expenditure decentralization ratio</th>
<th>Revenue Decentralization ratio</th>
<th>Financial autonomy ratio d/</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total a/</td>
<td>Modified b/</td>
<td></td>
</tr>
<tr>
<td>Nigeria</td>
<td>68</td>
<td>&quot;</td>
<td>&quot;</td>
</tr>
<tr>
<td>China</td>
<td>60</td>
<td>&quot;</td>
<td>96</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>48</td>
<td>56</td>
<td>48</td>
</tr>
<tr>
<td>India</td>
<td>44</td>
<td>32</td>
<td>48</td>
</tr>
<tr>
<td>Argentina</td>
<td>39</td>
<td>21</td>
<td>38</td>
</tr>
<tr>
<td>Palestine</td>
<td>24</td>
<td>18</td>
<td>50</td>
</tr>
<tr>
<td>Brazil</td>
<td>21</td>
<td>8</td>
<td>80</td>
</tr>
<tr>
<td>Malaysia</td>
<td>15</td>
<td>11</td>
<td>67</td>
</tr>
<tr>
<td>Bolivia</td>
<td>13</td>
<td>10</td>
<td>65</td>
</tr>
<tr>
<td>South Africa</td>
<td>11</td>
<td>2</td>
<td>17</td>
</tr>
<tr>
<td>Indonesia</td>
<td>10</td>
<td>3</td>
<td>21</td>
</tr>
<tr>
<td>Mexico</td>
<td>7</td>
<td>12</td>
<td>99</td>
</tr>
<tr>
<td>Algeria</td>
<td>3</td>
<td>3</td>
<td>105</td>
</tr>
</tbody>
</table>

Some of the important ratios expressed in Table 1 are:-

a) the expenditure decentralization ratio (the percentage of total government expenditure spent by local government);
b) the modified expenditure decentralization ratio, which takes into account the fact that some government expenditure cannot be decentralized (specifically defense and debt...
service) and therefore involves subtracting such expenditures to give a modified expenditure decentralization ratio that measures the responsibilities that can in practice be decentralized.

c) the revenue decentralization ratio (the percentage of local government revenue in total government revenue), which assesses the significance of local taxation; and

d) the financial autonomy ratio (the percentage of locally raised revenue in total local expenditure), which gives an indication of the local government's independence from central government funding.

Table 2: Social Expenditure Decentralization in Selected Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Social Allocation ratio (a)</th>
<th>Social Decentralization ratio (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Central</td>
<td>Provincial</td>
</tr>
<tr>
<td>Chile</td>
<td>1988</td>
<td>46</td>
<td>-</td>
</tr>
<tr>
<td>Argentina</td>
<td>1987</td>
<td>41</td>
<td>35</td>
</tr>
<tr>
<td>Nigeria</td>
<td>1988</td>
<td>39</td>
<td>24</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>1986</td>
<td>32</td>
<td>-</td>
</tr>
<tr>
<td>Kenya</td>
<td>1989</td>
<td>25</td>
<td>-</td>
</tr>
<tr>
<td>Malawi</td>
<td>1984</td>
<td>21</td>
<td>-</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1989</td>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td>India</td>
<td>1988</td>
<td>5</td>
<td>35</td>
</tr>
<tr>
<td>Colombia</td>
<td>1984</td>
<td>-</td>
<td>67</td>
</tr>
</tbody>
</table>

a) Central/provincial/local government social expenditure as a percentage of total central/provincial/local government expenditure

b) Provincial/local government social expenditure as a percentage of total social sector expenditure

In general, local government expenditure accounts for 15% of total government expenditure in developing countries (UNDP 1993: 69). The capacity of local government to exert taxation is also limited. In most developing countries local authorities could not raise more than 6% of total government revenue (UNDP 1993: 69-70). Also, the proportion of local expenditure controlled by local government is less than 5% for these countries. Thus, the available data suggest the limited decentralization that obtains in developing countries. Although several countries have in recent years attempted decentralization, few have made significant progress (UNDP 1993: 70).
Decentralization, as expressed by the employment decentralization ratio, which is simply the number of local government employees as a percentage of all government employees, is also low in developing countries.

Another key indicator of decentralization is control over social spending. It is generally presumed that if local governments are responsible for education or health they use resources more efficiently and effectively, distribute the benefits more equitably and generally respond more sensitively than the central government to the needs of the local community (UNDP 1993: 30).

The distribution of social spending can also be analyzed through a series of ratios:

a) the central government social allocation ratio (the percentage of the central government budget devoted to social spending);
b) the local government social allocation ratio (the percentage of local government budgets devoted to social spending);
c) the social expenditure decentralization ratio (local government social spending as a proportion of total government social spending), indicating the extent to which spending is decentralized; and
d) the human priority ratio for both central and local governments (the percentage of their social spending devoted to social items that deserve first priority, in most developing countries these being basic education, primary health care, safe drinking water, family planning service and nutritional programs).

Of the various problems related to decentralization, three are central:

a) problems related to the planning or design of decentralization policies,
b) problems related to their implementation, and
c) problems related to their impact on planning.

1. Design Problem

Formulating an appropriate decentralization policy is a difficult task. It is very sensitive and time consuming because of the many obstacles that are encountered in the process. The severity of the problem may sometimes result in a decentralization policy which is difficult to implement or which fails to have the impact intended (Conyers 1990: 27). This is why it is particularly common to find decentralization policies which either do not go far enough to achieve their stated objectives or are inconsistent with one or more of these objectives (Chema and Rondinelli 1983; Hyden 1983; Conyers 1983). Examples include local government bodies which are established but given no significant power, legislation which is enacted but not
supported by corresponding changes in administrative procedures (specially those related to finance and personnel), and decentralization policies which are designed to bring power to the people but provide very limited opportunities for effective participation. The reasons why these situations arise can be divided into conceptual and operational categories.

