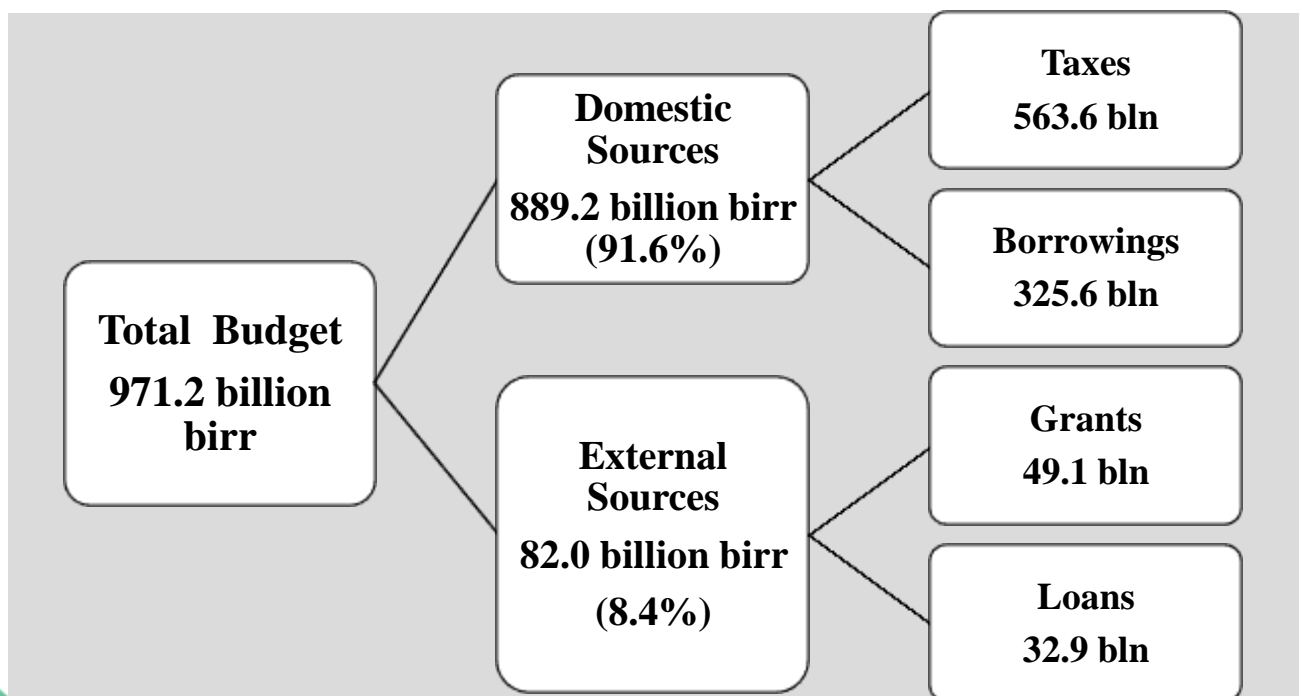




Ethiopia

Ministry of Finance-

Citizens' Budget on Federal Budget for EFY 2017 (2024/25)



Fulfill Your Obligation and Ask for Your Rights!

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1. Introduction

The Ethiopian government budget shows a process by which government will decide on amount of tax to be collected, services to be provided, and amount debt to take on in order to accelerate economic growth and job creation opportunities, modernize infrastructure, and eradicate poverty and inequality. To realize this, the government should inform and engage citizens on these essential decisions that bring impact on their lives by producing a guide on this Fiscal Year budget document.

2. What is Citizens' Budget Document?

Government of Ethiopia has prepared Citizens Budget Guide for its citizens for EFY 2017 (2024/25). Citizens' budget is simplified budget information for citizens to provide an understanding of how the budget affects their life. This citizens Budget document prepared by Ministry of Finance is one of such tools that will allow people to control the filling and spending of the national budget.

3. What is a Budget?

A budget is a legal document that forecast a government expenditures and revenues for a given fiscal year.

The Ethiopian government budget process has four stages (budget preparation, budget approval, budget implementation, and budget reporting and oversight) at all level of jurisdiction (Federal, Regional, and Woreda government) which is guided by Financial Calendar directive issued by the Ministry of Finance (MOF) to all public budgetary bodies (institutions).

