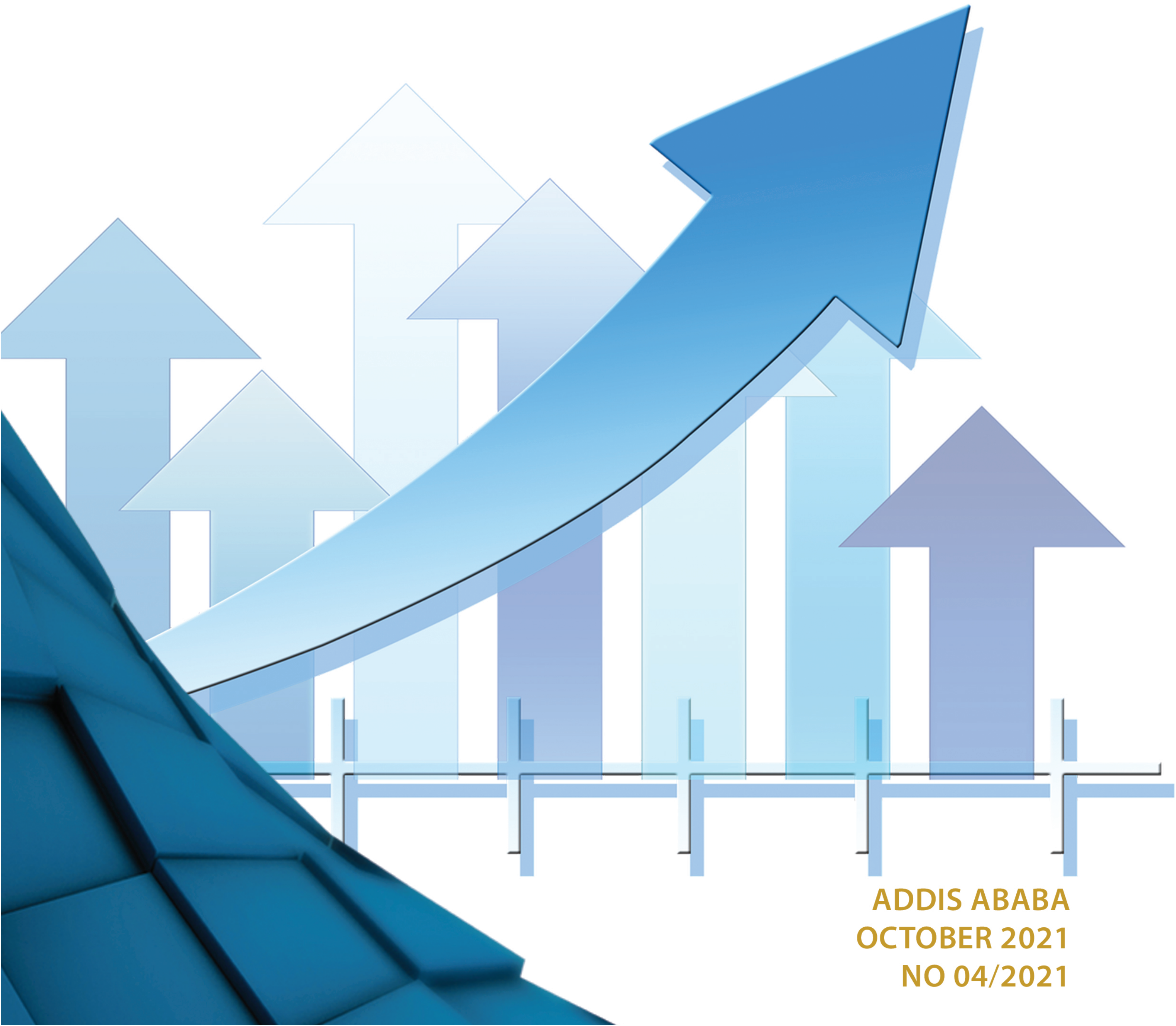
MACRO-FISCAL
PERFORMANCE IN ETHIOPIA AND RECENT FISCAL POLICY DEVELOPMENTS

MINISTRY OF FINANCE



ADDIS ABABA
OCTOBER 2021
NO 04/2021

Macro-Fiscal Performance in Ethiopia and Recent Fiscal Policy Developments

Addis Ababa, October 2021

No. 04/2021

TABLE OF CONTENTS

List of Table	III
List of Figure	IV
Acronyms	VI
Message from the Minister	X
Introduction	XII
1 Macroeconomic Developments	1
1.1 Real Sector Development	1
1.2 Price Developments	3
1.3 External Sector Performance	3
1.4 Monetary Developments	7
1.5 Saving and Investment	9
1.6 Employment	11
1.7 Fiscal performance	17
1.7.1 Government Revenue	17
1.7.2 Government Expenditure	22
1.7.2.1 Recurrent Expenditure	26
1.7.2.2 Capital Expenditure	27
1.7.3 Deficit Financing	28
1.8 External and Domestic Debt Developments	30
1.8.1 External Debt Outstanding	31
1.8.2 External Debt Composition	33
1.8.3 Sources of External Debt	34
1.8.4 External Debt Average Terms and Grant Elements	35
1.8.5 External Debt Disbursement	37
1.8.6 Domestic Debt Outstanding	37
1.8.7 Domestic Debt Service	39
2 Developments in Fiscal Policy	42

2.1 Developments in Fiscal Decentralization: Vertical Imbalance and Intergovernmental Transfers 42

2.1.1 Recent Changes in Fiscal Decentralization 45

2.2 Tax Policy Changes 48

2.2.1 The rationale of the new proclamation 48

2.2.2 Main changes introduced in the new proclamation 48

2.3 Fiscal Risks 49

2.3.1 Drought 50

2.3.2 Flood 52

2.3.3 Locust 53

2.3.4 Disaster Financing 53

2.4 Public Expenditure Effectiveness in Health Sector 55

2.4.1 Findings of the VFM Study 56

2.4.2 Recommendations 57

2.4.3 Next Steps: taking forward the recommendations 59

References 60

LIST OF TABLE

Table 1.1.1 Annual GDP Growth by Major Economic Sectors (in percent) 1

Table 1.1.2 Sectoral Contribution to GDP Growth (in percent) 2

Table 1.2.1 Annual Average Inflation Rates (in percent) 3

Table 1.3.1 Values of major Export Items 4

Table 1.3.2 Value of Imports by End-Use (in Millions of USD) 5

Table 1.3.3 Volume and Value of Petroleum Imports (Volume in MT, value in "000" Birr) 6

Table 1.3.4 Merchandise Trade Balance, 2017/18-2019/20 (In millions of USD) 6

Table 1.4.1: Components of Broad Money 8

Table 1.6.1: Priority Policy Action Requiring Areas in Africa 12

Table 1.7.3.1: General Government Budget Financing from 2007/08-2016/17 (in % of GDP) 29

Table 1.8.4.1: Public External Debt, New Commitment, Amount, Average Terms & Grant 35

Table 1.8.5.1 Public Sector Loan Disbursements by Economic Sector (in Percentage) 37

Table 1.8.6.1: Domestic Public Debt Outstanding by Borrowing Instructions (in millions of Birr) 39

Table 1.8.7.1: Domestic Debt Service Payment (in billions of Birr) 40

Table 2.1.1.1: The Change in Concurrent Revenue Share Formula 46

Table 2.1.1.2: Concurrent Revenue Share Under the New Formula (Birr) 47

Table 2.3.1.1: Magnitude of Droughts in Ethiopia and their Fiscal Implications 51

Table 2.3.2.1: Magnitude of Floods in Ethiopia and their Fiscal Implications 52

LIST OF FIGURE

Figure 1.1.1 GDP growth in Ethiopia and Sub-Saharan Africa Countries 2

Figure 1.3.1 The percentage share of import and export to GDP 5

Figure 1.3.2 Export Capacity in Financing Imports 7

Figure 1.4.1: Annual Growth of Broad Money Supply and its Components 8

Figure 1.4.2: Major Determinants of Monetary Growth 9

Figure 1.4.3: Annual Percentage change in Reserve Money and its components 9

Figure 1.5.1: The Share of Gross Domestic Saving in GDP (in Percent) 10

Figure 1.5.2: The Share of Gross Domestic Investment from GDP (in Percent) 10

Figure 1.6.1: Annual Growth (%) in Number of SMEs Established, Amount of Credit Extended and Jobs Created through SMEs (2014/15-2019/20) 13

Figure 1.6.2: Employment to Population Ratio by Sex during Four Survey Periods 14

Figure 1.6.3: Percentage Share of Employed Population of Urban Areas by Major Sectors during the last Five Survey Periods - Country Total 15

Figure 1.6.4: Trend of Unemployment Rate in Urban Areas by Sex during Five Survey Periods – Country Total 15

Figure 1.6.5: Unemployment Rate in Urban Areas of Regions by Sex: 2020 16

Figure 1.7.1.1: Annual Growth of Government Revenue (Major Sources in %) 18

Figure 1.7.1.2: Share of Domestic Revenue and External Grant from 2008/09-2019/20 18

Figure 1.7.1.3: Share of Tax Revenue and Non-Tax Revenue between 2008/09- 2019/20 19

Figure 1.7.1.4: Share of Different Tax Components from 2009/10-2017/18 20

Figure1.7.1.5: Share of Tax Revenue to GDP for Ethiopia and Other African Countries 22

Figure 1.7.2.1 Share of Recurrent and Capital Expenditure from 2010/11-2019/20 23

Figure 1.7.2.2: Share of Sectoral Expenditure in Total Expenditure from 2010/11-2019/20(%) 24

Figure 1.7.2.3: Share of Pro-Poor Sector Expenditure from Total Expenditure (Percent) 25

Figure 1.7.2.4: Share of Government Expenditure to GDP (Percent) 26

Figure 1.7.2.1.1: Share of Sectoral Recurrent Expenditure from Total Recurrent Expenditure (%) 27

Figure 1.7.2.2.1: Share of Sectoral Capital Expenditure from total Capital Expenditure (%) 28

Figure 1.8.1.1: External Debt Trend in Ethiopia 31
Figure 1.8.1.2: Growth of External Debt Stock by Debt Holder 32
Figure 1.8.1.3: Change in External Debt Stock by Debt Holder across the three 5 year planning periods 32
Figure 1.8.2.1: Composition of External Public Debt 33
Figure 1.8.3.1: Total Public Sector Debt Outstanding by major Creditors (percent share) 34
Figure 1.8.4.1: External Debt Servicing by Major Borrower Category (billions of USD) 36
Figure 1.8.4.2: Share of External Debt Servicing by Major Borrower Category %) 36
Figure 1.8.6.1: Domestic Debt to GDP Ratio (%) 44
Figure 2.1.1: Revenue shares of Federal and Regional Governments in Ethiopia 43
Figure 2.1.2: The Share of Regional and Federal Governments in Total Government Expenditure in Ethiopia 43
Figure 2.1.3: Developments in Intergovernmental Budget Transfers 44

ACRONYMS

ADP	African Development Bank
ATFAF	American for Tax Fairness Action Fund
AUC	African Union Commission
BDS	Business Development Service
BMGF	Bill and Melinda Gates Foundation
BRE-TA	Building resilience in Ethiopia Technical Assistance
CBE	Commercial Bank of Ethiopia
COFOG	Classification of Functions of Government
COVID-19	Corona Virus Disease -19
CRC	Convention on the Right of the Child
DFID	Department for Foreign and International Development
EAL	Ethiopian Air Lines
EDHS	Ethiopian Demographic and Health Survey
EEP	Ethiopia Electric power
EEU	Ethiopia Electric Utility
EFY	Ethiopian Fiscal Year
ERC	Ethiopian Railway Corporation
ESL	Ethiopia Shipping and Logistics Services
ETC	Ethio Telecom
FAO	Food and Agriculture Organization
FDRE	Federal Democratic Republic of Ethiopia
FY	Fiscal Year
GDP	Gross Domestic Product
GTP I	First Growth and Transformation Plan
GTP II	Second Growth and Transformation Plan
GVA	Gross Value Added

HDR	Human Development Report
HPE	Health Extension Program
HOF	House of Federation
ICT	Information and Communication Technology
IMF	International Monetary Fund
IPDC	Industryial Park Development Corporation
LAC	Latin America and Caribbean
M2	Broad Money Supply
MFIS	Microfinance Institutions
MGR	egular Gasoline
MoF	Ministry of Finance
MoH	Ministry of Health
MT	Metric ton
NBE	National Bank of Ethiopia
NGOs	Non-GovernmentalOrganizations
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
PDC	Planning and Development Commission
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PPP	Public-Private Partnership
PSNP	Productive Safety Net Program
SBA	Small Business Administration
SC	Ethiopian Sugar Corporation
SMEs	Small and Medium Enterprises
SMIEs	Small and Micro Enterprises

SNNP	Southern Nations, Nationalities, and Peoples
SOE	State-Owned Enterprises
SSA	Sub-Saharan Africa
UEUS	Urban Employment Unemployment Survey
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
USD	United States Dollar
VAT	Value-Added Tax
WEO	World Economic Outlook
V4M	Value for Money

MESSAGE FROM THE MINISTER

I am honored to present this series of publications–***"Macro-Fiscal Performance in Ethiopia and Recent Fiscal Policy Developments"*** produced by the Ministry of Finance (MoF). This publication is a series of flagship reports of its kind produced by the Ministry to shade light on the country's fiscal policy and its implementation. It shall provide an opportunity for readers to understand the broad objectives and directions of the Country's fiscal policy. We envisage that the publication, by highlighting some of the recent developments in fiscal policy, will reinforce the future policy endeavors towards achieving the structural transformation aspirations of the nation, both in the medium and long-term.

Ethiopia has registered impressive economic growth on all fronts over the last two decades. Growth in the past was mainly propelled by government investment that was partly financed by external borrowing. The ambitious public investements have contributed to significant expansion in infrastructure that has set a good foundation for future growth. However, poor project feasibility analysis and implementation, particularly by state owned enterprises, have led to serious macroeconomic imbalances such as debt burden and high inflation.