The conceptual problems stem from the complexity of decentralization and its relationship to development planning. The relationship between decentralization and planning depends on both particular aspects of planning with which one is concerned and the type of decentralization, and there is little point in decentralizing the power to prepare plans without also decentralizing some control over the allocation of resources for plan implementation (Conyers 1990: 27-28).

Most operational problems are political, and they stem from the fact that decentralization is in essence a political process, and so decentralization policies are political strategies (Smith 1985). Because of the political nature of decentralization, the type of decentralization to be introduced will be influenced not only by theoretical issues but also by political factors. In fact, more often than not the latter tend to predominate. This is often the main reason why there are so many decentralization policies apparently intended to bring power to the people but provide no effective means for doing so, or which decentralize the power to plan but not the power to allocate resources.

The various operational problems are such that no country can hope to design a decentralization policy that is anywhere near the theoretical optimum.

2. Implementation Problem

In many countries the implementation of decentralization policies has caused disruption and confusion, and the policies have been only partially implemented or implemented only after long delays. Implementation problems may be divided into three types.

First, the implementation of any major organization reform - such as decentralization - normally requires some sort of special implementation machinery, including an agency specifically responsible for coordinating implementation and an action plan and a public relations exercise to ensure understanding of, and support for, the reform. It is particularly important that the coordinating agency be given not only the responsibility but also the authority (or access to authority), resources and motivation necessary for what is usually a complex and at times controversial undertaking. However, in some countries this need is not fully recognized until problems begin to arise, in the form of confusion, opposition to the reform, and a general lack of progress in implementation (Conyers 1974).

The second factor relates to capacity at the level to which power is decentralized. Decentralization may require additional manpower in some fields or in some parts of the country, and it may be necessary to increase the capacity of existing staff through training and upgrading of positions.
As a result of these problems it is almost inevitable that decentralization will encounter some teething problems at the local level. Therefore, orientation and training programs constitute an essential part of the implementation of any decentralization program.

The final factor which tends to hamper implementation of decentralization policy is the opposition which it sometimes generates from people at the local level (for example, civil servants who resent increased local political control over their activities in cases where power is decentralized to local politicians), but more often from those at the centre who are reluctant to relinquish power or authority. Some of this opposition, especially at the local level, may be due to confusion and the threat of the unknown; this tends to disappear with time and its effects can be reduced by reorientation programs and an effective public relations exercise prior to and during implementation. However, there will inevitably also be more fundamental opposition from individuals and organizations who stand to lose from decentralization.

3. Impact Problems

Problems related to the impact of decentralization centre on the complaint that decentralization programs have not achieved the objectives for which they were designed (increase in participation, coordination efficiency, and so on) and that in some instances they have created new problems or hampered the implementation of other national development policies.

The first problem which arises is that of factually evaluating the impact of decentralization programs and of their many different objectives, the difficulty of measuring progress in achieving numerous objectives, the time taken for the effects of decentralization programs to be felt, and the difficulty of separating the effects of decentralization from those of other policies or events (Conyers 1990: 32).

Thus, decentralization policies have not always lived up to what is expected of them and have sometimes created, or at least exacerbated, other problems. However, this is hardly surprising when one considers both the complexity of decentralization and the complexity of the whole process of development.

B. Participation

The aim of decentralization is to stimulate and facilitate bottom-up as opposed to top-down initiatives in development planning and administration. This calls for the involvement of significant numbers of persons in situations or activities which enhance their well-being. Participation of the people in the social, political and economic spheres can take many different forms and could be at different levels: in economic life as producers, consumers, entrepreneurs or employees; in social life as members of families, or of community organizations or of ethnic groups; and in political life as voters, or as members of political parties or of pressure groups. All these roles overlap and interact, forming patterns of participation that interconnect with and often reinforce each other. Participation would have to be fitted into the apparatus of
development administration, with decentralized decision making supported by decisions at intermediate and central levels.

In social formations that give full scope to individual and collective power, four general types of participants are envisaged, i.e., local residents, local leaders, government personnel and foreign personnel. Each group can participate in decision making, implementation, evaluation and in deriving benefits. Participation is expected to lead to self-governance, which does not merely involve sending messages upwards to extrinsic centers of control but also has sufficient power of its own to accomplish tasks set by and for itself. Implementation of development initiatives of this kind cannot succeed without financial power. In addition to financial power, the sustainability of bottom-up development depends on the nature of participation. According to most views, participation which is initiated from below, voluntary, organized, direct, continuous, broad in scope, and empowered will be the most effective.

Centralization with respect to the provision of public goods is often rejected for it tends to provide the same level of public services throughout the country regardless of the fact that people’s tastes differ from one locality to another (Rosen 1985, 1988). It is argued that local government under a decentralized system has greater proximity to the people and is more responsive to the citizens’ preference than central government. This is specially likely to be the case in a large country where the costs of obtaining and processing information on everybody’s tastes are substantial (Rosen 1985, 1988). Moreover, local officials and politicians can be much more open to public scrutiny than national governments, and more accountable to the communities and individuals they are supposed to serve (UNDP 1993: 66).