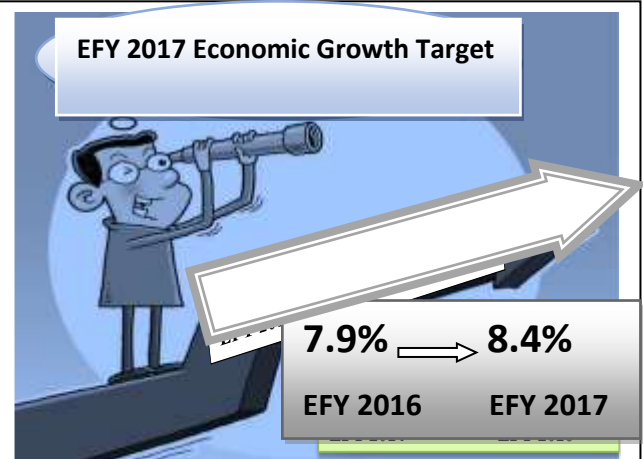
The Four Basic Budget Processes

Budget Preparation		Budget Approval	Budget Implementation	Reporting and Oversight
Before beginning of relevant fiscal year		Fiscal year starts and ends		Following end of fiscal year
<ul style="list-style-type: none"> • Macro-Economic and Fiscal Framework (MEFF) preparation. • Based on MEFF, annual fiscal plan will be prepared. • Public investment program; annual subsidy estimates to regions; budget call to public bodies. • Public bodies submitting budget request. • Conducting budget hearing • Negotiation and Final decision by Executives. 		<ul style="list-style-type: none"> • Budget tabled in the legislators. • Consideration by parliamentary committee. • Approval of the budget and annual appropriation of the approved budget. 		<ul style="list-style-type: none"> • Budget distributed to public bodies to implement activities • Finance ministry monitors spending • Request for legislative approval of adjustment budget if necessary.
				<ul style="list-style-type: none"> • Auditor general auditing public bodies accounts and performances • Oversight by parliaments.

4. Macro-Economic Assumptions Underlying the EFY 2017 (2024/25) Budget

Economic Growth

The country economic growth of EFY 2017 (2023-24) is expected to be fixed on the intended 7.9 percent. The economic growth target of Ethiopia for EFY 2017 is 8.4 percent.



Inflation Rate

According to the Price Sample Survey, the 12 Months Moving Average of national inflation rate recorded in EFY March 2016 (2024) was **29.9 percent**. The next fiscal year inflation rate will expected to be 31.8 percent.



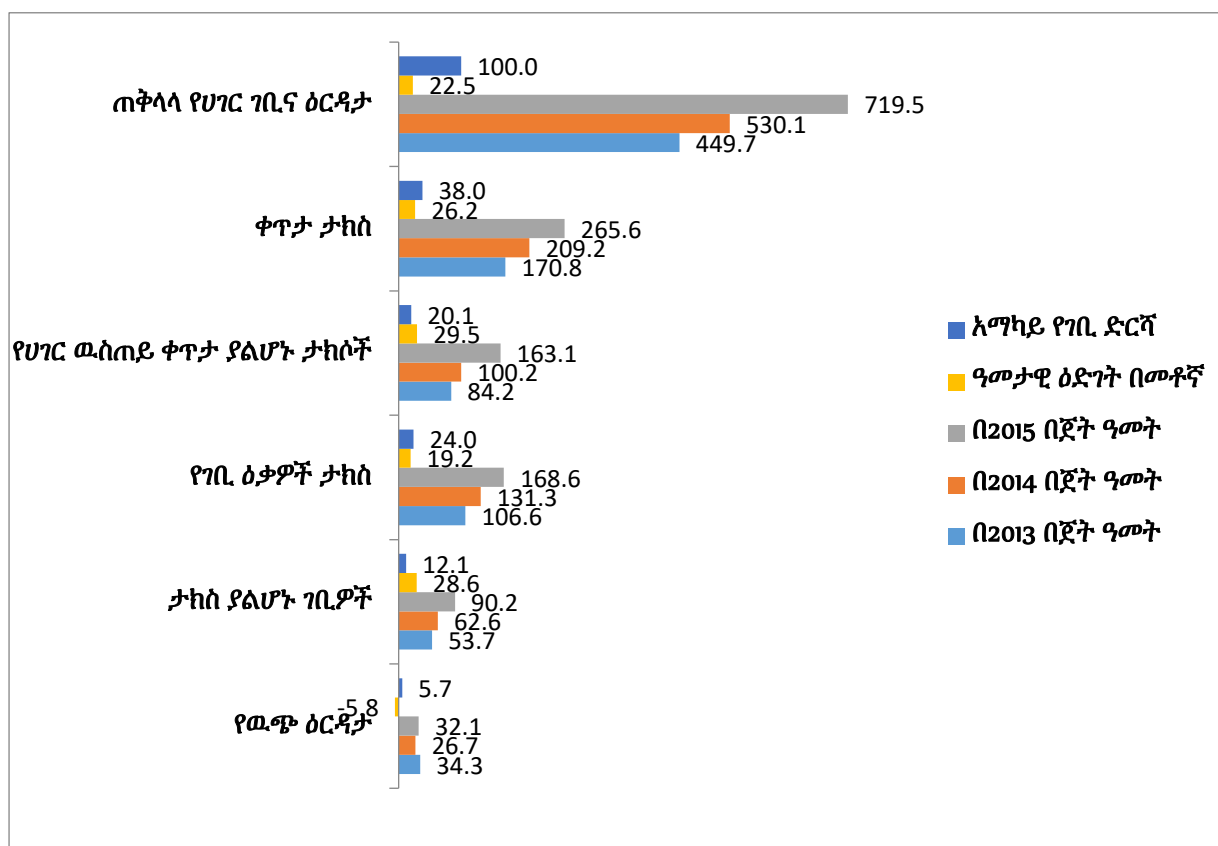
During the EFY 2016 nine month, export of goods performance is **2,167.2** million USD, which is **208.9** million USD (8.8%) lower than the preceding fiscal year.



