Chapter 8
Fiscal Decentralization at Local Government of Ethiopia: Theory vs Practices

Getachew Alebachew Mekonnen
https://orcid.org/0000-0002-8351-5557
Bahir dar University, Ethiopia

Walelign Awoke Kassie
https://orcid.org/0000-0002-4979-285X
Amhara National Regional State Bureau of Women, Children, and Youth Affairs, Ethiopia

ABSTRACT

In the last quarter century, many countries have engaged in the process of decentralization by transferring the responsibilities of the state to lower tiers of government. The major purpose of this study was to explore the practice of fiscal decentralization at the local government of governments of Ethiopia, with a special emphasis on the Awí Nationality Administration Zone in light of legal frameworks and some theories of fiscal decentralization. The study mainly employed a qualitative research approach to illustrate the theory and the practice of fiscal decentralization in the sub-regional level of governments in ANRS with special emphasis on the Awí Nationality Administration Zone. The finding showed that both the legal frameworks and practice indicate that the means of revenue-raising power is relatively decentralized in the city administration as well as woredas level. Another finding showed that aggregate revenue-raising capacity of different levels of government in the zone fails to match their expenditure responsibilities which result in vertical fiscal imbalance.

DOI: 10.4018/978-1-7998-2372-8.ch008

Copyright © 2020, IGI Global. Copying or distributing in print or electronic forms without written permission of IGI Global is prohibited.
INTRODUCTION

During the last two decades of the 20th century, there are increasing tendencies of global political and economic development which accelerated by globalization, information technology revolution, and also decentralization mainly in developing countries of the world. This expression reveals that the impact of decentralization mainly in developing countries encouraged on the ground that decentralization promotes the direct participation of people in government affairs; ensure their inclusion and participation in decision making process; and mobilizes local resources or strengthening effective service delivery through the cooperation of different levels of government (Smoke, 2001). It is also the main mechanism and strategy for improving not only effective delivery service but also the efficiency in the allocation of public expenditure. To realize the above mentioned benefits of decentralization, in 1990’s there is also fiscal decentralization and local government reform which are the most common spread trends in development.

Fiscal decentralization is the devolution of power and functions with the corresponding means of financing to perform those functions assigned to them by the central government on constitutional basis. Many activists of fiscal federalism argued that in the assignment of responsibilities, expenditure responsibilities must precede tax assignment for strengthening the fiscal autonomy of any level of government in return it facilitates the efficient and equitable provision of public services. For example most of the literatures’ of the activists of fiscal federalism argued that:

“…finance should follow function. Assign responsibility for spending must, therefore, precede assign responsibility for taxation, because tax assignment is generally guided by spending requirements at different levels and cannot determine in advance, therefore, it may be desirable to decentralize taxation at the same as decentralizing spending, so that sub national governments will not have rely exclusively on grants from higher levels of government. If sub national governments are not responsible for raising at least some level of their revenues, they may have too little incentive to provide public services in cost effective way (Shah, 2011).”

The above commentators’ of fiscal federalism reveal that revenue sources as well as expenditure responsibilities should be assigned to sub national level of governments should match one another for a good design of fiscal constitution. However, the sub regional governments in Ethiopia have extensive expenditure responsibilities with the corresponding centralization of revenue (tax) assignment at the center. As a central feature, the design of fiscal constitution in Ethiopia in particular and mainly it is also the salient feature of fiscal decentralization in developing federations of the world
Agriculture Livelihood Security: Industry CSR Initiative
[www.igi-global.com/chapter/agriculture-livelihood-security/198725?camid=4v1a](www.igi-global.com/chapter/agriculture-livelihood-security/198725?camid=4v1a)

The Role of Mentoring in Promoting Civic Engagement
[www.igi-global.com/chapter/the-role-of-mentoring-in-promoting-civic-engagement/187798?camid=4v1a](www.igi-global.com/chapter/the-role-of-mentoring-in-promoting-civic-engagement/187798?camid=4v1a)