I would like to take this opportunity to reaffirm the commitment of the Federal Government towards maintaining the momentum of economic growth without jeopardizing macroeconomic stability. This is in line with the objectives of the Ten Year Development Plan, which focuses on changing the mobilization of financial resources from temporary to sustainable and more dependable sources, reducing the heavy costs of development in areas where finances are used, ensuring efficiency, and increasing domestic savings.

The Government of Ethiopia is determined to accelerate economic development by pursuing pro-poor growth-oriented policies coupled with a stable macroeconomic environment. To achieve this goal, we will put more emphasis on resource mobilization from domestic sources, particularly tax revenues. To reduce poverty and improve the welfare of its citizens, the Government shall invest in education and capacity building, promoting basic healthcare services, expanding infrastructure, building institutions, promoting good governance, and ensuring democratization and decentralization.

Over the coming years, more attention will be given to the quality of growth in all aspects to make the transformation process inclusive. The quality of basic services provision, including education and health will be our top priority. The fiscal policy will focus on minimizing wasteful resources allocation. Intensive project feasibility studies, and critical follow-ups, and monitoring and evaluation of projects will be conducted to reduce delays in project implementation. Fiscal policy will continue to be prudent and instrumental in bringing fast, sustainable and broad-based growth through fair and progressive taxation, improved expenditure management and financing practices both at Federal and Regional levels.

I am very much appreciative of the fact that lots of effort have been put into the preparation of the Report. Therefore, it is my pleasure to extend my profound thanks and appreciation to all those directly or indirectly involved in the production of this report. Special thanks go to the staff of the Fiscal Policy Directorate and especially Ato Jonse Gedefa, the Director of the Fiscal Policy Directorate, who superbly coordinated and provided proper guidance in the finalization of the report. Special thanks also go to Ato Mezgebu Ameha, Ato Fantahun Belew, Ato Mesfin Namarra, Dr. Andualem Telaye, W/t Tizita Feleke, Ato Eyasu Solomon, Ato Yonas Fantaye, Ato Temsgen Mergia and to all other members of the Fiscal Policy Directorate at the Ministry of Finance, for their very significant contribution towards producing this report. I would also like to acknowledge the technical support provided by BRE-TA and UNICEF towards this publication.

I would also like to thank other staff members of the Ministry of Finance, Directors, Senior officials, and Experts who provided their specific sector data and constructive comments towards producing the report. I trust you will enjoy reading this report. My ministry and I look very much forward to comments, suggestions, and other pertinent feedback on our humble attempt towards improving our future reports.

Ahmed Shide
Minister

Ministry of Finance
October 2021

INTRODUCTION

The main trust of Fiscal Policy in Ethiopia is strengthening domestic revenue generation ,effective & efficient allocation and utilization of the resources as well as maintaining fiscal deficit consistent with macro economic objectives. Over the last two decades, Ethiopia has registered impressive economic growth on all fronts. Robust investment by the government on infrastructure such as roads, schools, and health facilities have played a significant role in the growth process.

During the GTP I period, the Ethiopian economy grew at an annual rate of 10.1 percent. The country continued to enjoy fast economic growth in the GTP II period as well (8.2 percent). The robust growth performance in the GTP II period in the face of significant headwinds is a testament to the growth enhancing investments the government made over the last two decades.

Among the shocks that affected the economy over the last five years are foreign exchange shortages, a massive locust invasion, flooding, low domestic resources mobilization, inflation, the COVID-19 pandemic, political instability, global volatility in international commodity prices, and deteriorating terms of trade.

The current administration strives to set the country on the path to stability, growth, and prosperity through diversifying the economy and creating a productive and competitive private sector. It reduces the role of government in production and service delivery by privatizing prominent State-Owned Enterprises and improving the Doing Business environment. Notably, it is vigorously working to restore peace and security, build democratic and participatory governance, combat grand corruption, and introduce and improve transparency and accountability in the management of public resources.

The Government is also working on reform measures aimed at efficiently using resources at hand and avoid ambitious and capital-intensive projects that require significant external financing. The Government's major fiscal policy objectives are to ensure sustainable, fair, and inclusive economic growth by increasing government revenues, ensuring that government spending is devoted to promote social and economic sectors that enhance economic growth and expedite poverty reduction.

This edition, which is part of the Ministry's flagship reports on Macro-Fiscal policy, is geared towards documenting the overall performance of the country's economy and recent developments in Fiscal policy implementation.

Part one of the report focuses on reviewing developments in macro-fiscal performance in recent years. It highlights trends in Macroeconomic aggregates, including economic growth performances, inflation, external debt, exports, imports, employment, private sector developments, and government revenue and expenditure. Part two of the report focuses on reviewing recent Fiscal policy developments (Tax policy & Fiscal decentralization), Fiscal risk, and public Expenditure Effectiveness.

PART ONE
MACRO-FISCAL PERFORMANCE

1. MACROECONOMIC DEVELOPMENTS

1.1 REAL SECTOR DEVELOPMENT

The Ethiopian economy registered an average annual real GDP growth rate of 8.2 percent during GTP II implementation period (2015/16-2019/20). The agriculture, Industry, and Service sectors saw 4.1 percent, 13.5 percent, and 8.2 percent annual average growth rates, respectively. Similarly, the Ethiopian economy registered a growth rate of 6.1 percent in 2019/20 FY. During the same period, agriculture, industry, and services grew by 4.3 percent, 9.6 percent, and 5.3 percent, respectively. Within the industrial sector, the manufacturing sub-sector grew by 7.5 percent while the construction sub-sector grew by 9.9 percent. In the 2019/20 fiscal year,the contributions of Agriculture, Industry, and Services to the overall GDP growth rate were 1.4 percent, 2.6 percent, and 2.1 percent, respectively.

In 2019/20, the COVID-19 pandemic affected the growth of both the industry and services sectors. As a result, at least partly, of the pandemic, the growth rates of the industry and services sectors declined from 12.6 percent and 11.2 percent in 2018/19 to 9.6 percent and 5.3 percent in 2019/2020, respectively.

Table 1.1.1 Annual GDP Growth by Major Economic Sectors (in percent)

Sector	2010/11-2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2015/16-2019/20
Agriculture	6.6	2.3	6.7	3.5	3.5	4.3	4.1
Major crops	7.5	3.4	8.1	4.7	3.0	4.7	4.8
Industry	19.8	20.6	12.7	12.2	12.6	9.6	13.5
Manufacturing	15.1	18.4	24.7	6.8	7.7	7.5	13.0
Construction	27.7	2.5	20.7	15.7	15.0	9.9	17.3
Service	11.0	8.7	7.5	8.3	11.2	5.3	8.2
GDP at constant price	10.1	8.0	10.1	7.7	9.0	6.1	8.2

Source: Planning and Development Commission

On the other hand, the agricultural sector's growth rate increased to 4.3 percent compared to the 3.5 percent growth rate in 2018/19. The improvement in the performance of the agricultural sector is primarily attributed to higher crop production and the generally less susceptibility of the agricultural sector to the COVID-19 pandemic. The crop subsector's output has increased by 4.7 percent in real terms in 2019/20 above the preceding fiscal year.

Table1.1.2 Sectoral Contribution to GDP Growth (in percent)							
Sector	Average 2010/11-2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Average 2015/16-2019/20
GDP Growth	10.1	8	10.1	7.7	9	6.1	8.2
Agriculture	2.8	0.9	2.5	1.3	1.3	1.4	1.5
Industry	2.3	3.1	4.7	3.1	3.4	2.6	3.4
Service	5	4	2.9	3.3	4.3	2.1	3.3

Source: Planning and Development Commission

In 2016/17, in terms of sectoral contribution to GDP growth, the industry sector had the highest contribution with a 4.7 percentage point of growth in GDP , followed by the service sector, which contributed 2.9 percentage points of the growth in GDP. The contribution of the service sector declined to 2.9 percent in 2016/17 compared to 4 percent in 2015/16. During the same period, the contribution of agriculture increased to 2.5 percent from 0.9 percent in 2015/16. In 2019/20, the contribution to the GDP growth by major economic activities showed that agriculture, industry, and services sectors had contributed 1.4, 2.6, and 2.1 percentage points, respectively. The contribution to GDP growth of the agricultural sector has slightly increased while those of industry and service have declined compared to the 2018/19 performance. The reduction in the contribution of the services sector to the growth from the previous year has been very sharp, reflecting the highest negative effect of the COVID-19 pandemic on activities mainly related to the services sector.

During 2019/20 (EFY 2012), the Ethiopian economy continued its steady growth even when the whole world faced severe challenges in macroeconomic and social conditions caused by the outbreak of the COVID-19 pandemic. The country's economy grew at a rate of 6.1 percent compared to the 3.5 percent average predicted growth and -1.9 percent actual average growth for Sub-Saharan Africa (World Economic Outlook update, June 2019). The economy is projected to grow by 8.4 percent in 2020/21 (EFY 2013) compared to the 5.4 and 3.4 percent growth forecast for the world and Sub-Saharan Africa, respectively (World Economic Outlook June 2020).

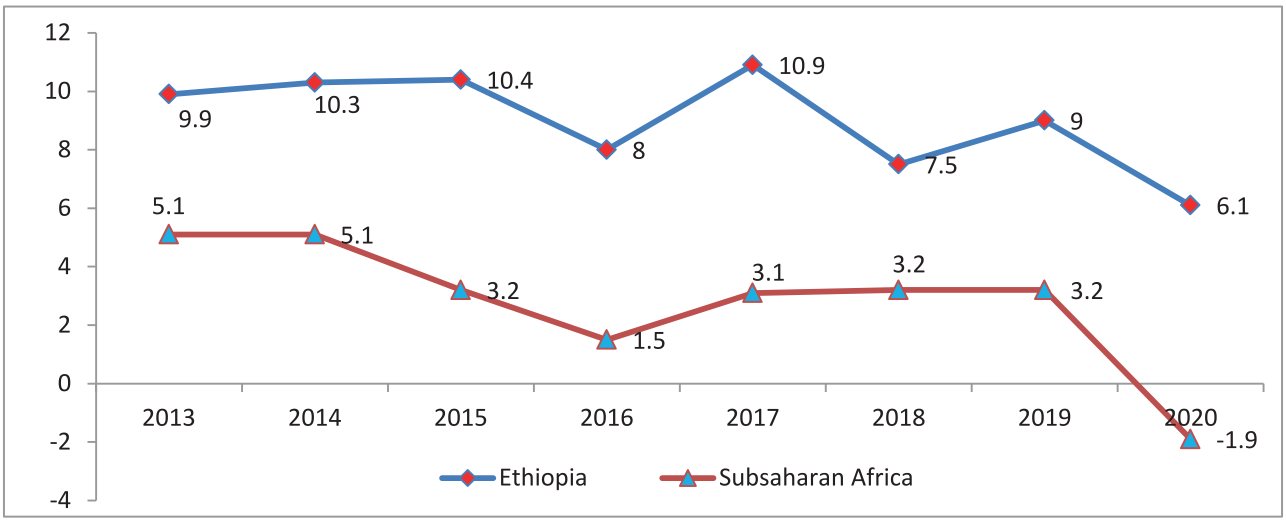


Figure 1.1.1 GDP growth in Ethiopia and Sub-Saharan Africa Countries (in percent)

Source: IMF DATAMAPPER

During the same period (2019/20), the growth in real GDP was jointly accounted for by 9.6 percent, 5.3 percent, and 4.3 percent growth in industry, service, and agriculture (Table 1.1.1). Accordingly, nominal GDP per capita reached USD 1,080 (NBE, 2020). The Ethiopian economy registered 8.2 percent average annual growth rate during the GTP II period (2015/16-2019/20).

1.2 PRICE DEVELOPMENTS

Inflation has continued to be one of the major challenges of macroeconomic management in recent fiscal years. The annual average headline inflation increased to 19.9 percent in 2019/20 from 12.6 percent during the preceding fiscal year. The increase in inflation was mainly attributable to the 10.2 percent rise in food and non–alcoholic beverages prices. The inflation rate of food and nonalcoholic beverage increased from 13.1 percent in 2018/19 to 23.3 in 2019/20. Non-food inflation also increased from 11.9 to 15.8 percent during the same period. The increase in non–food inflation in 2019/20 is due to higher inflation in alcoholic beverages and Tobacco (18.7 percent), transport (23.8 percent), housing, water, electricity, gas, and other fuels (19.4 percent), restaurant and hotel (18.4 percent), recreation and culture (10.5 percent), health (16 percent) and miscellaneous goods (15.4 percent).

Table 1.2.1 Annual Average Inflation Rates (in percent)

Items	Weight	2018/19 (EFY 2010)	2019/20 (EFY 2012)	Change (in percentage points)
General	100	12.6	19.9	7.3
Food and non-alcoholic beverage	54	13.1	23.3	10.2
Non –Food	46	11.9	15.8	3.9

Source: National Bank of Ethiopia Annual Report 2019/20

1.3 EXTERNAL SECTOR PERFORMANCE

Among the major macroeconomic objectives stated in the recently completed GTP II, maintaining macroeconomic stability by enhancing exports competitiveness by creating a conducive environment within a stable foreign exchange regime has been at the forefront. The Government pursued an–export–led industrial development strategy targeting manufacturing industries with high comparative advantages such as textiles, leather and leather products, meat and meat products, sugar, and electricity.

In a concerted effort to boost manufacturing outputs and exports, the Government established the Industry Park Development Corporation (IPDC). The IPDC is tasked with availing manufacturing spaces and also rendering all sorts of supports to the manufacturing sub-sector in general and the manufacturer exporters in particular.

Despite the determined efforts made by the Government to promote exports and also import-substituting manufacturing industries, the total merchandise exports of the country continue to suffer from sluggish performance. The total value of the country's merchandise exports showed a slight decline in 2018/19 to reach 2.7 billion USD from 2.8 billion USD during the preceding year, while the recent past F.Y(i.e., 2019/20) witnessed a 12 percent increase in export to almost USD 3 billion.