Previous Years Fiscal Policy Performances

a. Revenue Performances

In billion birr



b. Expenditure Performances

In billion birr

Expenditures	2013(2020/21	2014(2021/22)	2015(2022/23)	Average
Total Expenditure	599.0	785.4	943.9	776.1
Recurrent Expenditure	363.6	518.1	588.1	490.0
Capital Expenditure	235.4	267.2	355.8	286.1
Pro-poor Sector Expenditures	508.0	568.5	679.1	585.2
Education	174.9	211.3	246.9	211.0
Health	85.3	89.5	91.8	88.9
Agriculture	78.7	73.7	81.4	77.9
Water	44.7	70.9	99.7	71.8
Road	124.5	123.1	159.3	135.7

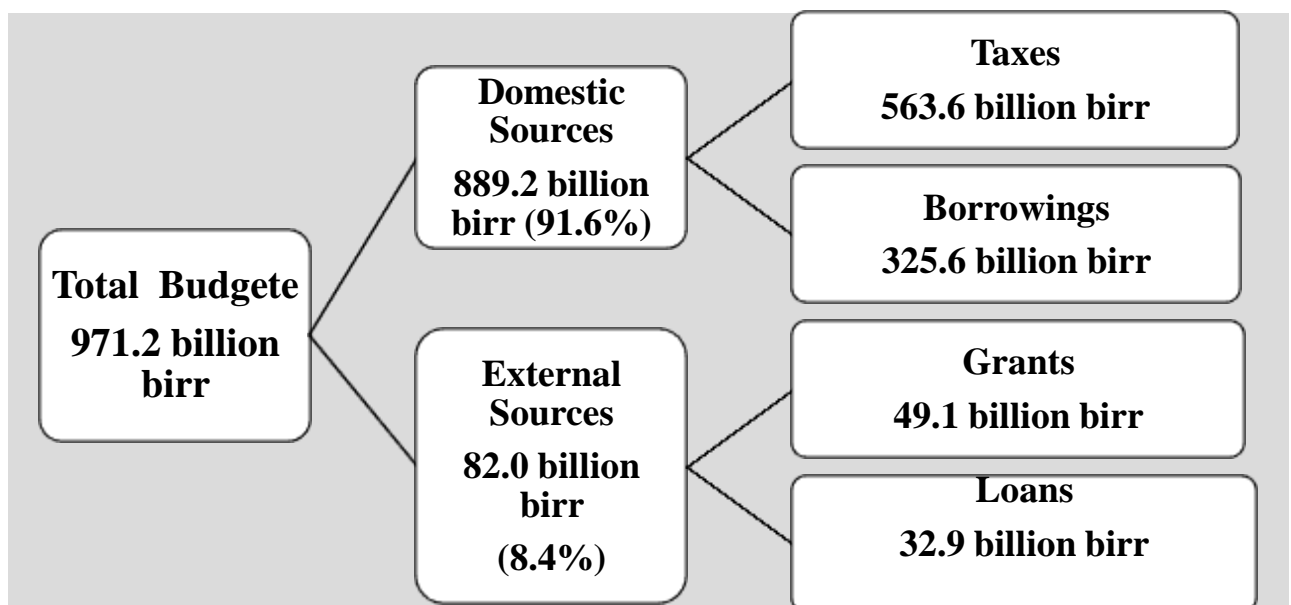
5. EFY 2017 (2024/25) Budget

5.1. Basic Assumptions of the Budgeting

The EFY 2017 (2024/25) program budget preparation is based on the following main assumptions:-