In western democracies tax payers have developed a long-standing culture of putting public officials under scrutiny. Officials are elected and hold office only if their budgetary plans and programs are in conformity with the interests of the majority of the tax payers. Economists sometimes draw an analogy between the competition of firms in the market and politicians’ competition for votes in the political area. Just as economic competition under certain assumptions guides producers to supply in line with the preferences of consumers, so does political competition under certain assumptions guide representatives to act in line with the interests of voters (Musgrave and Musgrave 1982: 115).

Political action is assumed to be rational, with both politicians and voters acting in their self-interest. The politician’s objective is to maximize votes so as to stay in power. The voter’s objective is to maximize the net benefits which she or he derives from fiscal operations, i.e., the excess of benefits derived from government expenditures over the voter’s tax costs. People will thus cast their votes for those who will best represent their interests, and politicians will offer programs and support legislation which presumably best meet the interests of their constituents. Those politicians who come closest to doing so will receive the most votes and hence gain or retain political power (Musgrave and Musgrave 1982: 115-16).

Transparency and accountability have not yet become part of the political process of many developing countries. These countries need strong political parties that can draw together
many diverse interests and weave them into cohesive organizations. And they need independent groups such as farmers’ organizations, trade unions, consumer groups, chambers of commerce, cultural and religious groups, and other elements of civil society that substantially facilitate and regulate the process of articulating people’s demands. In many countries, it has therefore been found necessary to complement democratization with efforts aimed at enhanced transparency and accountability of government (UNDP 1993: 66). This is necessary because electing their representatives does not necessarily enable the people to know and influence what policies the representatives will pursue once they are elected.

The Sudanese experience is a cogent example in which functions were devolved down to the local levels without corresponding fiscal decentralization, resulting in decreased social and economic services to citizens and their reduced rate of participation. Because this experience is instructive, it is reviewed below.

III. Experience of the Sudan in Decentralization

A. The Nature and Form of Devolution in the Sudan

One of the most extensive attempts at devolution has been made in the Sudan. The intention of devolution was to place the mechanism of governance closer to or in direct contact with the citizenry. It aimed at reducing the level of administration through which activities had to pass and to enhance citizens’ productivity and participation by increasing their involvement in development activities.

Provisional councils and provincial commissioners were given responsibility for nearly all public functions except national security, postal and communications, foreign affairs, banking and the judiciary, which were reserved for the central government. The country was divided into administrative regions, each with a governor and a regional assembly that had semi-autonomous legislative and executive responsibilities. Provincial governments had the power to impose local taxes, maintain law and order, finance public projects, prepare annual budgets, recommend development projects to the central agencies, and establish and administer self-financing development activities. They were given the power to oversee all the work of central ministries and government departments within the province. Devolution was undertaken to shift responsibility for local services to localities and to provide broad participation in development planning and management in a country of huge size in which it was difficult or impossible to provide services efficiently to all regions from the national capital. The crucial goal, however, was to find a way of ending the civil war and of mobilizing the commitment of heterogeneous ethnic and tribal groups to nation building by giving them a large part in governance.

Decentralization and participation were promulgated by strong-willed presidents who often had weak supporters from the various localities and from their own political parties. Advocates of decentralization had to exert a good deal of pressure to convince other political leaders of the merits of bottom-up planning. The president had to reiterate these themes almost
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constantly for a decade. Even then, support for devolution remained shallow. Some government officials believed that devolution would fragment the country and allow regional leaders to build semi-autonomous fiefdoms. Others argued that shifting functions to the provinces would weaken the central government's control over development and would maintain the provincialism that would prevent the Sudan from achieving national unity.

B. Problems of Decentralization in the Sudan

Despite the attempts made in the Sudan during the 1970's to decentralize development planning and administration, the system remains highly centralized today.

The concept of decentralization presupposes autonomous financial responsibility. Limited financial resources and shortage of investment capital in the Sudan cast serious doubt on the ability of the provinces to perform the functions assigned to them by the central government. The people's assembly committee that evaluated the results of devolution during the 1970's was blunt in its conclusions: "It became apparent that insufficiency of funds was the basic cause of weakness in the institution of local government and of turning them into empty skeletons", the committee reported. "It also killed any ambition or hope for developing current services, let alone for presenting new services to the people" (Rondinelli et al. 1984).

A detailed study of decentralization in southern Darfur province stressed the financial problems of the province and their impacts on decentralization. The survey revealed that the amount of financial resources transferred to the province through the budget were below the minimum amounts needed to implement functions transferred from the central ministries. In some years the Ministry of Finance cut the budget requested by the province's executive council by 50%. The province was never reimbursed for minor public works expenditures made during the previous fiscal years. At the same time, the central government increased the amount that the province would have to collect in local taxes to a level far beyond its capacity. The result was a severe shortfall in revenue that constrained the executive council's ability to provide services or undertake development projects (Rondinelli et al. 1984).

The revenue base was simply too small to provide adequate tax resources. The forms of taxation that can be imposed on subsistence economies are extremely limited. In the Sudan they consisted primarily of personal property taxes that were difficult to assess and collect. In most parts of the country, local revenues were derived from non-productive personal property levies - herds, date trees, and land taxes that could be traced back to ancient times. Recording, auditing, and tax collection were often so expensive in relation to the amount collected that revenue raising was unrewarding for many local councils.