The increase in 2019/20 was due to increased export earnings from coffee (12 percent), flowers (65 percent), gold (605 percent), live animals (18 percent), chat (7 percent), textiles and textile products (11 percent), and electricity (19 percent). The reason why total exports didn't increase significantly as the improved performance in the items listed above was due to a decline in the performance of other items such as Oilseeds (-11.0 percent), Leather and Leather Products (-38.7 percent), Pulses (-13.8 percent), and Meat & Meat Products (-23.9 percent).

Table 1.3.1 Values of major Export Items

(In millions of USD)

Particulars	2017/18		2018/19		2019/20		Percentage change	
	A	%Share	B	%Share	C	%Share	B/C	C/B
Coffee	839.0	29.6	764.1	28.7	855.9	28.6	-8.9	12.0
Oilseeds	423.5	14.9	387.8	14.5	345.0	11.5	-8.4	-11.0
Leather and Leather Products	132.4	4.7	117.4	4.4	72.0	2.4	-11.3	-38.7
Pulses	269.5	9.5	272.3	10.2	234.8	7.9	1.0	-13.8
Meat & Meat Products	101.7	3.6	88.6	3.3	67.4	2.3	-12.9	-23.9
Fruits & Vegetables	61.4	2.2	60.9	2.3	58.8	2.0	-0.8	-3.4
Textile & Textile Products	103.8	3.7	152.9	5.7	168.9	5.7	47.3	10.5
Live Animals	61.1	2.2	45.8	1.7	54.1	1.8	-25.0	18.1
Chat	263.2	9.3	303.6	11.4	324.4	10.9	15.3	6.9
Gold	100.2	3.5	27.9	1.0	196.5	6.6	-72.2	604.3
Flower	228.6	8.1	256.6	9.6	422.3	14.1	12.2	64.6
Electricity	80.5	2.8	55.7	2.1	66.4	2.2	-30.8	19.2
others	171.2	6.0	132.9	5.0	121.1	4.1	-22.4	-8.9
Total export	**2836.1**	**100.0**	**2666.5**	**100.0**	**2987.6**	**100.0**	**-6.0**	**12.0**

Source: National Bank of Ethiopia Annual Report 2019/20

Despite the efforts made to enhance export-oriented manufacturing industries that were expected to lead to the desired structural transformation, the export-oriented manufacturing industry's share in GDP did not exceed 0.5 percent up until 2019/20. The rather poor performance in exports observed during the last three fiscal years has also resulted in continued declines in the total value of merchandise imports. The amount declined from USD 15.2 billion during 2017/18 to USD 15.1 billion in 2018/19 and USD 13.9 billion in 2019/20. Total merchandise imports decreased by 8.1 percent during 2019/20 from the value in the preceding fiscal year. Imports to GDP ratio declined from 15.8 percent in 2018/19 to 12.9 percent in 2019/20.

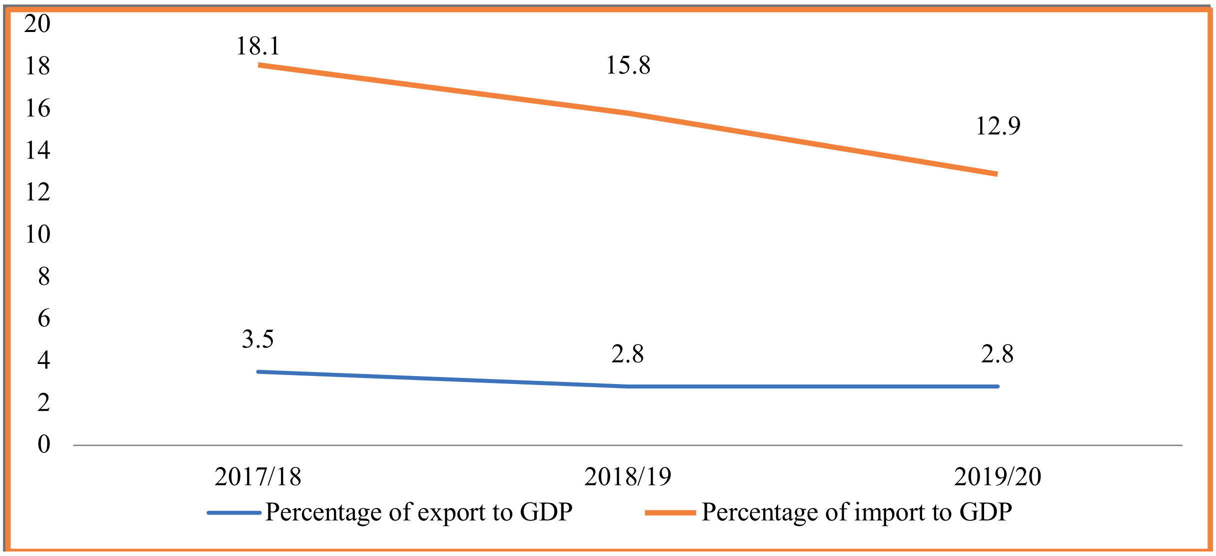


Figure 1.3.1: The percentage share of import and export to GDP

Source: National Bank of Ethiopia Annual Report 2019/20

Table 1.3.2 Value of Imports by End-Use (In Millions of USD)

Categories	2017/18	2018/19	2019/20
Raw Materials	138	151.5	162.2
Semi-finished Goods	2,527.80	2,778.80	3,110.70
Fuel	2,319.30	2,600.70	2,088.10
Capital Goods	5,269.10	5,030.60	4,122.00
Consumer Goods	4,707.00	4,273.10	4,010.60
Miscellaneous	294.2	277.2	387.8
Total	**15255.40**	**15112.0**	**13881.4**

Source: National Bank of Ethiopia Annual Report 2019/20

The decrease in merchandise imports was a direct result of the acute foreign exchange shortage the country is experiencing. This is reflected in the fact that capital goods imports dropped by 18.1 percent during the 2019/20 Fiscal Year. Consequently, the share of capital goods in total merchandise imports decreased to 29.7 percent from 33.3 percent in 2018/19.

Table1.3.3 Volume and Value of Petroleum Imports (Volume in MT, value in "000" Birr)

Petroleum Products	2018/19		2019/20		Percentage change	
	Volume A	Value B	Volume C	Value D	C/A	D/B
Regular Gasoline (MGR)	506,739.2	577,442.0	577,442.0	9,650,401.7	14.0	2.6
Jet Fuel	819,998.6	15,445,870.0	641,131.1	11,102,669.9	(21.8)	(28.1)
Fuel Oil	66,148.8	972,771.9	80,447.4	958,067.6	21.6	(1.5)
Gas Oil (ADO)	2,496,721.8	44,131,939.7	2,568,176.1	40,345,726.1	2.9	(8.6)
Total	**3,889,608.3**	**69,960,223.5**	**3,867,196.6**	**62,056,865.3**	**(0.6)**	**(11.3)**

Source: National Bank of Ethiopia Annual Report 2019/20

The total value of fuel import decreased by 11.30 percent in 2019/20 compared to the value in 2018/19 due to the 10.78 percent fall in average annual fuel import price and 0.6 percent cut in the annual volume of fuel import.

As the result of higher revenue from goods exports and a decrease in import bills,the merchandise trade deficit (the trade balance) in 2019/20 narrowed to USD 10.9 billion from USD 12.4 billion during the preceding fiscal year. Merchandise trade deficit as a ratio of GDP during 2019/20 was 0.32 percent. The trend in Merchandize trade deficit during the last three years of GTPII is presented in the table below.

Table 1.3.4 Merchandise Trade Balance, 2017/18-2019/20 (In millions of USD)

S.N		2017/18	2018/19	2019/20	Percentage change	
		A	B	C	B/A	C/B
1.	Exports, f.o.b	2,836.1	2,666.5	2,987.7	-6.0	12.0
2.	Imports	15,255.3	15,112.0	13,881.3	-0.9	-8.1
3.	Trade Balance (1-2)	-12,419.3	-12,445.5	-10,893.6	0.2	-12.5

Source: National Bank of Ethiopia, Annual Report, 2019/20

Ensuring the availability of foreign currency through promoting exports to meet the growing demand for imports of mainly machinery and technology, has been the major objective of the Government. As most of the investments in the country rely on imported capital, raw materials and semi- finished goods, the demand for foreign exchange is substantial.

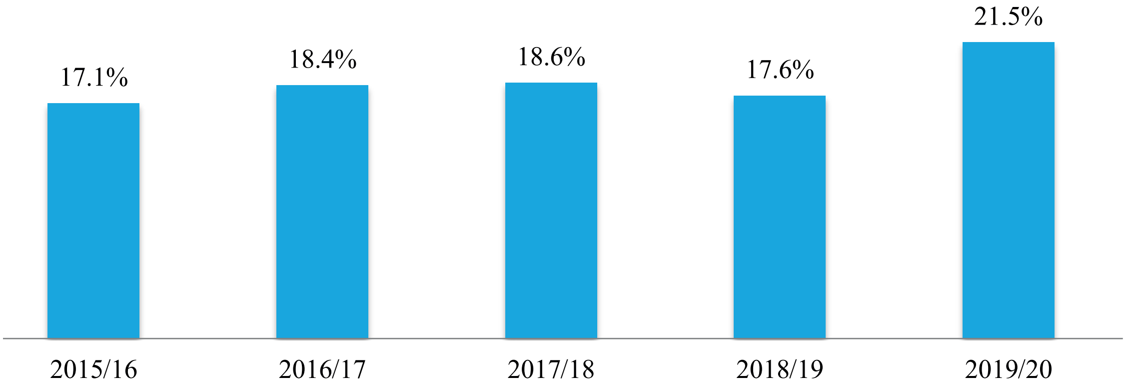


Figure 1.3.2: Export Capacity in Financing Imports

Source: National Bank of Ethiopia Annual Report 2017/18-201920

Ethiopia's foreign exchange revenues mainly originate from exports of goods and services, remittance, foreign direct investment, loans, and grants. Of all these sources, exports of goods and services are the most reliable and have significant Spillover effects on the dynamics of the economy. Particularly improved performances in the exports of goods indicate the competitiveness of the economy in the global market, and have direct and positive impacts on employment creation. During the recent Fiscal Years, the poor performance of merchandise export led to an acute shortage of foreign currency, which in turn caused a slowdown in investment and growth resulting from decreased capital goods imports. The share of export earnings in financing imports remained low and averaged 19.2 percent during the last three Fiscal Years, 2017/18, 2018/19, and 2019/20.

1.4 MONETARY DEVELOPMENTS

Despite the tight monetary policy pursued to contain inflation within a single-digit limit, both month to month and the annual inflation rates have been higher than the target. Domestic liquidity as measured by broad money Supply (M2) continued to increase over the last three consecutive Fiscal Years. It grew from Birr 740.5 billion in 2017/18 to Birr 886.7 billion during 2018/19 and Birr 1,037.6 billion at the end of 2019/20 (Table1.4.1). Broad money reached the trillion birr mark, reflecting a 17.0 percent annual growth attributable to the 23.6 percent surge in domestic credit. The high growth in domestic credit came about from a 37.4 percent increase in central Government and a 21.8 percent increase in credit to non–central Government.

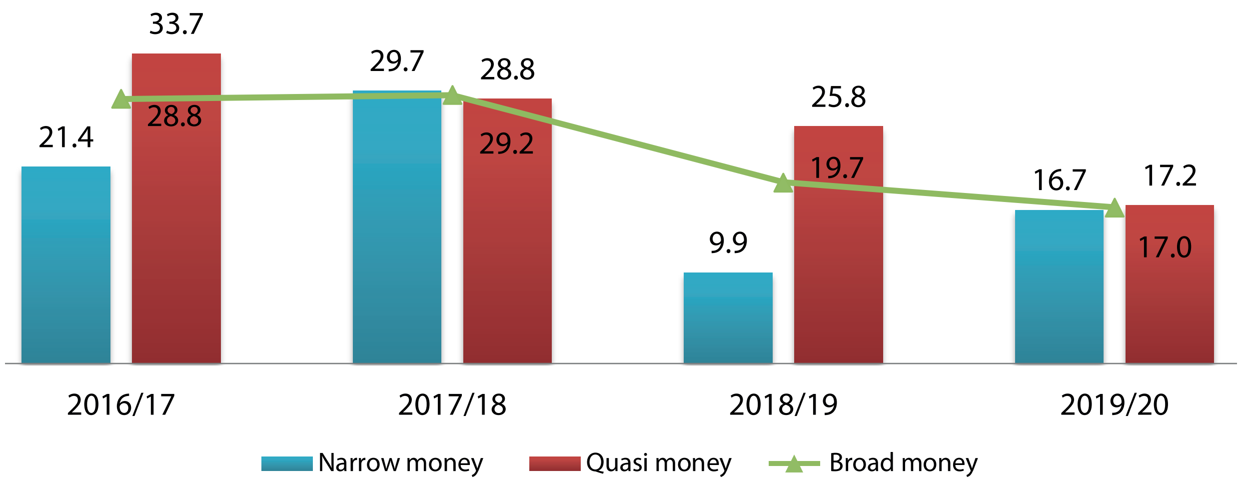


Figure 1.4.1: Annual Growth of Broad Money Supply and its Components (in percent)

Source: National Bank of Ethiopia Annual Report 2018/19-2019/20

Quasi–Money, consisting of savings and time deposits, also increased by 17.2 percent and reached Birr 677.1 billion at the end of the fiscal year mainly due to increased deposits mobilization by commercial banks through enhanced promotion and opening of additional new branches. At the end of 2019/20, narrow money supply reached Birr 360.6 billion, revealing an increase of 16.7 percent over its level at the end of the preceding Fiscal Year (2018/19), mainly growth in demand deposits and currency outside banks.