- ❑ The EFY 2016-2018 development and Investment plan which is part of the national ten-year development plan
- ❑ Continual attention given to social and economic transformation, industrial development, export expansion, job opportunity creation, and irrigation system and agricultural development.
- ❑ On-going projects covered by capital expenditures and government's share for externally financed projects
- ❑ Keeping national security, securing aid for natural and man-made disasters, and productive safety nets expenditures
- ❑ Rehabilitation works for damaged infrastructures and services due to internal conflicts.
- ❑ Debt servicing for domestic and external loans
- ❑ For sustainable development goals (SDG) implementation and medium and small scale irrigation development

5.2. Where is the Money Coming from and How Much?



Key Tax Policy Reforms to Reinforce Revenue Mobilization

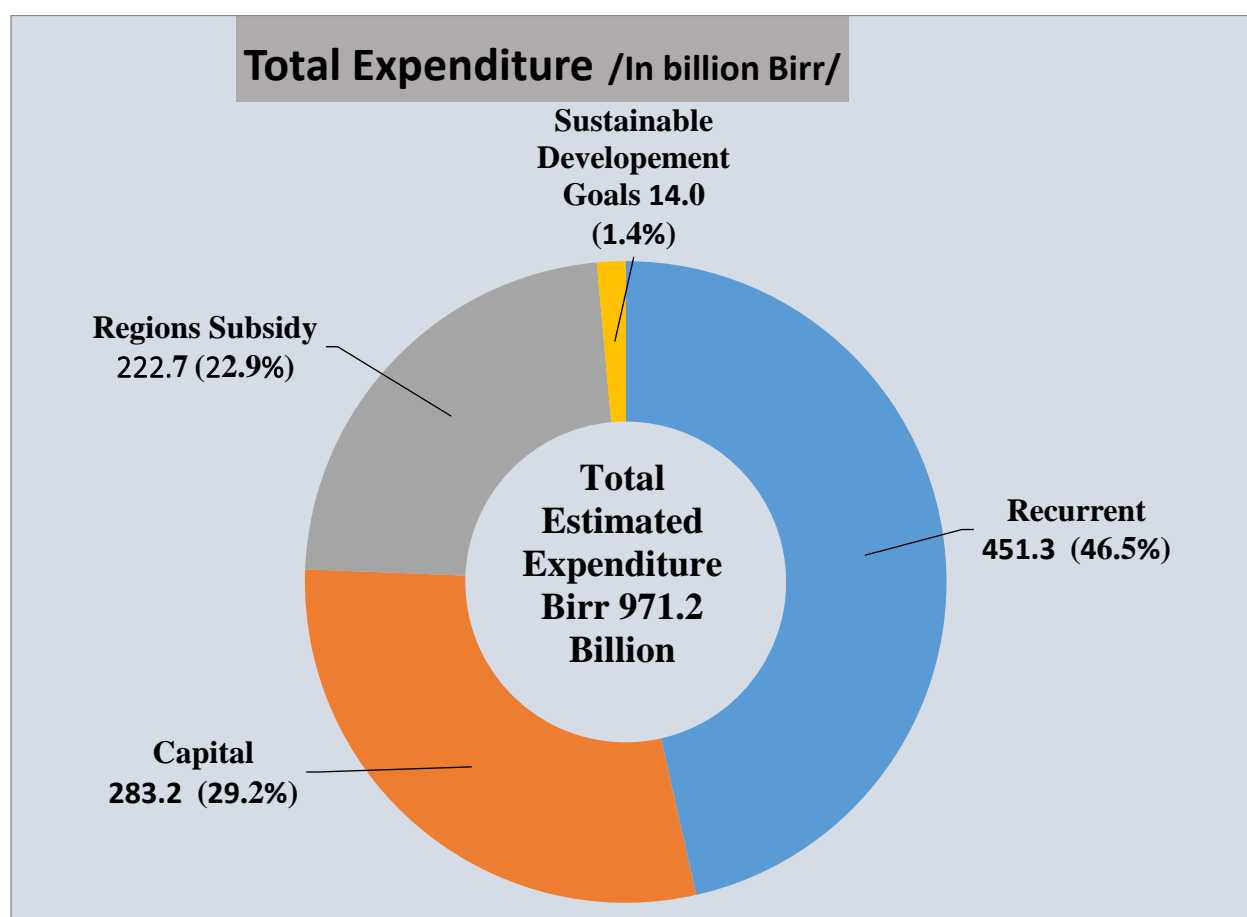
New Tax policies which are expected to be endorsed by legislators' in this new budget year will create additional capability to surge the government's revenue collections in the next fiscal years. By implementing these tax reforms, Birr 92.5 billion additional revenue expected to be collected in this Fiscal year.