IV. The Role of Decentralization in Enhancing Participatory Development in Ethiopia

With the collapse of the Derg and the establishment of the Transitional Government, the hitherto centralized state of Ethiopia is undergoing far-reaching political and institutional
transformation. The TGE has decentralized the economic management and administrative structure, which may allow for popular participation in economic and social development.

A. Decentralization of Economic Management

The TGE has made a marked policy departure from that of the Derg, which was essentially statist and dirigiste. Under the TGE the economy has been decentralized and is being liberalized.

The new policy envisages rolling back the frontiers of the state and limiting it to activities which are considered strategic (TGE 1991c). Within the framework of the new policy, major steps have been taken, including the devaluation of the Birr, introduction of tight monetary control, increasing interest rates, decreasing tariffs, lifting of subsidies for imports, price decontrol, and introduction of foreign exchange auction. Public enterprises have also been reformed with the ultimate aim of privatizing some of them. A new investment policy with incentives, including tax concessions and some foreign currency retention or remittance provisions, have been promulgated (TGE 1991d). In general, the essence of the new policy framework is to shift the burden of growth and development to the private sector by allowing it to operate in competitive markets (Befekadu 1993).

B. Decentralization of the Administrative Structure

One of the major landmarks in the process of decentralization is the restructuring of the erstwhile unitary state administration along federal lines. In line with the Charter of the Transitional Period, Proclamation No. 7/1992 provided for the establishment of national/regional self governments. These were given broad legislative, executive and juridical powers within their geographical areas, except in such matters as defense, foreign affairs, economic policy, conferring citizenship, declaration of state of emergency, deployment of the army, printing of currency, establishing and administering major development establishments, and building and administering major communications networks, which are specifically reserved for the central government.

With respect to economic management, the national/regional self governments were empowered to plan, direct and supervise social and economic development programs; establish, direct and supervise social and economic establishments and enterprises; prepare, approve and implement their own budgets; and administer, develop and protect their national resources (TGE 1992a).

A three-level administrative structure has been instituted, with the woreda being the basic unit of hierarchy for every national/regional government. Each level of administration, i.e., the woreda, the national/regional government and the central government has legal personality. The woreda and the national/regional self government leadership are elected. In particular, the woreda leadership is directly elected by the residents.
The proclamation also empowers the woreda council to oversee the social and economic development of the woreda, approve plans and programs, and supervise their implementation (TGE 1992a). The decentralization of power to the local level, i.e., the woreda, and allowing the woreda leadership to be directly elected by the residents can be considered as devolution.

In principle, both the local (woreda) and regional/national government leadership are not appointed by the central government, and their promotion, transfer and dismissals do not very much depend on superior bodies but on the people who elected them.

It can also be said that decentralization has brought governance closer to the people. If the local government fails to respond to their needs, the woreda people have, in principle, the power to remove officials and replace them with more efficient ones. However, in practice this may not be the case since there are political interests that work to retain individuals in power irrespective of what the people may feel about them.

In general, however, one can say that the first condition for people’s participation in governance has been fulfilled.

C. Fiscal Decentralization

Under the unitary state of Ethiopia, both revenue and spending were highly centralized. The local and regional governments were directed to remit all of their fiscal income to the central government, which would then make allotments to cover the expenditures of the former, which were closely monitored and guided by it. Even surpluses generated by economizing on expenditure allotment were not allowed to be retained at the local level. Under this principle of strict control over fiscal affairs, the possibility for active economic participation on the part of local government was suppressed.

The TGE has decentralized the fiscal system with the aim of enabling the central government and national/regional governments to carry out their respective duties and develop their regions on their own initiative as well as narrowing the gap in the level of development among regions (TGE 1992b).

Fiscal decentralization involves the sharing of revenue sources between the central and regional/national governments, the sources having been categorized into three components, i.e., centre, region and joint revenues. Besides tax revenues, the regional/national self governments shall receive subsidies from the central government and can also borrow from domestic banks.

Fiscal decentralization is limited to the regional/national governments and does not extend to the lowest administrative unit, i.e., the woreda. In this respect it does neither correspond to the new administrative hierarchy nor resemble the fiscal decentralization efforts made by many developing countries. It may be expected that, with increased experience, fiscal power will devolve down to the woreda. This move many increase the capacity of the local
and regional governments to undertake economic and social development activities in their respective areas without referring back to the centre.

D. The 1993-94 (1986 Ethiopian Calendar) Budget: Two Regional Perspectives

It is in the budgetary process that the felt needs of the people for economic and social services are reflected, communicated to the government, translated into projects and programs, matched with financial resources needed for their execution, and approved for execution. This of course assumes a democratic society having a representative government responsive to its needs.

Since 1986 E.C. marks the first year in which fiscal decentralization was put into effect, the aim here is not to evaluate decentralization as such, but to identify some issues which call for immediate attention.

1. Oromiya Region

The budgetary call for 1986 E.C. was communicated from the Prime Minister’s Office of the TGE to central ministries and regional/national governments in Tir 1985 E.C.

The president of Oromiya region further communicated the budgetary call to its sectoral bureaus and zonal offices. However, neither the bureaus nor the zonal offices had sufficient information to prepare the budget and submit it in due time since the whole process was in transition. The central sectoral ministries had not transferred the ongoing projects and project documents which had been allotted to the regional administration.

Thus it was found convenient to organize an ad-hoc committee chaired by the respective sector departments of the Ministry of Planning and Economic Development. The committee consisted of representatives from the respective sectoral bureau of the region, the planning bureau of the region, the respective central sectoral ministry, and the sectoral department of the Ministry of Planning and Economic development (chairman).