Table1.4.1 Components of Broad Money

(In millions of USD)

Particulars	Year			
	2016/17	2017/18	2018/19	2019/20
Narrow Money Supply	**216,769.60**	**281,154.70**	**308,937.10**	**360,585.50**
Currency Outside Banks	73,917.70	86,417.30	92,017.00	109,071.80
Demand Deposits (net)	142,851.90	194,737.40	216,920.20	251,513.70
Quasi-Money	**356,614.40**	**459,418.20**	**577,815.40**	**677,060.80**
Savings Deposits	293,431.70	382,549.40	487,302.10	589,174.10
Time Deposits	63,182.70	76,868.80	90,513.30	87,886.80
Broad Money Supply	**573,384.10**	**740,572.90**	**886,752.50**	**1,037,646.30**

Source: National Bank of Ethiopia Annual Report 2019/20

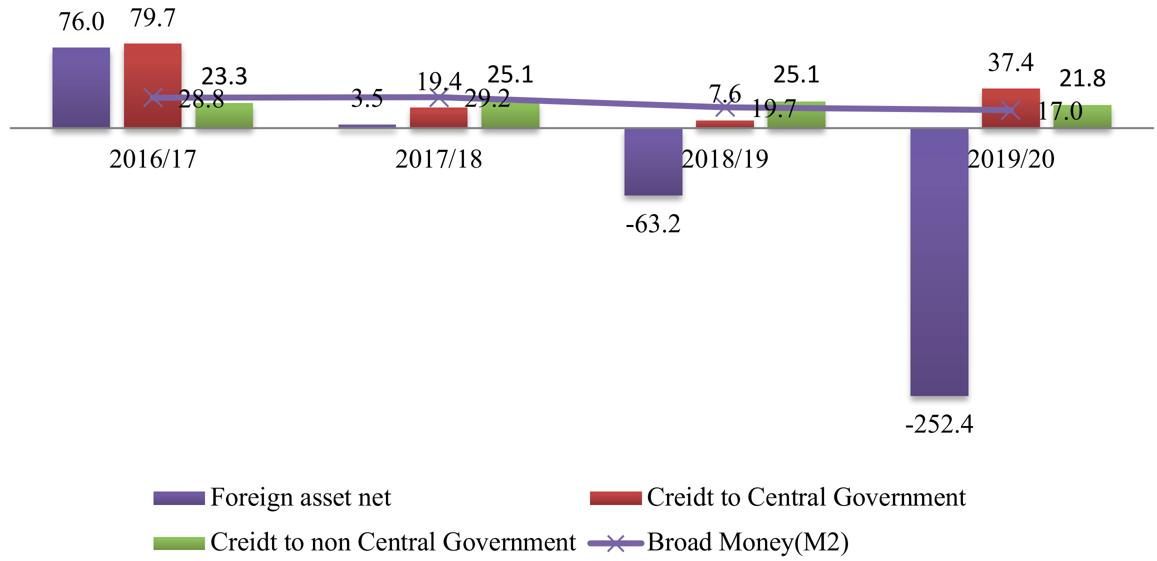


Figure 1.4.2: Major Determinants of Monetary Growth

Source: National Bank of Ethiopia Annual Report 2019/20

The other monetary policy indicator, the reserve money, reached Birr 246.5 billion at the end of 2019/20, increasing from Birr 200.8 billion in the preceding year. This reflects a 22.8 percent annual growth at the end of the fiscal year. The growth was attributed to a 34.3 percent rise in banks' deposits at NBE and 15.4 percent growth in currency in circulation.

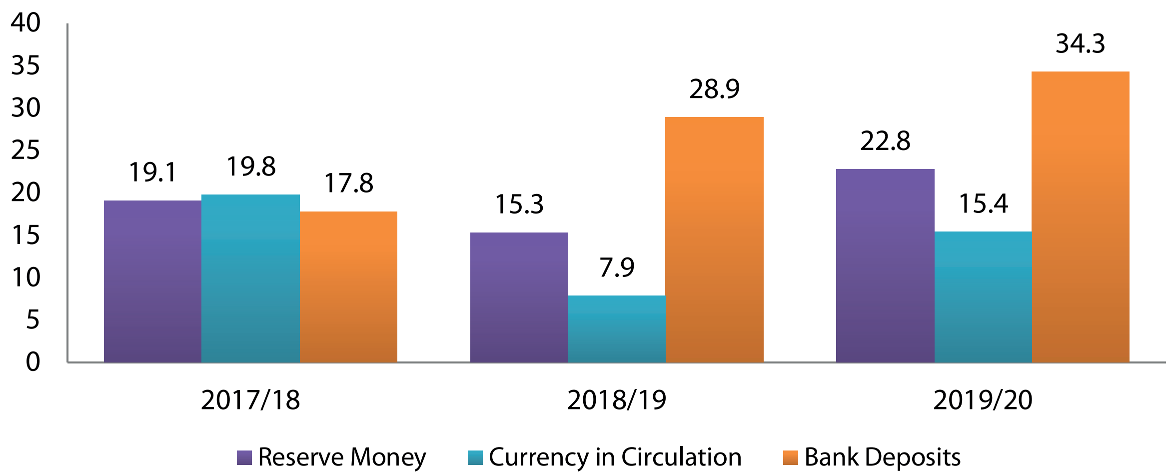


Figure 1.4.3: Annual Percentage change in Reserve Money and its components (in percent)

Source: National Bank of Ethiopia Annual Report 2019/20

1.5 SAVING AND INVESTMENT

A continuous rise in domestic savings as a share of GDP reduces the need to finance investment through foreign borrowing. In this regard, during the GTP II period, high emphasis has been given to increasing domestic savings to provide the required finance for investment. Gross domestic saving has been showing a significant improvement over the decade despite a decline in recent years.

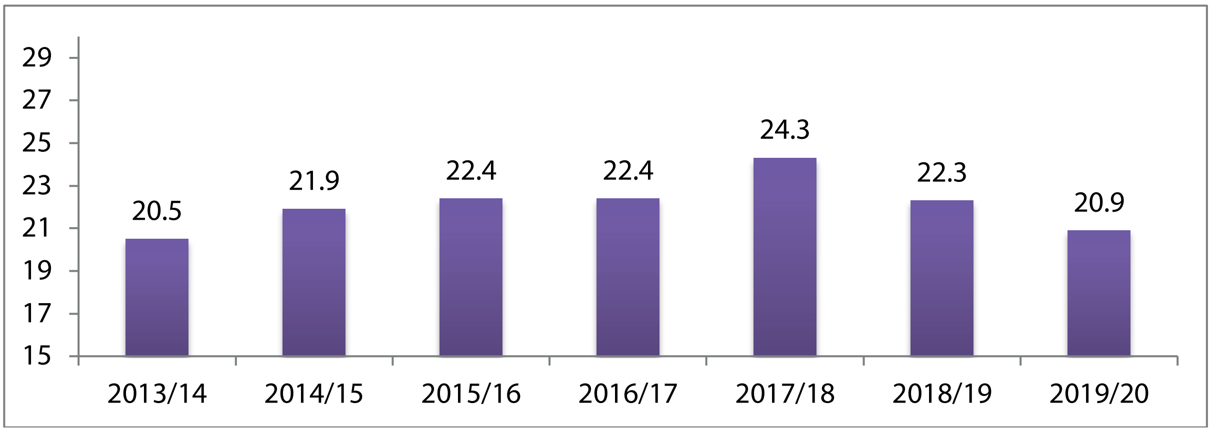


Figure 1.5.1: The Share of Gross Domestic Saving in GDP (in Percent)

Source: Planning and Development Commission

The share of Gross Domestic Saving in GDP has decreased to 20.9 percent in 2019/20 from 22.3 percent in 2018/19. It is the lowest level of gross domestic saving's share in GDP since 2014/15. Moreover, the Gross Domestic Saving is far below its GTP II target of 29.6 percent. The low value of domestic savings and its declining share in GDP needs special attention.

The share of gross domestic investment in GDP exhibited a relative decline in recent years. The gross domestic investment to GDP ratio declined by 4.4 percent to 30.8 percent in 2019/20 from its value of 35.2 percent in 2018/19. However, compared to Sub-Saharan African countries, the gross investment in Ethiopia was by far higher in the last decade.

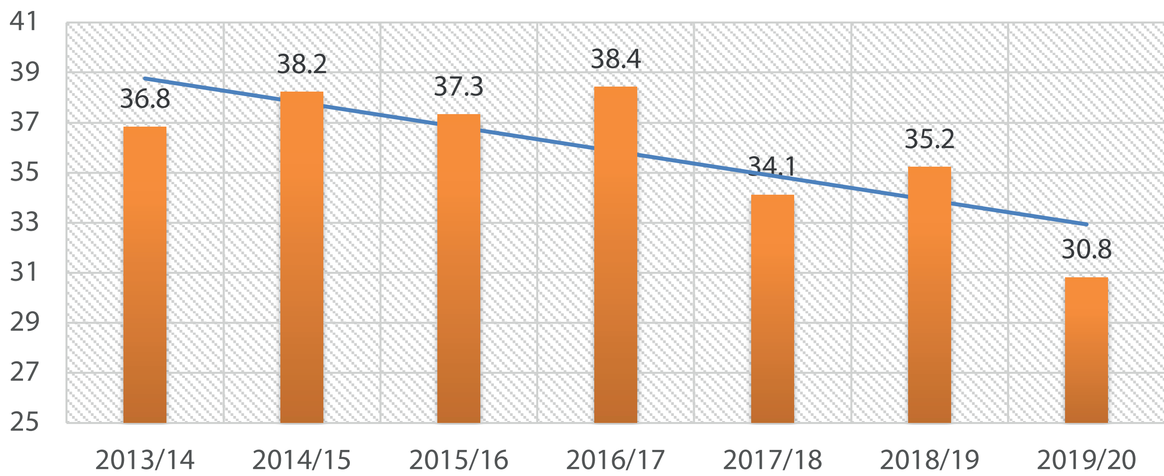


Figure 1.5.2: The Share of Gross Domestic Investment from GDP (in Percent)

Source: Planning and Development Commission

1.6 EMPLOYMENT

In Ethiopia employment, particularly youth employment, has become a great concern in reducing poverty, ensuring peace and security, and achieving inclusive growth. Studies reveal that the delayed transition to work affects other pathways to adulthood, including marriage, homeownership, and civic participation. This delay in transition to adulthood has been termed wait hood, a term reflecting the waste of youthful energy and potential[1]. Ethiopia with about 70 percent of young population, experiences both a challenge and an opportunity in utilizing the working population to escape from poverty. As it has been witnessed by the Harvard Ministerial Leadership Program, Ethiopia is well poised to take advantage of the demographic dividend[2]. Currently, over 70% of Ethiopia's population is under age 30, and almost 50% is under age 15[3]. But harvesting the demographic dividend of the country is not a simple task. It requires concerted efforts in every aspect of the economy in creating job absorbing activities both by the Government and the private sector.

The problem of unemployment is not unique to Ethiopia. In Africa, for every four young people entering the labor market, only one formal sector job is being created, leaving a large fraction, over 3 million, scrambling to find employment opportunities[4].

A study undertaken by the Brookings Institute indicates that, be it in job availability, quality, or growth, survey data from a diverse group of countries all over Africa shows that people are chiefly concerned about the future of work [5] (see table 1.6.1).

[1] Nader Kabbani :Youth Employment in the Middle East and North Africa: Revisiting and Reframing the Challenge, Brooking Doha Center, Policy Briefing, February 2019,

[2] The **demographic dividend** is used to describe an opportunity for accelerated economic growth that a country can experience as it moves through Stages 2 and 3 of the demographic transition. Specifically, when birth and death rates fall in succession they give way to a bulging youth cohort in a population's age structure. Ethiopia is found at stage 3 where the birth rate falls towards the death rate, often due to lower child mortality from the previous stage and increase in family planning, resulting in moderate population growth.

[3] The Harvard Ministerial Leadership Program: Achieving the Demographic Dividend Learning from the Experience of Bangladesh, Chile, Ethiopia, Rwanda, & Thailand, 2018

[4] African Development Bank, Jobs for Youth in Africa, https://www.afdb.org/fileadmin/uploads/afdb/Images/high_5s/Job_youth_Africa_ Job_youth_Africa.pdf.

[5] Brookings (2019): Foresight Africa Top Priorities for The Continent in 2019¸ African Growth Initiatie

The level of employment and unemployment of a country is widely used as overall indicators in evaluating the current performance of the economy. The capacity of an economy in absorbing the labour force needs to be monitored regularly and appropriate employment policy should consequently be adopted. The economically active population comprises employed and unemployed persons aged ten years and above. The economically not active persons are those who were neither engaged in productive activities nor available to supply their labour to the market.

Like in any other developing countries, in Ethiopia Small and Medium Enterprises (SMEs) are considered the major source of employment and income generation for a wider group of the society in general and urban youth in particular. One of the major development objectives of the Government in GTP II is reducing poverty and generating employment for the expanding labour force. The government's poverty reduction goal has aimed at benefiting all citizens as well as reducing unemployment and poverty rates both in urban and rural areas. To achieve these objectives of expanding employment and reducing poverty, the driving strategies to be enacted focused mainly on the promotion of Small and Micro Enterprises (SMEs).

Table 1.6.1: Priority Policy Action Requiring Areas in Africa

Issue	Percent of respondents
Unemployment	40
Health	27
Infrastructure/transport/roads	24
Water and sanitation	24
Education	21
Management of the economy	21
Poverty/destitution	21
Food shortage/famine	18
Farming/agriculture	17
Other economic issues	16
Electricity	13
Crime and security	12
Corruption	12
Political violence/war/terrorism	5
Housing	4
Discrimination/inequality (incl. gender)	3
Democracy/political rights	2

Source: Africa Growth Initiative, Global Economy and Development Brookings Institution (2018): Foresight Africa: Top Priorities for the Continent in 2019.

To expand the role of SMEs, the Government has established a dedicated job creation schemes. The public housing and construction sector scheme could be cited as an example. Under this scheme, the Government organizes small and medium enterprises (SMEs) to engage in electrical, mechanical, sanitary, flooring, waterproofing, painting and finishing, gardening , and other works. Cities and local governments also organized SMEs in selected areas, from urban agriculture to small manufacturing outlets, supported with customized financing. Looking at the data over the last six years, the performance of SMEs in establishing enterprises, employment creation and loans extended to the enterprises depicted significant declines as observed in the figure below. However, after exhibiting the most disappointing performance until the year 2017/18, the performance of SMEs in employment creation revived back and registered 214.3 percent and 121.3 percent growth in 2018/19 and 2019/20, respectively. The federal government and regional governments' special attention to SME-based job development following the country's political reforem in 2018 appears to be the main reason for this improvement in the role of SMEs in employment creation.