The major planned tax policy reforms are:-

- **Value Added Tax (VAT) reforms:-** These reforms are expected to boost the tax revenue by revising the VAT registration ceiling based on in-depth studies, and simplifying the tax payment process for small and medium enterprises also expected to widen the tax base in the economy. In addition to this, introducing e-commerce into the system would have also increase the tax collection.
- **Excise tax reforms-** when these reforms applied in addition to get additional income it would also encourage to reduce the consumption of harmful products for health.
- **Excise Stamp, and Track and Trace System** collecting additional income and eliminating illegal trades by implementing excise tax on excised commodities.
- **Income tax reforms:** - It is considered that additional revenue can be obtained through reductions of tax exemptions provisions and establishing and applying a system of minimum alternate tax in a way that to curbs the tax avoidances.
- **Tax incentive reforms:-** Owing to the growing revenue costs for the government and the need to ensure transparency of the whole incentive structure, the Ministry of Finance will be rationalizing and maintaining the incentive system and thereby improving the efficiency of the tax system
- **Property Tax law:-** The federal government in consultation with the regional states will introduce a property tax system in line with the existing land lease fee. This tax system contributes not only in addressing the financing needs of local governments (Regions), but also it has a positive impact in tax to GDP aspects
- **Non tax Revenue:-** Revenues collected from non-tax sources will mainly come from government investment income (dividend and residual surplus) and sale of goods & services as well as fees and charges
- **Tax Administration Reforms:-** Government committed to reform tax collection institutions by conducting in-depth assessment of capacity gaps that are required to strengthen its collection capacity and implement fundamental reforms where necessary.

5.3. Where does the Money Going?

The total Expenditure for EFY 2017 (2023/24) is 971.20 billion birr and this has a 21.1 % (169.56 billion birr) growth relative to the previous Fiscal Year. Its allocation has shown below.



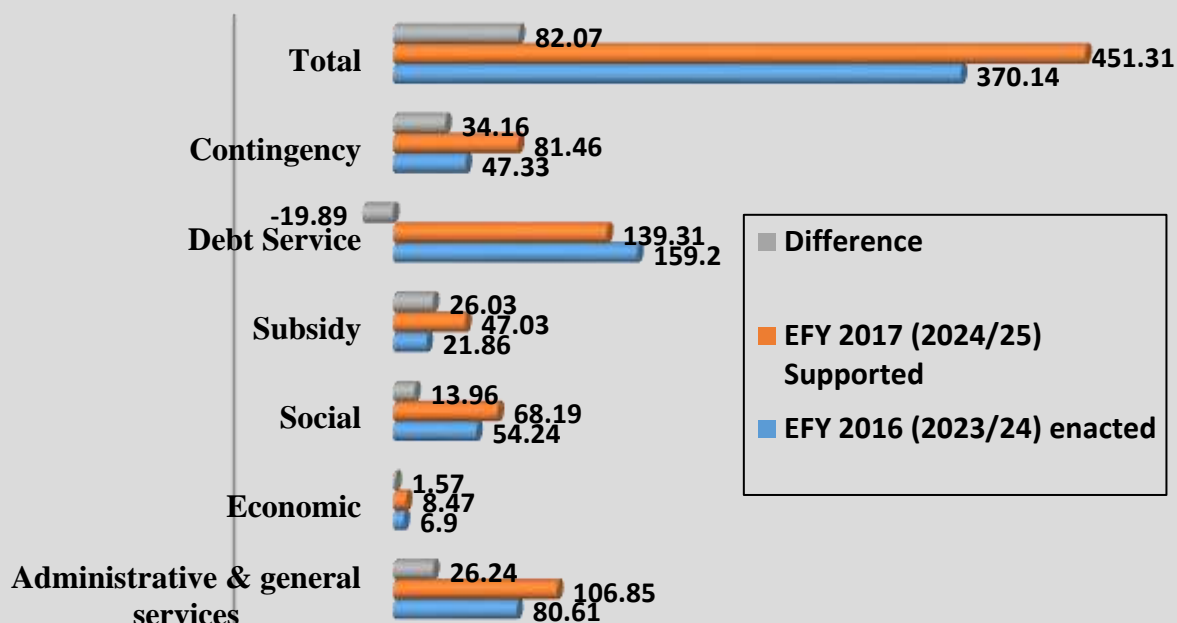
Recurrent Expenditures (In Billion Birr)

The recurrent budget allocation is mainly to prioritize:

- Debt service
- National security protection
- Support for conflicts and drought affected citizens and infrastructures



EFY 2017 (2024/25) Recurrent Expenditures /in billion birr/



Capital Expenditures (In Billion Birr)