The draft sectoral plan prepared for the region in this fashion was coordinated by the planning bureau of Oromiya and submitted to the executive committee of the region, which subsequently called the regional council for discussion and deliberation.

The draft accommodating the comments of the council was prepared and submitted to the executive committee of the region. The adjusted budget was then submitted to the central government. The central government reviewed the draft of the regional investment plan and made major changes. The budget approved by the central government was sent to the region and distributed to the executive bureau and other concerned bodies.
2. Region 14 (Addis Ababa)

In Region 14 the practice was a bit different. It is said that due to time constraint the preparation of the 1986 F.C. integrated public investment plan required a special arrangement. An ad-hoc committee of five persons, who were heads of sectoral bureaus, chaired by the planning bureau head, was set up by the executive committee of Region 14.

The executive committee also gave guidelines for sectoral bureaus of the region to prepare and submit their respective sector projects and programs to the ad-hoc committee. Thus, the sectoral bureau identified and prepared development projects/programs and submitted them to the ad-hoc committee.

Taking the limited financial resources into account, the committee decided to give priority to ongoing development projects (programs), new projects/programs ready for implementation, and research undertakings geared towards alleviating the present socio-economic problems of the region.

In preparing the regional investment plan, estimates of available resources (in local currency and foreign exchange) were made, including the possibilities of increasing them through domestic bank loans, public contributions, foreign loans and aid programs.

The technical details of the projects/programs accepted by the ad-hoc committee for inclusion in the 1986 F.C. budget were worked out by the planning and economic development bureau, and the draft document of the integrated public investment plan for Region 14 was prepared. The draft document was then submitted to the executive body of the regional council. The executive council discussed the draft document, sector by sector and project by project, in the presence of sectoral bureau heads and other experts of the region and made some changes and improvements.

The second draft, which accommodated the comments and suggestions of the executive committee, was presented to the regional council, the supreme authority of the region. The council discussed the draft document and gave its comments and recommendations, and the second draft was improved accordingly. The adjusted and improved plan was then submitted to the central government. The central government reviewed the draft of the regional investment plan and made some changes.

After so many adjustments at each level of the power hierarchy, the integrated public investment plan of the Region was approved and the final plan document was worked out by the planning bureau and distributed to executive officers and other concerned bodies for implementation.
Fiscal Decentralization in Ethiopia

E. The Regional Aspects of the 1986 E.C. Budget

The Ethiopian government was traditionally disaggregated sectorally but without any regional dimension. For the first time in the country’s history, regional budgets were separately prepared for 1986 E.C. The following table summarizes the regional and central government budgets for the year in question.

Table 3: The 1986 E.C. Regional and National Budgets (in million birr)

<table>
<thead>
<tr>
<th>Region</th>
<th>Revenue</th>
<th>Expenditure</th>
<th>Share of expenditure covered by regional revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Recurrent</td>
<td>Capital</td>
</tr>
<tr>
<td>1</td>
<td>57.4</td>
<td>122.4</td>
<td>157.5</td>
</tr>
<tr>
<td>2</td>
<td>7.7</td>
<td>39.5</td>
<td>74.2</td>
</tr>
<tr>
<td>3</td>
<td>113.4</td>
<td>360.4</td>
<td>336.7</td>
</tr>
<tr>
<td>4</td>
<td>185.7</td>
<td>562.6</td>
<td>319.5</td>
</tr>
<tr>
<td>5</td>
<td>31.1</td>
<td>63.9</td>
<td>73.3</td>
</tr>
<tr>
<td>6</td>
<td>4.6</td>
<td>38.2</td>
<td>47.4</td>
</tr>
<tr>
<td>South</td>
<td>82.9</td>
<td>279.0</td>
<td>192.7</td>
</tr>
<tr>
<td>12</td>
<td>2.6</td>
<td>27.9</td>
<td>37.1</td>
</tr>
<tr>
<td>13</td>
<td>18.9</td>
<td>22.4</td>
<td>2.9</td>
</tr>
<tr>
<td>14</td>
<td>278.3</td>
<td>169.4</td>
<td>187.8</td>
</tr>
<tr>
<td>South</td>
<td>82.9</td>
<td>279.0</td>
<td>192.7</td>
</tr>
<tr>
<td>12</td>
<td>2.6</td>
<td>27.9</td>
<td>37.1</td>
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<tr>
<td>13</td>
<td>18.9</td>
<td>22.4</td>
<td>2.9</td>
</tr>
<tr>
<td>14</td>
<td>278.3</td>
<td>169.4</td>
<td>187.8</td>
</tr>
<tr>
<td>Dire Dawa</td>
<td>23.8</td>
<td>24.8</td>
<td>4.8</td>
</tr>
<tr>
<td>Region/total</td>
<td>806.3</td>
<td>1710.4</td>
<td>1434.0</td>
</tr>
<tr>
<td>Central Government</td>
<td>7,400.8</td>
<td>2889.6</td>
<td>2413.1</td>
</tr>
<tr>
<td>National Total</td>
<td>8,207.1</td>
<td>4600.0</td>
<td>8447.1</td>
</tr>
</tbody>
</table>

Source: Eshetu Chole: "Three Points about the 1986 E.C. Budget" (in Amharic), Guramayle, Tir 1986, p. 34.