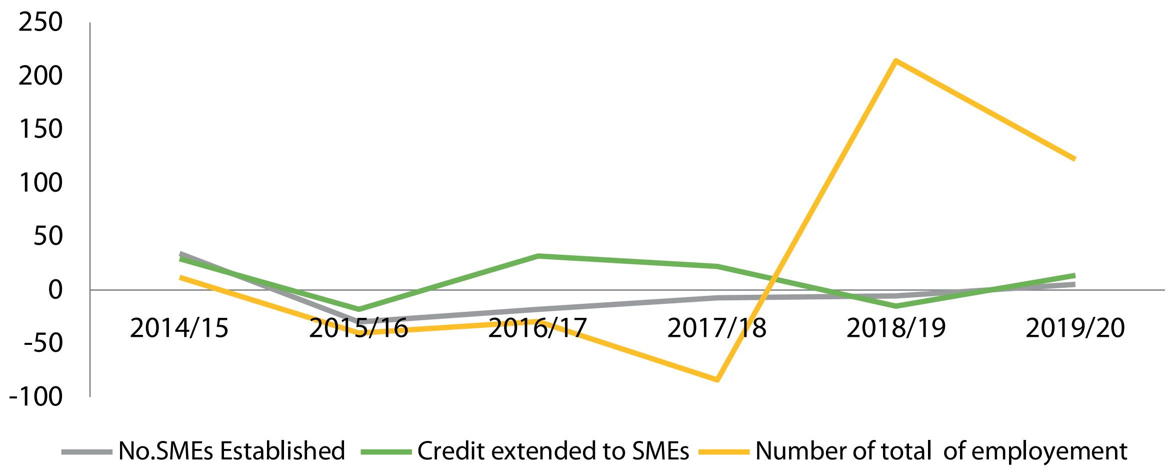


Figure 1.6.1 Annual Growth in Number of SMEs Established, Amount of Credit Extended and Jobs Created through SMEs (2014/15-2019/20) (in percent)

Source: National Bank of Ethiopia Various Years Annual Reports

The Government also introduced the revolving youth fund system in view of supporting the development of SME-based job creation schemes. The Federal Government allocated Birr 10 billion to Regional Governments, which organize youth in enterprises and provide them with credit to start their own business. The scheme is managed by the Commercial Bank of Ethiopia (CBE) in close collaboration with Microfinance Institutions (MFIs) and regional authorities. The system was initiated to serve as a revolving fund to create jobs for the youth. Although it has helped in creating job opportunities for several youth, the system is suffering from lack of sustainability as only 1 percent of the disbursed fund was replenished.

Although unemployment is both an urban and rural phenomena the available data on this issue is only for urban areas. According to the 2020 Urban Employment Unemployment Survey (UEUS) the total urban population of the country was estimated to be 23,081,127, of which 17,645,914 persons, (76.5 percent) were aged ten years and above as of January 2020. Based on the current status approach, the size of economically active persons aged ten years and above was 10,780,552 persons. The economically not active persons due to homemaking activities, attending school, old aged/pensioned, illness, too young to work etc. is estimated to be 6,865,362 persons (39 percent).

Among the population not active, the proportion of females (62.4 percent) is higher than male (37.6 percent).

In urban areas of the country, the size of the employed population aged ten years and above was 8,762,363 persons in January 2020 as compared to 6,789,992 employed persons in April 2014. Therefore, employment has increased by 1,972,371 persons (29.0 percent per annum on average) during the last five survey periods.

Employment to population ratio provides information on the extent to which the population is engaged in productive activities. Accordingly, in 2020 the employment to population ratio of urban area is 50.0 percent. This means about 50 percent of the total urban population of the country aged ten years and above are employed. The differential by sex also shows that the ratio of males (61 percent) is higher than females (40 percent). The trend of employment to population ratio remains almost stable from the survey periods April 2014 to January 2020. With regard to regions, Benishangul-Gumuz region and Addis Ababa city Administration exhibit the highest employment to population ratio (52.3 percent) while Dire Dawa Administration demonstrates the lowest ratio (40 percent).

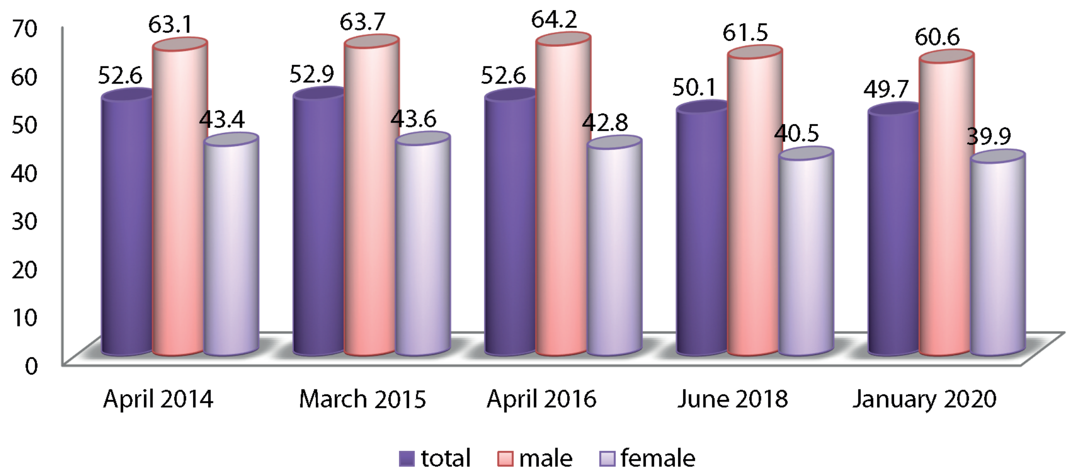


Figure 1.6.2: Employment to Population Ratio by Sex during Five Survey Periods (in percent)

Source: Central Statistical Agency

As of January 2020, the highest proportion (about 54.3. percent) of the employed persons are absorbed by the Service sectors followed by Wholesale and Retail trades (17.6 percent). Agriculture, hunting, forestry and fishing sectors employ 14.98 percent of labor. Manufacturing, Mining, Quarrying and Construction industry divisions employ 13.3 percent.

Periodical analysis by major sectors also shows that the percentage share of employed persons in urban areas has been increasing in service and agricultural sectors. Whereas the employment share for manufacturing, mining quarrying together with construction as well as wholesale and retail trades portrays a declined trend compared to the previous survey results even if there are ups and downs over the last five years (see figure 1.6.3).

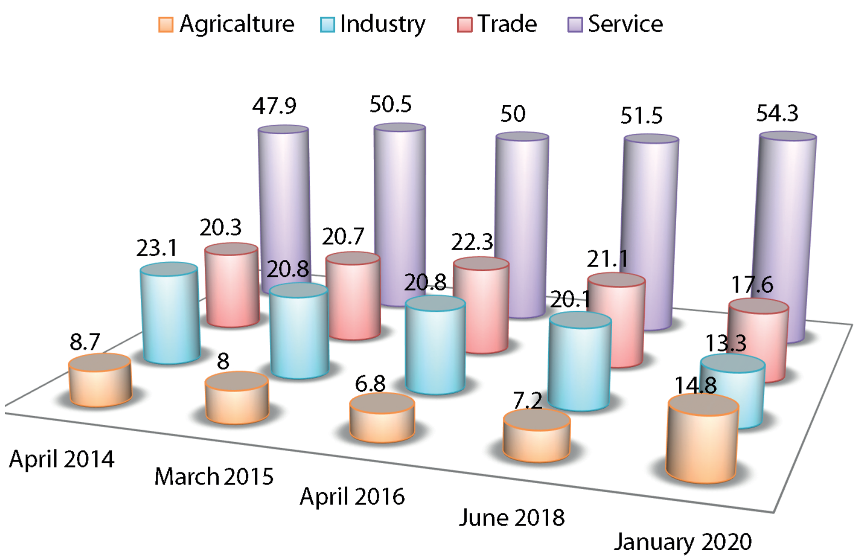


Figure 1.6.3: Percentage Share of Employed Population of Urban Areas by Major Sectors during the last Five Survey Periods - Country Total

Source: Central Statistical Agency

According to the January 2020 survey, 943,178 persons were working in the informal sector out of the total 5,844,877 urban employed population making up nearly 16 percent of the total employment in urban areas. During the five survey periods, females who work in the informal sector are higher than males. The highest proportions of employed persons were found working in the informal sector in Amhara (21.5 percent), Benishangul-Gumuz (20.1 percent) and SNNP (19.1 percent) regions. The lowest proportion is found in Addis Ababa City Administration (6.6 percent). The proportions of employed persons who have been working in the informal sector decreased during the last five years i.e. from 24.9 percent in April 2014 to 16.1 percent in January 2020.

The June 2020 survey result shows that the unemployed population in urban areas of the country was 2,018,190 with an unemployment rate of 18.7 percent. This means that about 18.7 persons are unemployed out of 100 economically active persons aged ten years and above. The differentials of unemployment rate by sex demonstrate female unemployment rate (26.1 percent) is more than double as compared to male (12.2 percent).

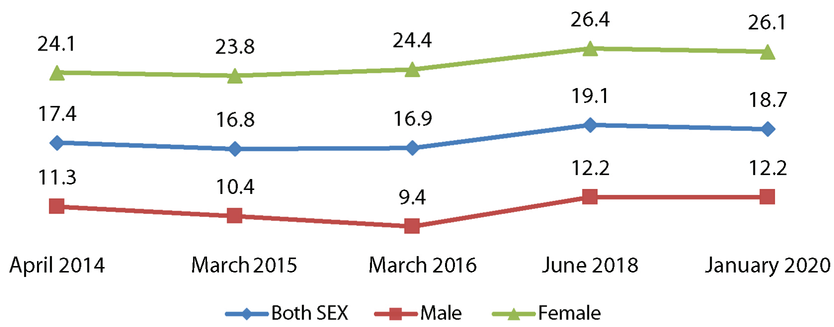


Figure 1.6.4: Trend of Unemployment Rate in Urban Areas by Sex during Five Survey Periods – Country Total

Source: Central Statistical Agency

The total unemployment rate depicts a declining trend from 17.4 percent in April 2014 to 16.8 percent in March 2015 and thereafter increases from 16.9 in March 2015 to 19.1 percent in June 2018 and fall to 18.7 in January 2020. As regards by sex, females are more affected by the incidence of unemployment than males in all survey periods (see figure 1.6.4).

Data from the January 2020 survey shows (see figure 1.6.5) that there is significant heterogeneity in unemployment rate across regions in the country. Unemployment rate is 23.3 percent (171,129 persons) in Tigray, 21.0 percent (21,798 persons) in Dire Dawa Administration, 20.4 percent (471,786 persons) in Amhara, 20.3 percent (25,399 persons) in Afar, 19.3 percent (398,346 persons) in Addis Ababa City Administration. Gambela with 12.7 percent (7,418 persons) and Benishangul-Gumuz Region with 12.9 percent (15,363 persons) are regions with the lowest unemployment rates. In the urban areas of other regions, unemployment rate falls between 15–23 percent.

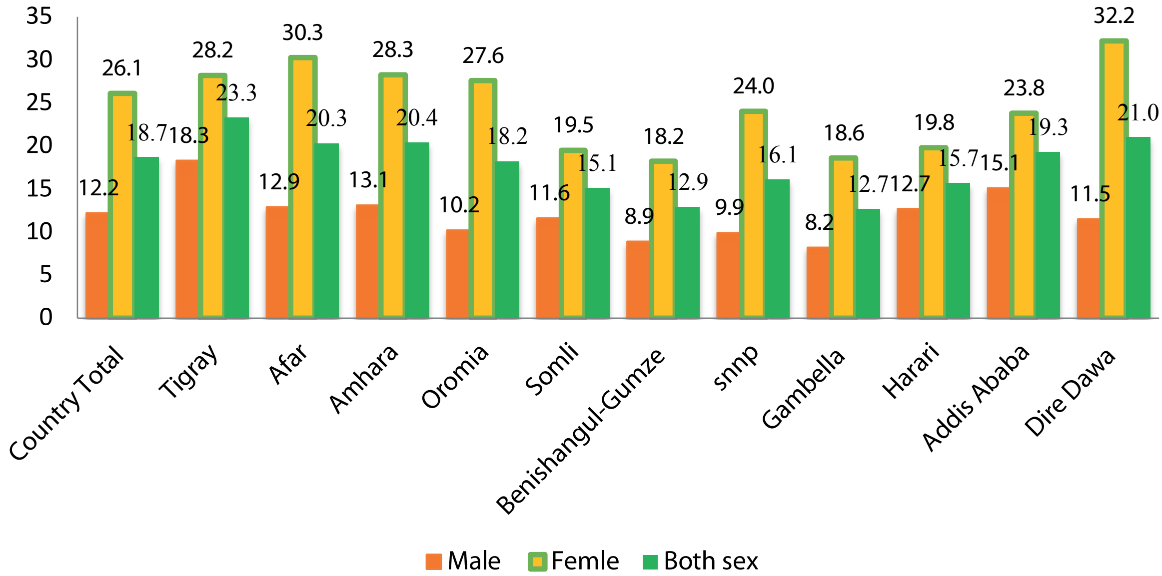


Figure 1.6.5: Unemployment Rate in Urban Areas of Regions by Sex: 2020

Source: Central Statistical Agency

Box 1.2: Important Factors in Promoting Youth Employment

- Support the growing and innovative youth entrepreneurs with leadership development opportunities, finance, and links to wider markets.
- Include leadership, soft skills, and digital skills in training and education systems to increase the success of young job seekers.
- Encourage greater links between the private sector and education and training institutions. Young people must have access to education and training that equips them with the skills employers need. Employers need to find ways to inform curriculums and support early employment opportunities as the first job often sets the path for a young person's career.
- Make financing small businesses and entrepreneurs easier by eliminating risk through digitization, alternative forms of finance, guarantees, and changing perceptions. Youth entrepreneurs perform just as well if not better than adult entrepreneurs—but they find it much harder to find financing.
- Leverage technology to drive impact and scale. It has been recognized that education, training, employment job matching, and financing can be done effectively and affordably by leveraging technology as a delivery channel.