Capital budget allocation prioritizes:-

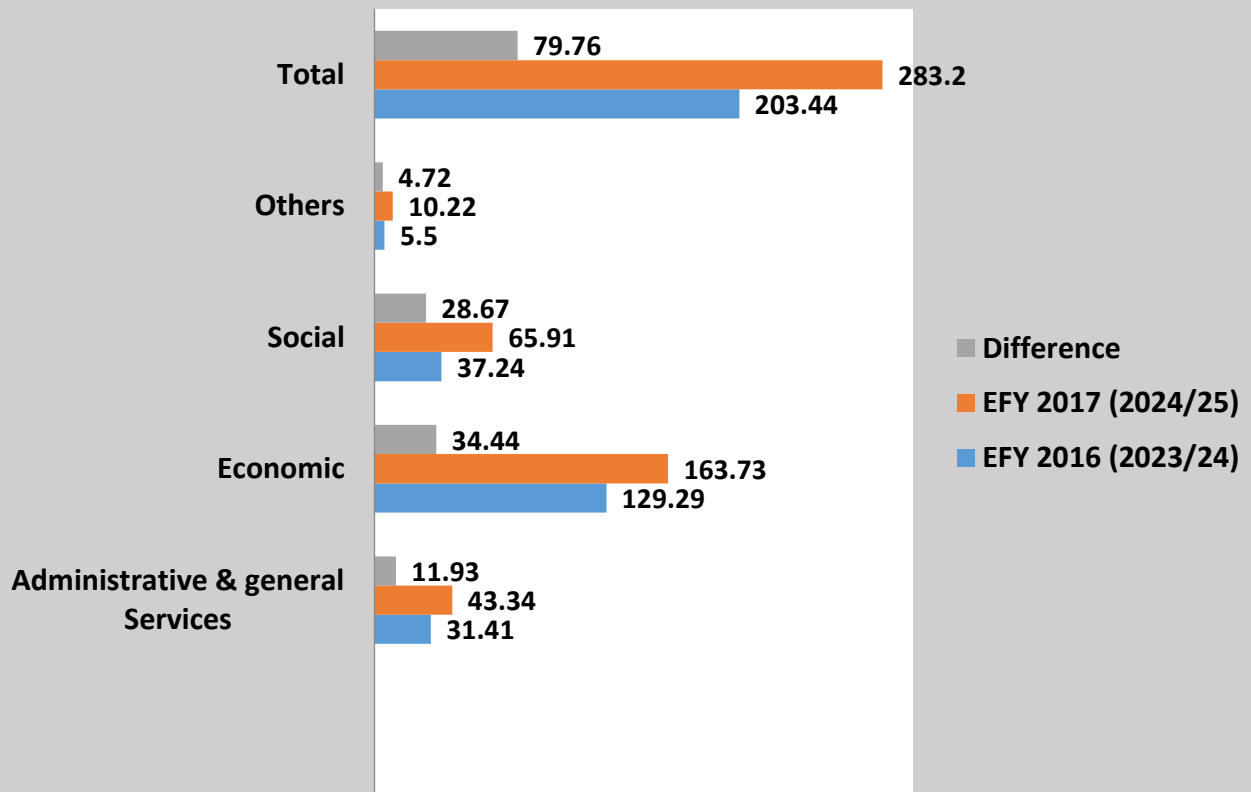
- Accomplishing on-going and new projects that ensures sustainable development
- Rehabilitation of damaged infrastructures and services due to internal conflicts