The extent of financial autonomy differs from region to region. Regions 13, 14 and Dire Dawa cover 75% or more of their expenditures from their own sources, indicating relative autonomy. On the other hand, regions 2, 6 and 12 are extremely dependent on the central government because locally raised revenue covers less than 7% of their expenditures. The financial autonomy ratio of the highly populated regions, i.e., 3, 4 and the South is 23% on the average (Eshetu 1994).
To acquire a comparative perspective, it would be useful to make comparisons with other countries that have decentralized fiscal systems. The following table shows the extent of fiscal decentralization in selected countries, including Ethiopia.

### Table 4: Financial Decentralization in Selected Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Expenditure Decentralization ratio</th>
<th>Revenue decentralization ratio</th>
<th>Financial autonomy ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total modified</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Developing Countries</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>1986</td>
<td>22 29</td>
<td>17</td>
<td>58</td>
</tr>
<tr>
<td>Nigeria</td>
<td>1988</td>
<td>17 -</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Algeria</td>
<td>1986</td>
<td>14 -</td>
<td>16</td>
<td>101</td>
</tr>
<tr>
<td>Kenya</td>
<td>1989</td>
<td>4 5</td>
<td>7</td>
<td>134</td>
</tr>
<tr>
<td>Ghana</td>
<td>1988</td>
<td>2 -</td>
<td>2</td>
<td>71</td>
</tr>
<tr>
<td>Morocco</td>
<td>1987</td>
<td>6 -</td>
<td>8</td>
<td>108</td>
</tr>
<tr>
<td>Ethiopia*</td>
<td>1993/94</td>
<td>37 42</td>
<td>10</td>
<td>27</td>
</tr>
<tr>
<td>Korea, Republic of</td>
<td>1987</td>
<td>33 -</td>
<td>31</td>
<td>99</td>
</tr>
<tr>
<td>Brazil</td>
<td>1989</td>
<td>7 14</td>
<td>1</td>
<td>33</td>
</tr>
<tr>
<td>Chile</td>
<td>1988</td>
<td>8 10</td>
<td>6</td>
<td>61</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1987/88</td>
<td>4 -</td>
<td>6</td>
<td>100</td>
</tr>
<tr>
<td><strong>Industrial Countries</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S.A.</td>
<td>1989</td>
<td>21 26</td>
<td>16</td>
<td>65</td>
</tr>
<tr>
<td>Canada</td>
<td>1989</td>
<td>16 18</td>
<td>11</td>
<td>53</td>
</tr>
<tr>
<td>Germany</td>
<td>1988</td>
<td>17 18</td>
<td>14</td>
<td>73</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1989</td>
<td>26 31</td>
<td>16</td>
<td>55</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>1990</td>
<td>26 27</td>
<td>19</td>
<td>61</td>
</tr>
</tbody>
</table>

* For Ethiopia, the decentralization is regional, not local.

A number of observations can be made about the extent of decentralization based on Table 4, by taking regions as proxies for local government. The first observation concerns the percentage of total expenditure spent by local government, which can be
considered as an expenditure decentralization ratio. The regional governments taken together spend 37% of total expenditure. The exclusion of expenditures which cannot be decentralized by their very nature (such as national defense and debt servicing) improves the percentage share of regional governments and raises it to 42%.

The second observation pertains to the significance of local taxation. The share of local revenue in total government revenue measures the extent of revenue decentralization. This ratio is only 10%.

The third observation has to do with the extent of local government independence from central government funding. This is represented by the share of locally raised revenue in total local expenditure and is called the financial autonomy ratio. For the regions taken together this ratio is 27%.

It is also interesting to note that Ethiopia’s local government (regional government) expenditure ratio is among one of the highest while its financial autonomy ratio is one of the lowest.

It is quite clear that, although there is a high degree of expenditure decentralization, the regions are heavily dependent on the central government for financing their expenditures since their revenue sources are very narrow and weak.

F. Some Issues of Decentralization and Participation

First, although Proclamation No. 7/1992 provides for the regional/national self governments to prepare, approve and implement their own budgets, the 1986 E.C. budgetary process essentially followed the centralized pattern of the past. No region has involved the rural people, the focus of decentralization in the planning process. Let alone rural people, even local governments (woredas) did not participate in the budgetary process. One may take the time constraint as an explanatory factor. But even in Addis Ababa, where there is no problem of involving the people in decision making about the budget within a short time, no effort was made to do so.

Second, fiscal decentralization does not extend below the regional level. The woredas were not allowed to retain a proportion of the revenue collected from their localities, and the financial contribution they were to obtain from the regions were not stated. Thus, unless necessary care is taken and fiscal decentralization gradually extends to include woredas, there is a danger that the current effort may be neutralized by substituting the central bureaucracy by regional ones.

Third, in Ethiopia a high expenditure decentralization ratio is accompanied by very low financial autonomy. This is because of the fact that the revenue sources allocated to the regions are weak and narrow. The low level of financial autonomy will create heavy dependence on the central government for both recurrent and capital budgets.

Proclamation No.41/1993 empowers the Ministry of Finance to administer the approved capital and recurrent budgets of central ministries as well budgetary subsidies to regional self governments. The ministry also inspects and controls the accounts of regional
self governments with respect to budgetary subsidies (TGE 1993e). Thus the fiscal system appears to have been decentralized whereas the central government still retains tight control over standards and priorities through budgetary subsidies.

G. The Role of Decentralization in Enhancing Participatory Development in Ethiopia

Ethiopia is attempting to set up a new political system, in which people are governed by their elected representatives. This must be followed by a mechanism that will enable people to influence the policies of the elected members and play a greater role both in government and in the process of economic and social development. Citizens should be able to evaluate the effectiveness of the local government and the degree to which elected representatives have fulfilled their campaign pledges.