Source: African Growth Initiative at Brooking

1.7 FISCAL PERFORMANCE

The main objective of fiscal policy in Ethiopia is strengthening domestic revenue generation, effective and efficient utilization of the resources collected from different sources, and maintaining fiscal deficit at a reasonable level to ensure macroeconomic stability. Over the past years, the government fiscal policy has been realized through maintaining macroeconomic and fiscal stability, improving service delivery, investing in infrastructures, facilitating the growth of the private sector and enhancing poverty reduction.

In light of these objectives, fiscal policy under the GTP II includes maintaining macroeconomic stability, ensuring financial prudence through domestic resource mobilization, allocation of public finance for optimal impact on public welfare and high economic growth, and setting policies on taxes and tariffs which are consistent with the goals of promoting export-led manufacturing development. Budgetary outlays under GTP II are also planned to reflect the Government's commitment to eradicate poverty.

1.7.1 GOVERNMENT REVENUE

The Government mobilizes financial resources from both domestic and foreign sources. The domestic revenue sources are tax and non-tax revenues, while the foreign resources are assistance and loans. Ethiopia takes primary responsibility for its development, thus placing high importance on domestic resources. It recognizes that domestic resources are more reliable in financing ambitious development plans. The Government believes that enhanced economic activity and robust growth are critical in mobilizing public resources from tax and non-tax sources.

In line with this objective, during the 2008/09-2019/20 period, about 77.4 percent of the government budgetary expenditure has been financed from domestic revenue sources. This reliance on domestic sources has increased in recent years. During the year 2017/18, for instance, the general Government collects a total amount of Birr 287.5 billion from domestic revenue and grant sources. Birr 269.6 billion (94 percent) was generated from domestic sources, while the remaining Birr 18 billion (6 percent) was raised from external assistance. Over the last decade, the overall Government revenue mobilized from domestic sources and external grants have grown on average by 21.4 percent. More specifically, domestic sources registered an average annual growth of 23.5 percent while the growth rate of external grant flows was about 16.1 percent on average.

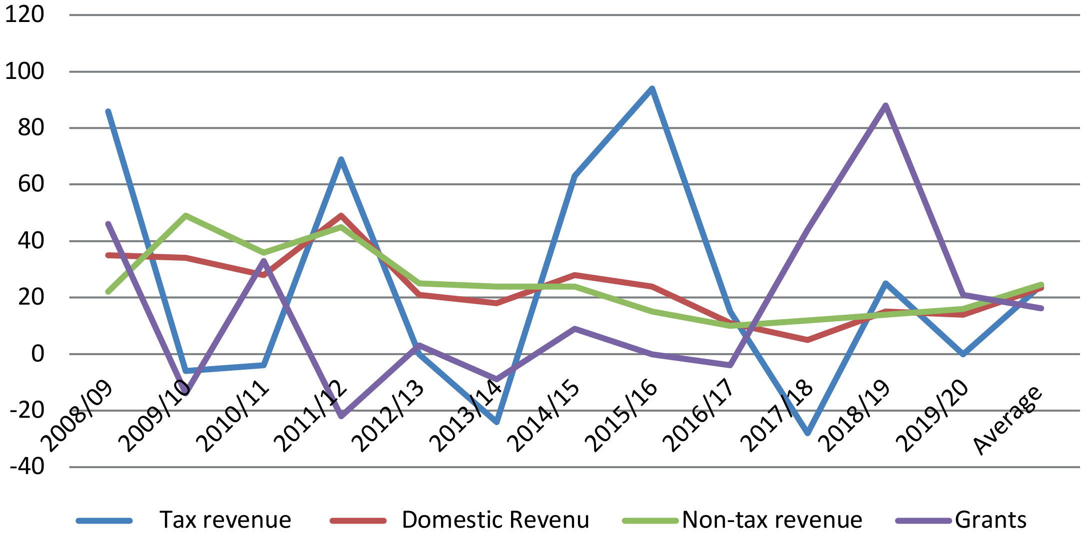


Figure 1.7.1.1: Annual Percentage Growth of Government Revenue (Major Sources in percent)

Source: Ministry of Finance

Budgetary resources mobilized from external sources were low in quantity and volatile. However, for the year 2018/19, external grants showed a higher growth (88 percent) reaching Birr 33.6 billion. Revenue from grants further increased to 40.7 billion in 2019/20 (a 22 percent increase). Although the revenue from non-tax sources also showed a fluctuation over time, it contributed significantly to financing the government's expenditure needs. Accordingly, the only unwavering and consistent source of Government revenue over the last decade was tax revenue, with an average growth of 24.5 percent. However, its growth rate declined over the recent few years and depicts an annual growth of about 13 percent on average from 2015/16- 2019/20 compared to an average growth of 32 percent between the years 2008/09-2014/15.

In 2019/20, the domestic revenue constituted about 89.7 percent of the total revenue and has shown significant increment compared with 73.5 percent, ten years back. The share of domestic revenue showed a slight decline as compared to preceding year's performance (2018/19). In 2008/09, external grants nearly contributed about 26.5 percent of the national revenue. However, its share declined to 10.3 % in 2019/20 as depicted in figure 1.7.1.2. This clearly demonstrates that Government finance has become more reliant on domestic sources, which is a positive sign of enhancing trustworthy sources.

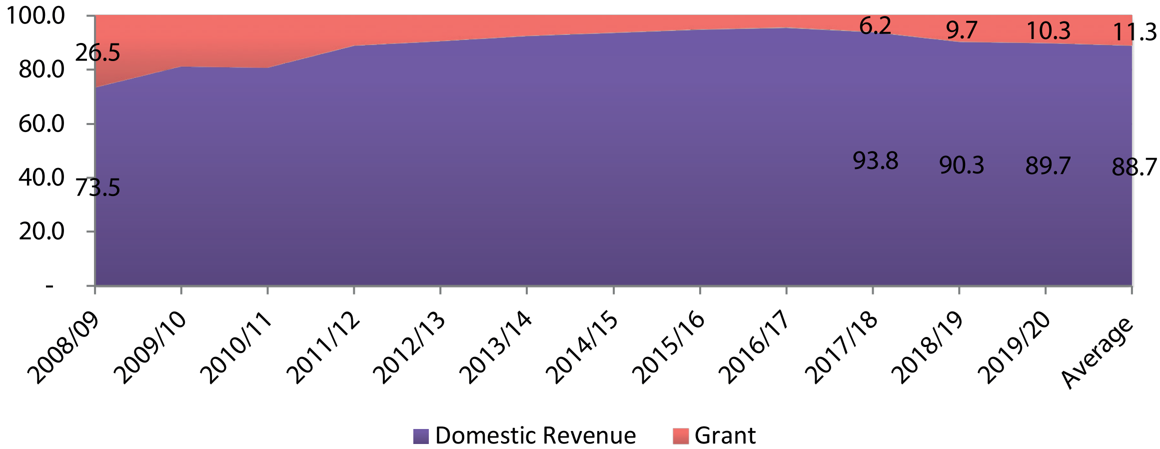


Figure 1.7.1.2: Share of Domestic Revenue and External Grant from 2008/09-2019/20 (in percent)

Source: Ministry of Finance

Within the domestic sources, the share of tax and non-tax revenue in the last decade has shown slight shifts. In 2008/09, the share of non-tax revenue was about 27.8 percent. The share has declined significantly over the decade and reached 12.1 percent in 2019/20 implying less reliance on non-tax sources.

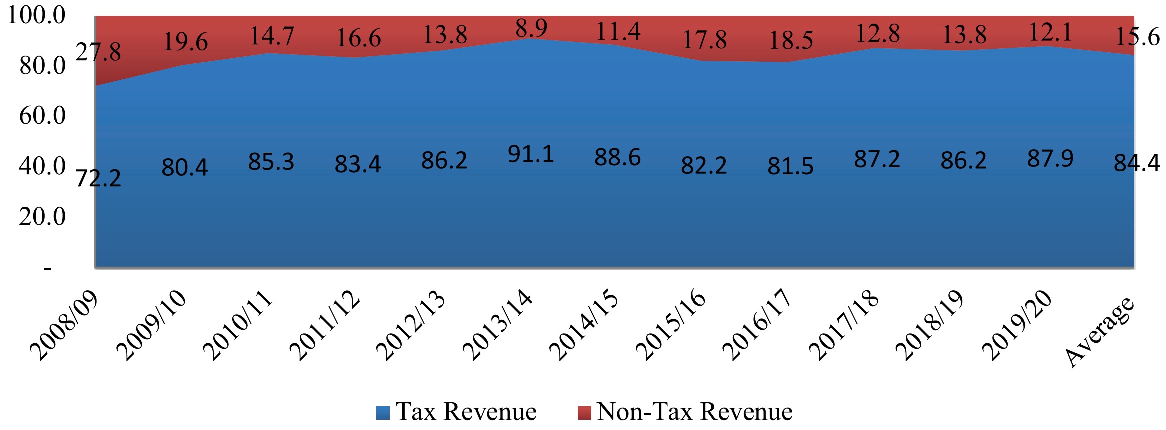


Figure 1.7.1.3: Share of Tax Revenue and Non-Tax Revenue between 2008/09- 2019/20 (in percent)

Source: Ministry of Finance

Tax has become a major source of domestic revenue, implying that the Government's financing is grounded on more reliable sources. Although non-tax revenue contribution to the government coffer remains low, it has become an important instrument to mobilize financial resources to cover supplementary budget allocation during the course of the fiscal year when the need arises due to unforeseen and forced conditions. The share of non-tax revenue from the total revenue has been rising since 2014/15 due to the need to look for supplementary budget to mitigate the El-Nino induced drought effects, salary adjustments for public employees, and financing displaced citizens from their residence due to internal conflict. Accordingly, its share from the total revenue grew to 17.8 percent in 2015/16 from 11.4 percent in 2014/15 and reached 18.5 percent in 2016/17. However, The share of non-tax revenue from the total revenue remained in the range of 12.1 to 13.8 percent during the recent three consecutive years(2017/18-2019/20).

Among the tax revenue sources, revenue from income taxes increased faster than consumption taxes. This is due to the progressive tax system, which generates tax revenue from high-income groups. Besides, the revised income tax proclamation in 2016/17 has broadened income tax sources. Public enterprises, private corporates, and high-income earning individuals are the major sources of income tax. Taxes on goods and services .i.e. domestic indirect tax and import duty and taxes were the main source of tax revenues in Ethiopia accounting for about 61 percent of tax revenue in average for the past decade. This is in line with the experience of other African countries where the contribution of consumption taxes outweighs income taxes. In Africa the greatest source of tax revenues are taxes on goods and services, which accounted for 51.9 percent of total tax revenues on average in 2018, with VAT alone contributing 29.7 percent of tax revenues[6]. Taxes on income and profits accounted for a further (38.7 percent) of average tax revenues.

[6] OECD 2020: Revenue Statistics in Africa 2020

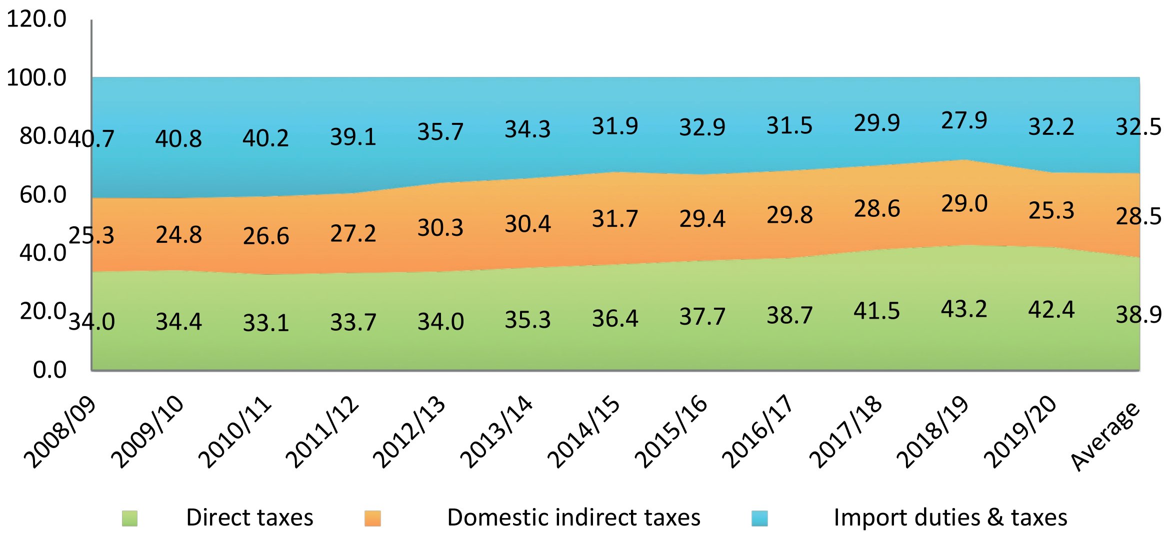


Figure 1.7.1.4: Share of Different Tax Components from 2008/2009-2019/20 (in percent)

Source: Ministry of Finance

There is also a clear shift in tax revenue dependence from international trade to income and domestic consumption taxes over the last ten years. In 2008/09 about 41 percent of the government tax revenue was generated from international trade. This was due to its simplicity in the tax administration as it is collected at ports and entry and exit points of the country along with increased import values. With the steady growth of the economy coupled with enhanced tax collection capacity, the share of direct and domestic indirect taxes increased to 68%, while the share of international trade declined to 32 percent in 2019/20.