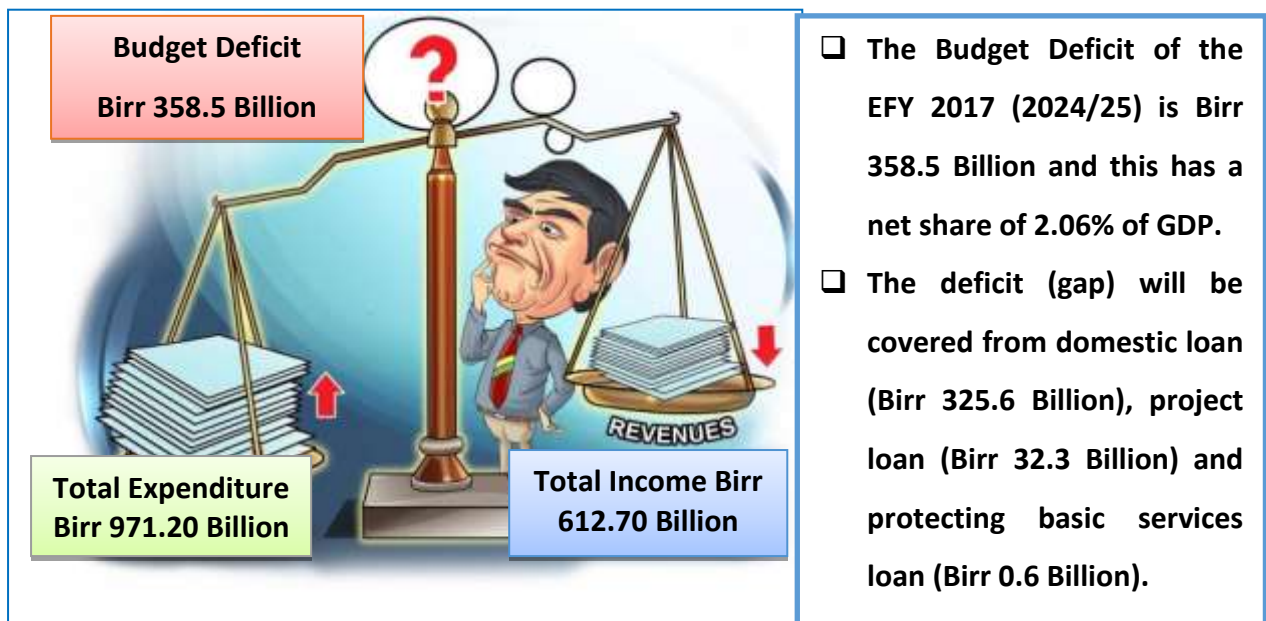
Capital
Expenditures

EFY 2017 (2024/25) Capital Expenditures

/in billion birr/



5.4. How Government Covers the Expenditure Obligations?



5.5. *Government Expenditure Plan on Basic Activities and Programs*

A. Improving Road Infrastructure

- Building new main and feeder road infrastructure and
- Repairing older roads

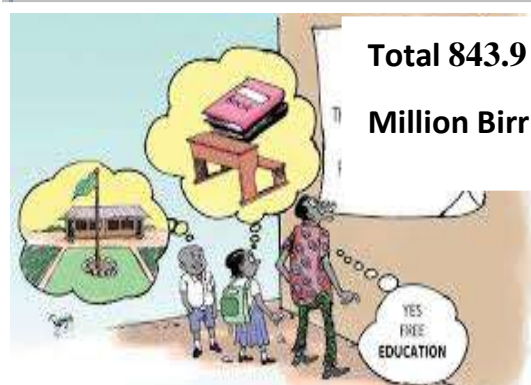
Total 85.0 billion birr



B. Education Sector Development

Including

- ✓ higher education completion of existing projects,
- ✓ technical and vocational education, and
- ✓ General education quality improvement.



C. Irrigation System Development

- ❑ New and existing major irrigation system construction and renewal works
- ❑ Low land livelihood improvement through technological adoption and
- ❑ Small scale irrigation development through regions by sustainable development goals

Total 19.1 billion birr



D. Renovation of Damaged Properties and Basic Service infrastructures

- ✓ Over all rehabilitation project from central government Treasury
20.0 billion birr



E. Health Sector Development

Over all 24.0 billion birr allocated to health sector



F. Productive Safety net Program-PSNP

Including

- ☐ Rural job opportunity and Productive Safety net program
- ☐ Urban Productive Safety net

Total 23.3 billion birr



G. Supply and Securing of Clean and Sufficient Drinking Water

- ☐ To secure save and clean drinking water

Total 9.3 billion birr allocated



H. Integrated Small scale Irrigation System Development Project

- ☐ Special support for small land holders
600.0 million birr



I. Making Conducive working Environment for Public Service Provision

- ☐ Construction of public offices from central treasury

5.2 billion birr



5.6. Regional States Subsidies and SDGs Support from Central Government for EFY 2015(2022/23) (In birr)

Regional States	EFY 2016 (2023/24)	EFY 2016 (2024/25)	Difference	Support for MDGs
Tigray	12,591,813,948	13,099,277,069	507,463,121	844,200,000
Afar	6,306,347,948	6,560,500,289	254,152,341	422,800,000
Amhara	45,105,005,187	46,922,783,527	1,817,778,340	3,024,000,000
Oromia	71,959,188,831	74,859,218,535	2,900,029,704	4,824,400,000
Somalia	20,840,182,952	21,680,063,870	839,880,918	1,397,200,000
Benshangul Gumuz	3,821,396,273	3,975,402,493	154,006,220	256,200,000
Central Ethiopia	0	12,825,556,317	12,825,556,317	826,559,709
Gambella	2,777,298,930	2,889,226,949	111,928,019	186,200,000
Harari	1,587,027,961	1,650,986,828	63,958,867	106,400,000
Addis Ababa City Administration	5,254,541,684	5,459,000,522	204,458,838	0
Dire Dawa Town Administration	1,837,611,323	1,911,668,959	74,057,636	123,200,000
Sidama	8,566,693,402	8,911,940,002	345,246,600	574,341,600
Southern West Ethiopia Peoples	6,484,818,931	6,746,163,838	261,344,907	434,765,330
South Ethiopia	0	15,202,320,247	15,202,320,247	979,733,361
Total	187,131,927,370	222,694,109,445	35,562,182,075	14,000,000,000