Fiscal decentralization, provided that it corresponds to the level of political decentralization, may enhance people's participation in governance and advance the process of economic and social development. Politically, this means that the participation of citizens and the establishment of local autonomy will be essential, and economically it means that the basis of local finances will have to be established. Local self-supporting economies make possible local development that moves in the direction desired by citizens.

Once the basis for local finance is established, the local government, by involving the local people, can draw up public projects and programs that can be executed within the locality. People begin to participate in decision making and the implementation and evaluation of public sector programs. In the process of participation they will gradually realize that political and financial power are really in their hands and that their elected representatives are their employees who have to coordinate and translate their needs into concrete plans and programs that provide public and private goods to satisfy their needs. The attitude of looking at government as an alien and oppressive organ will gradually fade away as transparency and accountability of government increase through the democratic process. As people create an awareness that they are the real source of power, their influence will extend to the regional and central governments, and the foundation of democracy will be laid.

People's participation in the process of economic and social development, on the other hand, will speed up the development process with equitable distribution of the benefits of development. This, in turn, will encourage more participation, which will push the economy out of its dead centre and put it on the path of economic growth and development.

The expansion of tax resources for local finances is another pressing issue that has to be dealt with, particularly in relation to central taxes. Because of the dominance of central taxes, the Ethiopian central government can use its financial power to exercise excessive control and interfere with the operation of regional and local governments, making it difficult for them to perform the duties expected of them and restricting the growth of local autonomy.

Bestowing more revenue-raising authority on local governments may increase tax incomes in the short run but higher level governments seldom appear to recognize this fact.
This decision may in fact lead to an increase in local revenue available to the public sector for general development and the provision of social services (Okplala 1981).

The impact of fiscal decentralization on the private business sector needs separate emphasis. In countries such as Canada, associations of residents and rate payers were established to protect the interests of the property owners as principal tax payers. Groups representing the business community and the middle class often promote the election of like-minded councilors and attempt to prevent the election of candidates representing viewpoints counter to business development. Other groups representing neighborhoods also play important roles in influencing local government to make it responsive to the needs of the community. These groups are concerned with stability and preservation of existing life styles (Tindal and Tindal 1990: 171).

Decentralization can increase economic participation by facilitating local entrepreneurial activity and thus increasing employment in several ways. Increased public expenditure on the construction and maintenance of local infrastructure such as roads, water supply and electricity will directly employ local contractors and workers. Local facilities are likely to be more appropriate and better maintained if the local community influences their construction. They will thus be of more use to local entrepreneurs and help increase their profitability. Local governments might also be able to offer better support to local business. They can offer management assistance and market information tailored to local needs. They are also in a better position to cater to the needs of scattered rural enterprises (UNDP 1993: 77). Improved infrastructure and an enabling business climate attract investors and increase their participation. This leads to increased income and employment. The increased income and employment leads to further expansion of local tax revenue, increasing the capacity of local governments to finance public projects.

1. Forms of Participation and its Effects

Many activities, by their very nature, can be considered local. The construction of rural roads, rural health centers, primary schools, bridges, small-scale irrigation dumps, and the drilling of water wells, for example, are public projects that can be initiated planned and implemented at the local level. People can participate in decision-making and in the implementation and evaluation of such projects.

In many of these local projects, participation can be direct. Where this is not possible, people can participate in decision making through their representatives while they can directly participate in implementation.

Thus, people can participate in economic and social development through their civil organizations such as peasant associations, women’s clubs, youth associations, chambers of commerce, workers’ associations, and NGOs. However, in order to coordinate the efforts of grass roots organizations, there is a need to establish appropriate institutions. Participation can also take the form of financial contribution, labor and other material contribution, the provision of information and/or simple membership.

One of the most important benefits of decentralization is the opportunity to cut costs, in several ways. First, if local people feel that it is their money being spent, they are likely...
to keep a higher lid on expenditure and to use resources more efficiently. Involving local people can also result in a more appropriate structure of service, particularly in health care. Local involvements also open up opportunities for people to add voluntary contributions to programs or projects (UNDP 1993: 75). For decentralization to increase efficiency a lot depends on the technical and financial support offered to local governments and on how much it attracts local leadership and captures local enthusiasm (UNDP 1993: 76).

2. Resources for Decentralization

It is generally believed that decentralization increases public expenditure. It can, at the same time, affect the way money can be collected. It could allow more taxes to be raised locally if people are confident that their money will be used for the benefit of their own communities. The main ways of increasing local revenue are taxation, cost recovery, voluntary contributions and borrowing (UNDP 1993: 71-72).

Central governments tend to leave local governments relatively little flexibility when it comes to taxation - partly because central governments want to reserve for themselves the most buoyant and lucrative revenues; they also want to keep tight control over local government finances (UNDP 1993: 72). In Ethiopia, most of the lucrative revenue sources are reserved for the central government, and the regional self governments are left with weak revenue sources and those difficult to collect. Regional governments have to improve their administrative capacity to increase the efficiency of collection. Without regular surveys and effective assessments and collection of taxes, the revenue base of the local and regional governments will shrink and dependence on the central government will increase, thereby stifling local autonomy.

Local authorities can also raise revenue by charging users for services. Great care needs to be taken in charging individuals, particularly for such social services as education and health care. Charges can deter many of the poorest users and cause considerable hardship - while raising relatively little money (UNDP 1993: 73). Thus it is sometimes suggested that some services such as primary health care and basic education must always be free. In some cases it is proposed that government should bear the capital costs but users might contribute to recurrent costs.