Therefore, over the last 12 years on average the contribution of direct tax, domestic indirect tax and import duty & taxes was about 38.9 percent, 28.5 percent, and 32.5 percent respectively (figure 1.7.1.4). Generally, though the tax revenue growth has not been satisfactory over the last decade, the economy generated the required revenue mainly from domestic sources and largely from taxes. In this regard, tax revenue over the last 12 years annualy grew on the average by about 24.5 percent though its growth rate has not kept pace with the growth of the economy and tends to decline in the pace of growth especially since 2015/16.

The tax-to-GDP ratio is an economic measurement that gauges the amount of taxes collected by the Government against the amount of income that the country generates from the overall economic activities. Over the last decade, the economy has registered consistent and steady growth in Ethiopia, which puts the country at the forefront in the global economic arenas. Despite this growth performance, the country's tax to GDP ratio remains below 11 percent. Typically, the tax revenue performance in the second Growth and Transformation program is declining significantly over time. The share of tax to GDP was 12.7 percent in 2013/14, showed a decrease of 2 percentage points in 2017/18 and 1.2 percentage points from the preceding year (2016/17) performance. In 2019/20 the share of the total domestic revenue collection to GDP was 11.1 percent while the share of tax revenue was 9.8 percent. This is a significant decline compared to both the decade average and the preceding year's performance.

Box1.3 African Countries tax –to-GDP Ratio

In 2018, the unweighted average tax-to-GDP ratio for the 30 countries in this publication (the "Africa (30) average") was 16.5%. The tax-to-GDP ratio refers to total tax revenue, including social security contributions, as a percentage of gross domestic products (GDP). The Africa (30) average in 2018 was below the Latin America and the Caribbean (LAC) average of 23.1% and the OECD average of 34.3% in the same year. Tax-to-GDP ratios in Africa ranged from 6.3% in Equatorial Guinea and Nigeria to 32.4% in the Seychelles, with 21 countries having ratios between 10% and 25%. The tax-to-GDP ratio exceeded 25% in four countries (Morocco, Seychelles, South Africa and Tunisia) and was less than 10% in five countries (Chad, the Republic of the Congo, the Democratic Republic of the Congo, Equatorial Guinea and Nigeria). The increase in the Africa (30) average tax-to-GDP ratio between 2010 and 2018 was 1.4 percentage points (p.p.), although since 2014, the average has remained relatively constant at between 16.4% and 16.5% of GDP. The increase since 2010 is lower than the increase in the LAC and the OECD averages over the same period (1.9 p.p. and 2.0 p.p. respectively). The main changes in the Africa (30) average tax-to-GDP ratio between 2010 and 2018 were increases in revenues from value-added tax (VAT) (1.0 p.p.) and personal income taxes (0.7 p.p.). VAT and income tax revenues increased mostly between 2010 and 2014 (0.9 p.p. and 0.5 p.p. respectively). Taxes on goods and services were the main source of tax revenues among the countries included in this publication, accounting for 51.9% of total tax revenues on average in 2018, with VAT alone accounting for 29.7%. Taxes on income and profits accounted for 38.7% of tax revenues. Africa's average tax structure was similar to that of the LAC region in 2018, except in relation to social security contributions, which were on average more than twice as high in LAC than in Africa. Labour taxes remain low in Africa and LAC compared to the OECD: personal income taxes and social security contributions amounted to 24.7% of total tax revenues for the Africa (30) average and 26.7% in the LAC region, whereas in the OECD these revenues represented on average 49.9% of tax revenues.

Source: OECD 2020: Revenue Statistics in Africa 2020

Tax revenue in terms of GDP not only remained far from the GTP II projection (17 percent of GDP), but also has followed a declining trend since fiscal year 2014/15. This implies that although the amount of tax collected has shown significant growth, the growth rate was not proportionate to the rate of economic growth. Moreover, total domestic revenue in terms of GDP compared to SSA and other countries remained low, as depicted in fig 1.7.1.5 below. This indicates that the tax revenue generated by the economy is not properly collected.

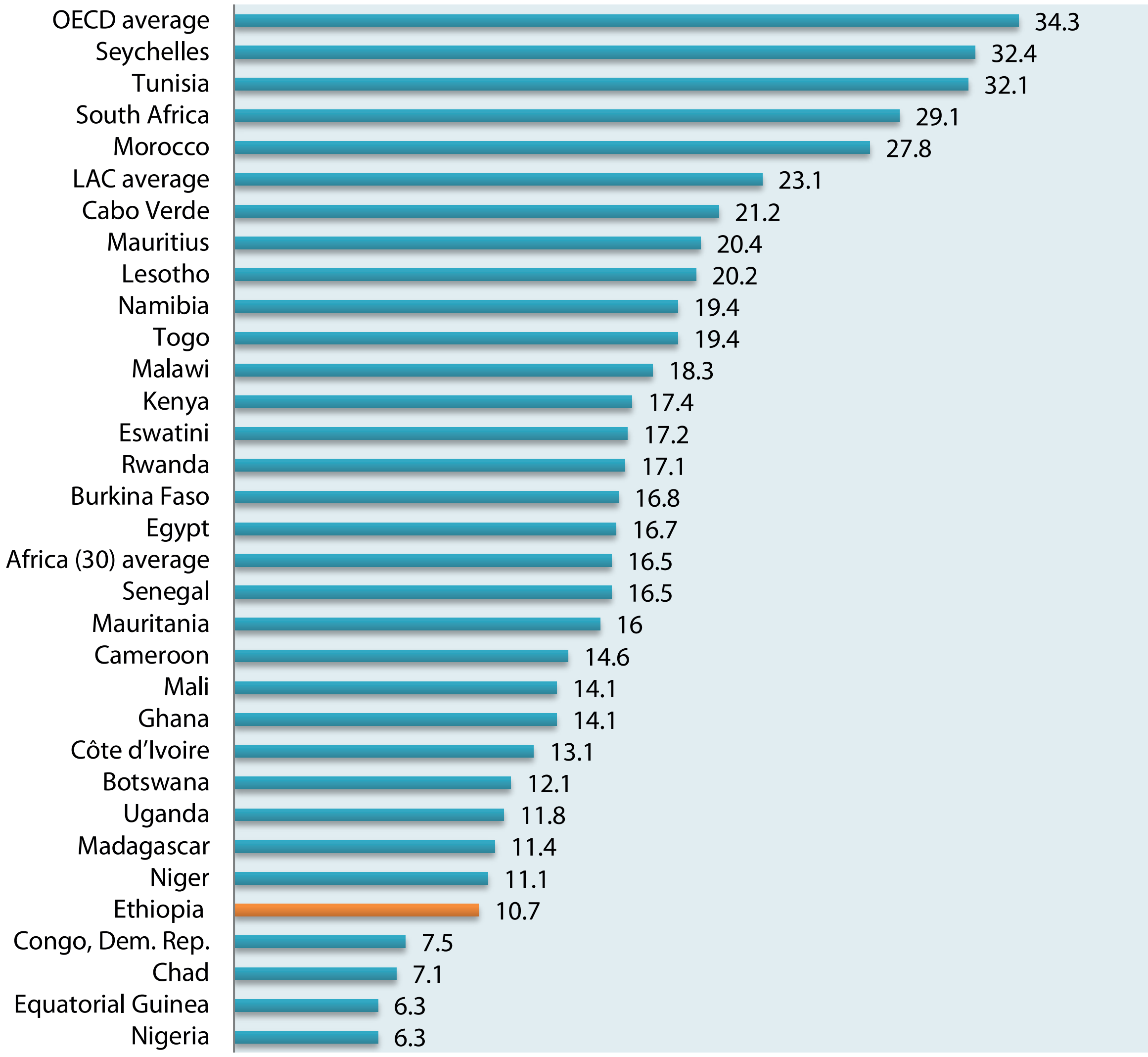


Figure1.7.1.5: Tax Revenue as a share of GDP (in percent) for Ethiopia and Other African Countries (2018)

Source: OECD/ATAF/AUC (2020), Revenue Statistics in Africa 2020 and Ministry of finance for Ethiopian data.

1.7.2 GOVERNMENT EXPENDITURE

Government expenditure has played a significant role as a driver of the Ethiopian economy. With the aim of providing basic service and reducing poverty, the pattern of the government expenditure was focused on allocating more resources towards building economic and social infrastructure. Over the last decade, the Government's fiscal policy was also dedicated to building an efficient and effective public expenditure management system.

In light of the broad fiscal policy objectives mentioned above, the annual budget focused on allocating more resources towards important sectors in poverty reduction, basic services provision, and infrastructure building. Accordingly, the bulk of the financial resources were devoted to capital expenditures that are critical in promoting social services. This demonstrates the Government's firm determination to allocate more resources to asset building and poverty reduction than current consumption.

During the fiscal year 2019/20 the amount of government expenditure was birr 479.5 billion compared with Birr 124.4 billion in the 2011/12 fiscal year. i.e., over the past 10 years, government spending has grown at an annual average rate of 21.0 percent. On average 50.8 percent of the government budget has been spent on capital expenditure and the remaining 49.2 percent was for recurrent expenditure. Spending on pro-poor sectors, on average, has been 65.5 percent of the total expenditure for the last ten consecutive years.

During 2018/19 and 2019/20, total government expenditure was Birr 413.1 billion and birr 479.5. The 16.1 percent increase during 2019/20 was both in recurrent expenditure and capital expenditure. The trend of recurrent expenditure outweighing capital expenditure, which started in 2016/17, continued during 2019/20. In 2019/20 the share of recurrent expenditure was 57.5 percent, while capital expenditure's share in total expenditure amounted to 42.5 percent.

Several factors accounted for the increased share of the recurrent expenditure. Salaries for constructed capital projects, salary increments for civil servants, outlays allocated to rehabilitation and internal political instabilities, and mounting debt service payments were major sources for higher recurrent expenditure. On the other hand, the underperformance of tax revenue which has been falling short of targets in recent years could be cited as an additional cause for lower capital expenditure.

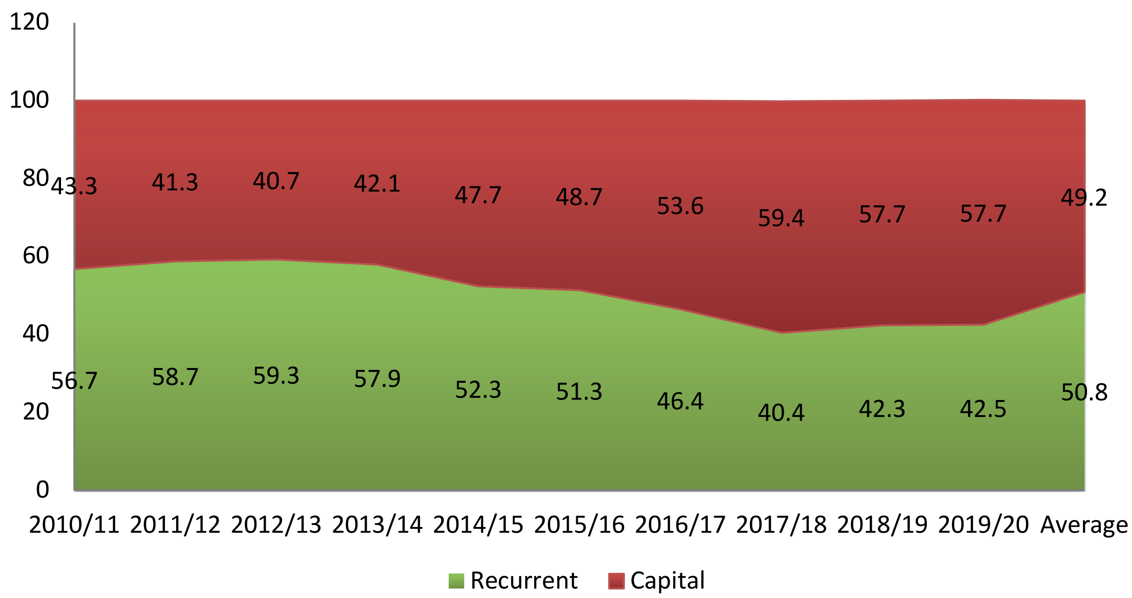


Fig 1.7.2.1 Share of Recurrent and Capital Expenditure from 2010/11-2019/20 (in percent)

Source: Ministry of Finance

Furthermore, the expenditure in Ethiopia based on classification of functions of Government (COFOG) is classified as economic, social and administrative & general service expenditures. More specifically, about 75.2 percent of total expenditure on average has been spent on economic and social sectors for the last ten consecutive years. On the other hand, the social expenditure had the largest share from the total government expenditure surpassing the economic expenditure for the last four consecutive years (2016/17-2019/20) and stood on average 37.9 percent in the year 2019/20 as depicted in figure 1.7.2.2.