6. Budget terminology (glossary)

- 1) **Administrative Jurisdiction:** describes the authority of the administrative courts to decide in the area of administrative law.
- 2) **Budget Call:** A Circular by MOF that contains budget preparation forms, instructions and procedure for preparation and submission of detailed budget estimates.
- 3) **Budget Deficit:** The gap between expenditure and revenue for the intended Fiscal Year and expressed in terms of percentage of the Gross Domestic Product (GDP).
- 4) **Budget oversight:** monitors the execution of the budget, to provide checks and balances on the enacted budget.
- 5) **Budget Request:** an itemized summary of expenditure of an organization over a specified period, usually a financial year submitted to MOF.
- 6) **Budget Subsidy (Budget grant):** Budget support provided to regions by Federal government.
- 7) **Capital Expenditure:** the expenditure of funds by government for an asset that is expected to provide utility for organizational service provision.
- 8) **Domestic Sources:** the process through which government raise and spend its own funds from different sources within the country to provide services for its people.
- 9) **Economic Stability:** the absence of excessive fluctuations in the macro economy. Or an economy with fairly constant output growth and low and stable inflation would be considered economically stable.
- 10) **Excise Tax:** any duty on manufactured goods that is levied at the moment of manufacture rather than at sale

- 11) **External Assistance**: support from external sources for budgeting to fulfill expenditure obligation by the government for a given fiscal year.
- 12) **Ethiopian Fiscal Year (EFY)**: a period of time used by the government for annual financial statements from July 08 to July 7 (From Hamle 01 to Sene 30 according to Ethiopian Fiscal Year).
- 13) **External Loan**: loan from external sources for budgeting to fulfill expenditure obligation by the government for a given fiscal year
- 14) **Fiscal Policy**: government spending and revenue to influence the economy.
- 15) **Financial Resource/Revenue**: sources of finance from which government obtains the funds it needs to finance its investments, capital and recurrent activities.
- 16) **Fiscal framework**: the determination of financial resources available for expenditures during the fiscal year.
- 17) **Grace Period**: a set length of time after the due date during which payment may be made without penalty
- 18) **Gross Domestic Product (GDP)**: the monetary value of all finished goods and services made within a country during a specific period.
- 19) **Inflation Rate**: the percentage change in the price index for a given period compared to that recorded in a previous period. A price index means a weighted average of the prices of a selected basket of goods and services relative to their prices in some base-year.
- 20) **Macro-Economic Fiscal Framework (MEFF)**: the framework provides the context under which fiscal targets are set, policy choices are determined, and realistic revenue and expenditure projections are prepared.
- 21) **Medium Term Fiscal Framework**: fiscal arrangements that allow government to extend the horizon for fiscal policy making beyond the annual budgetary calendar. Three-year spending plans of the Ethiopian governments.
- 22) **Policy**: a system of laws, regulatory measures, courses of action, and funding priorities concerning a given topic publicized by a governmental entity or its representatives.
- 23) **Price Sample Survey**: a research method used to determine optimal pricing for products or services by asking questions directly to the targeted market to

gain insights into how much they are willing to pay, what features have the highest impact on sales, the perceived value of product/brand, etc.

- 24) **Program Budget:** classifying expenditure into groups of similar services with similar objectives, a program budget helps budget decision makers compare the costs and benefits of expenditure options.
- 25) **Property Tax:** tax levied in respect of real property, and this includes urban land use right, building ownership and other land improvements located in an urban area chargeable from a tax payer.
- 26) **Public Entity (Public Budgetary Institutions):** any entity established or controlled by the federal government, including, but not limited, institutions of higher education and related research institutions providing services to the public on behalf of the government.
- 27) **Oversight:** Oversight bodies examine, on a continuing basis, the expenditures, administration and policy of government agencies or departments.
- 28) **Recurrent Expenditure:** expenditure on goods and services that does not result in the creation or acquisition of fixed assets, and which consists mainly of expenditure on wages, salaries and supplements, purchases of goods and services.
- 29) **Sustainable development Goals (SDGs):** the blue print to achieve a better and more sustainable future for all. They address the global challenges we face, including poverty, inequality, climate change, environmental degradation, peace and justice.
- 30) **Value Added Tax:** paid at every stage of a product's production from the sale of the raw materials to its final purchase by a consumer.

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