One advantage that local governments have over central government is the ability to tap local voluntary contributions, in cash or in kind (UNDP 1993: 73). Care must be taken in using voluntary contributions for social service projects such as schools and clinics. Local people may be enthusiastic about building schools or health centers in their locality, but the question of who is to finance the subsequent running costs is left open. Thus, such projects have to be included in national development programs, and sources of finance to cover the running costs have to be established before implementing such projects.

Proclamation No.33/1993 allows regional/national self governments to borrow and finance development projects. However, it has established procedures to be followed and completed before acquiring loans. In so doing, the central government has retained its control over the creation of credit and macroeconomic management.
Finally, local efforts to finance decentralization can be supplemented by foreign aid and assistance, provided that sound and viable projects are prepared and assistance is requested.

V. Summary and Recommendations

Participation through decentralization is a current approach to development which emerged as a reaction to failures of centrist views. The impetus for concern with participation came not so much from economists or political scientists as from development practitioners.

Extensive analysis of participation was done under the auspices of the United States Agency for International Development (USAID), the output of which later became the basis for United States foreign aid policy. Following USAID, international agencies such as the World Bank and the International Monetary Fund (IMF) have made decentralization, participation and liberalization preconditions for developing countries to be eligible for any kind of loan or aid (Cohen Uphoff 1980). As a result, economic theory and participation theory have been undergoing considerable change since the late 1960's.

The collapse of the socialist world order under the leadership of the former Soviet Union and the transition of the countries of eastern and central Europe and some developing countries to market economies further accelerated interest in decentralization and participation (UNDP: 1993).

Experience with decentralization policies has shown that they are complex and that they have not lived up to expectations; sometimes they have even exacerbated other problems. However, this is hardly surprising when one considers both the complexity of decentralization and the complexity of the whole process of development.

Given these complexities, the important question for a country is: should it continue to pursue a strategy of decentralization, and if so, whether there is any way of ensuring that such a strategy will have the desired effects. The answer is that decentralization is a flexible development strategy which has an important role to play in a country such as Ethiopia. Ethiopia could benefit from some of the experiences gained in other countries and from better theoretical analysis of the relationship between decentralization and development planning. Also, experience shows that participation which is initiated from below and is voluntary, organized, direct, continuous, and broad in scope would be the most effective.

Decentralization in the Sudan, which was aimed at bringing governance close to the people, was a failure because there was no institution to implement the decentralization policy. The policy was confronted with opposition from within the ruling party and bureaucracy due to vested interests or lack of understanding. The Sudanese experience is instructive in the sense that decentralization without effective fiscal power at the local level is bound to fail. Because the central government retained the most lucrative revenue sources and restricted budgetary subsidies, decentralization led to deterioration in the quality of services and retarded the development process. Thus, decentralization did not live up to expectations in the Sudan because it was undermined by the fiscal power of the central government.
In Ethiopia, an extensive decentralization process has been going on in the country since the establishment of the TGE. However, decentralization has not brought about essential changes in the decision making process. In addition, fiscal decentralization is limited to the regional level.

It may seem very early to comment on the absence of participation when the system is still in the process of taking shape. But decentralization is not a goal in itself. The aim of decentralization is to involve the people in all aspects of development plans and programs. It is not only that the beginning of this process is not visible; it is also that there is no movement in that direction. The budgetary process of 1986 E.C. is a cogent example of this.

Effective decentralization needs control over finance to execute plans and programs initiated by the local people. In the current attempt at fiscal decentralization, high expenditure decentralization is accompanied by low fiscal autonomy, creating heavy financial dependence by local and regional governments on the central government. Without expanding the revenue sources and introducing effective tax collection systems, regional and local governments will not be in a position to maintain the current level of services, let alone improve it.

If local governments (the woredas) are allowed to retain part of the revenue raised from their localities, they will be in a position to prepare and execute public projects and programs by involving the people. By participating in the planning process, people can identify their needs, set priorities and commit financial and material resources for their execution. They will also participate in implementation and share the benefits. In the process of participation, they will influence the policies of elected representatives and make them responsive to their needs. Participation is a practical school for the people to learn about the nature and operation of governance.

Participation in the process of decision making and influencing government policy can be possible if people are organized. Civil organizations need to be strong enough to influence local, regional and central government policies to make them responsive to their needs.

Although the TGE has undertaken extensive decentralization measures, there is no special agency specifically responsible for coordinating the implementation of the policies. The decentralization program requires significant departures from the old ways of economic management and decision making, which were essentially top-down. A shift to a new mode of operation which is participatory and bottom-up is needed. This requires clear concepts of decentralization and participation. Understanding the concepts requires continuous training and public relations efforts to popularize the new concepts. Thus there is need for a special agency for implementing the decentralization program.

In order to enable people to participate in governance as well as social and economic development, it is proposed that development committees be organized from peasant associations up to the central level to identify needs, formulate projects, mobilize resources and evaluate implementation. The planning bureaus can be used as secretariats for such committees.
Also, group action is often necessary for the evolution of a fair judiciary, a responsive executive, a free press and a tradition of transparency as well as accountability. Thus, community organizations representing the interests of their members need to be allowed to exert growing influence on government both at the local and national levels.

Finally, fiscal decentralization has to extend to the woredas, without which popular participation will be meaningless.

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