During the last four years, the social expenditure had also the largest share from the total government expenditure. This is due to rising recurrent expenditure in education and health. Furthermore, the cost of displaced 'citizen's rehabilitation over the last two years and COVID-19 pandemic had also contributed to increased social sector expenditure. In this connection in fiscal year 2018/19 Birr 5.3 billion was allocated for rehabilitation while 6.2 billion was allocated for this expenditure in fiscal year 2019/20. Generally, the trend of expenditure has not shown significant variation for the last ten consecutive years. It is obvious that Ethiopia is striving to eliminate poverty and improve the

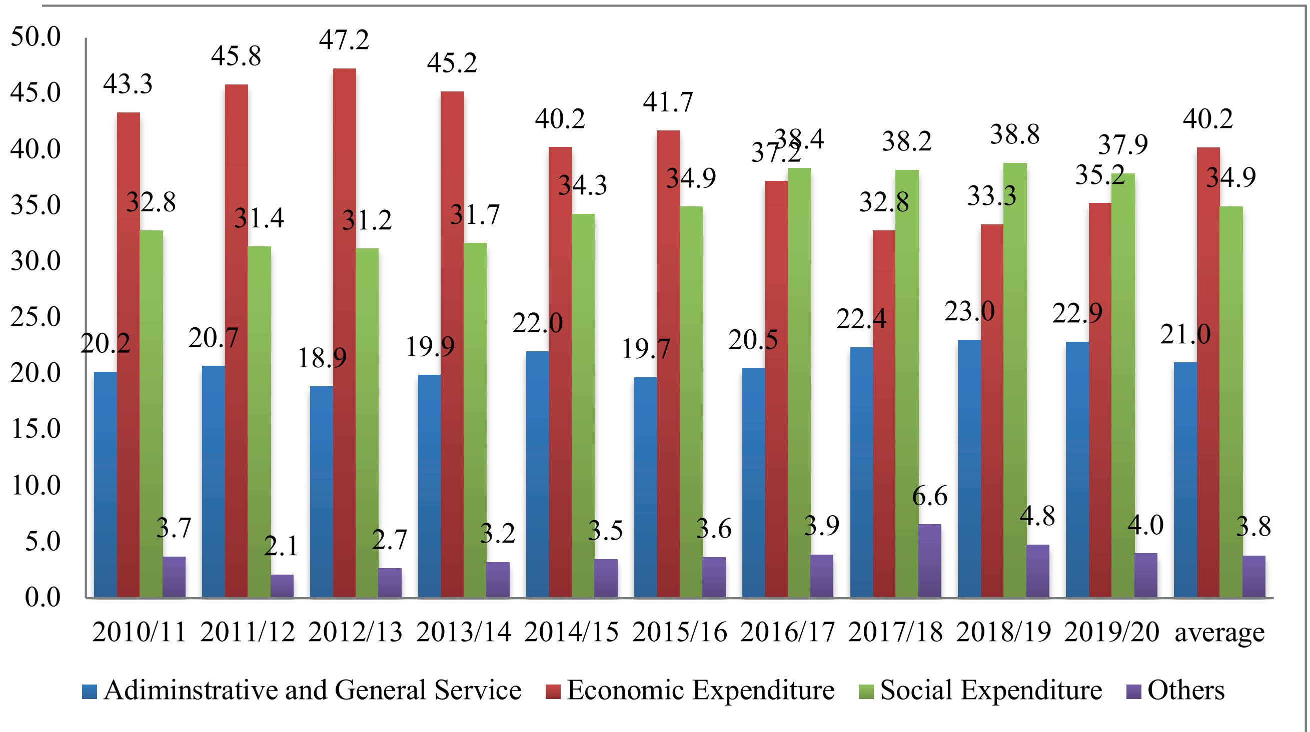


Figure 1.7.2.2: Share of Sectoral Expenditure in Total Expenditure from 2010/11-2019/20 (in percent)

Source: Ministry of Finance

livelihood of its citizens. These calls for the Government to design appropriate policies, invest in social sectors and build infrastructure as well as creating a conducive environment for the private sector. In this regard, emphasising rural development and food security where the majority of the poor are involved is highly decisive. Besides boosting economic growth, provision of basic services and infrastructure such as education, health, water, and road is equally important in boosting the living standard of the population. Consequently, government expenditure in financing such vital basic services and infrastructure building over the last decade substantially increased, though in low expenditure shares in GDP.

Pro-poor budget allocation focuses on policies, strategies, and programs that will contribute significantly to addressing the challenges of realizing broad based pro-poor growth, employment creation and human development. In this aspect, the average pro-poor spending during the year 2010/11-2019/20 EFY took around 65 percent of the total expenditure, and showed that education and road constitute the highest shares. During the year 2019/20 pro-poor expenditure took 60 percent of the total expenditure of which the share of education, road, health, natural resource including water, and agriculture from total expenditure became 24.9 , 11.1 , 10.1, 5.6 , and 8.4 percent, respectively.

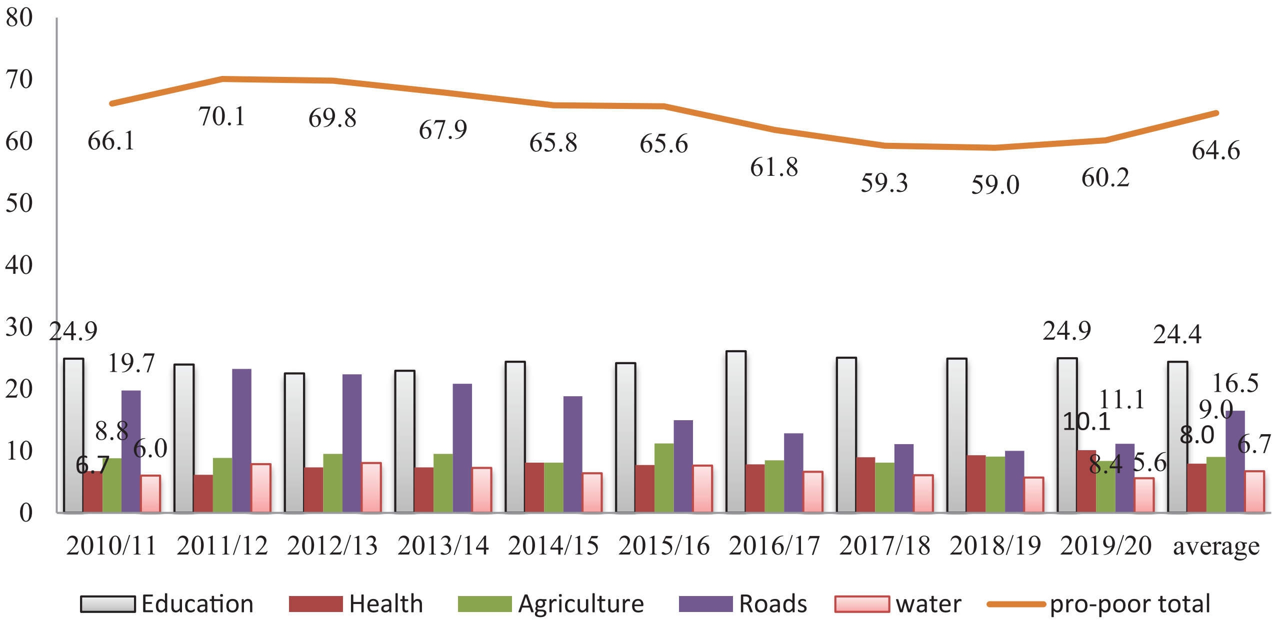


Figure 1.7.2.3: Share of Pro-Poor Sector Expenditure from Total Expenditure (in percent)

Source: Ministry of Finance

As part of the effort to cover government expenditures with domestic sources and curtail budget deficit, expenditure to GDP ratio has been declining[7]. The share of government expenditure in GDP declined from its annual average share of 21.5 percent during 2004/5-2008/09 to 18.0 percent in 2016/17. During the last three years (2017/18-2019/20), the share of government expenditure to GDP remained almost the same, fluctuating between 15.1 and 16.1 percentage points. However, government budgetary expenditure alone could not represent the size of Government in the economy, as it does not include expenditures of other state owned enterprises. Thus it has to be noted that if other public sector investments and expenditures are included, the size of the public sector could be higher than these figures in the GDP.

[7] Although Government expenditure from the annual budget seems low compared to GDP, the government's intervention in the economy through State Owned Enterprises is significant and high.

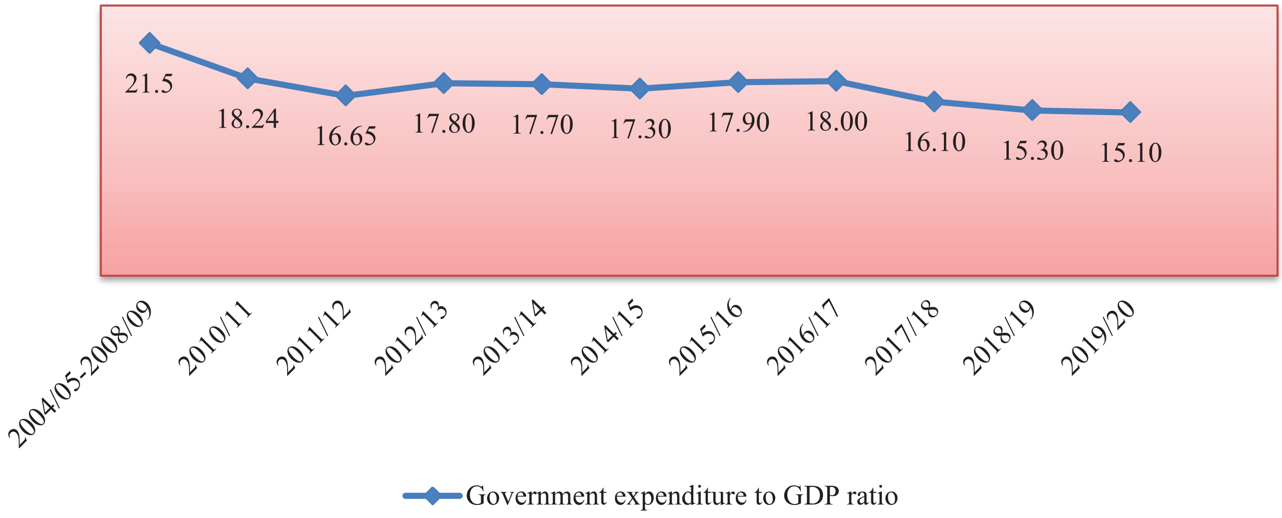


Figure 1.7.2.4: Share of Government Expenditure to GDP (in Percent)

Source: Ministry of Finance

1.7.2.1 Recurrent Expenditure

Recurrent expenditures finance the day to day activities of the Government. They largely consist of salaries of public servants and their operating expenses including maintenance, stationery, fuel, etc. Recurrent expenditures needed to operate and maintain public investment projects should be estimated so as to facilitate their provision in the national budget. Functionally, the recurrent expenditure is also divided into general, economic and social services as well as others. General services largely consist of the three organs of Government such as parliament, justice, police and defense. Government institutions including finance, planning, statistics and mapping are also part of these segments of expenditure. Major expenditure components of economic services include agriculture and natural resources, water, mining, energy, industry, trade, transport, communication, road, and housing. As the name suggested, social services contain education, health, and social protection. The general government recurrent expenditure in 2019/20 was Birr 275.7 billion exceeding by Birr 37.7 billion (15.8 percent) from the preceding fiscal year. Among the recurrent expenditure components, the share of social service expenditures amounts 47.3 percent, followed by general service (32.6 percent), economic services (13.2 percent) and others (7 percent) over the last decade.

Other expenditures, largely dominated by external debt servicing, averaged 7.7 percent of the aggregate recurrent expenditure in the same period. The trends of recurrent expenditure in the last ten consecutive years have shown significant increment among different sectors.

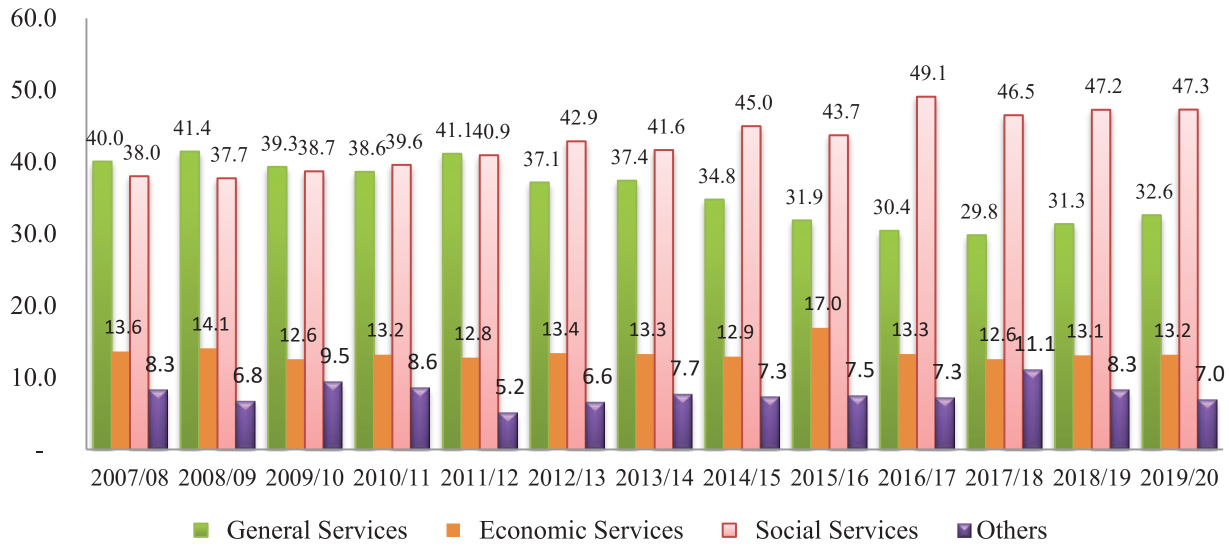


Figure 1.7.2.1.1: Share of Sectoral Recurrent Expenditure from Total Recurrent Expenditure (in percent)

Source: Ministry of Finance

1.7.2.2 CAPITAL EXPENDITURE

Capital expenditure is spending on investment or development activities of the Government. Capital expenditure finances building of physical assets for government use (for example, office buildings), economic and social infrastructures benefiting citizens and create enabling environment for private sector development such as, roads, water, energy, schools, hospitals, clinics and research[8].

Capital expenditure is usually seen as expenditure creating future benefits, as there could be some lags between when it is incurred and when it takes effect on the economy. During the fiscal year 2019/20, total capital expenditure amounted to 203.7 billion. This is 16.5 percent greater than that of the previous fiscal year. In the Same period, the execution of capital expenditure was about 92.9 percent of its budget. This is due to low revenue mobilization compared to the amount in the original budget. During the fiscal year under review, the share of capital expenditure to GDP becomes 6.4 percent depicting slight decrease from the previous year. From total capital expenditure, about 75 percent was financed from treasury sources.

Besides, the Government capital expenditure is supposed to enhance economic growth through crowding in private sector investment. It builds social and economic infrastructure which is critical in promoting private investment. Capital expenditure functional classification is similar to the recurrent and consists of general, economic and social development. The budgetary institutions under each category are also the same as the recurrent expenditure. In this case, economic development within capital expenditure accounted for 65.1 percent in 2019/20 aimed at investing in agriculture, and road construction. Capital expenditure expended in social development accounted for 25.2 percent in the same period.

[8] Davina Jacobs, Jean-Luc Hélis, and Dominique Bouley: (2009).

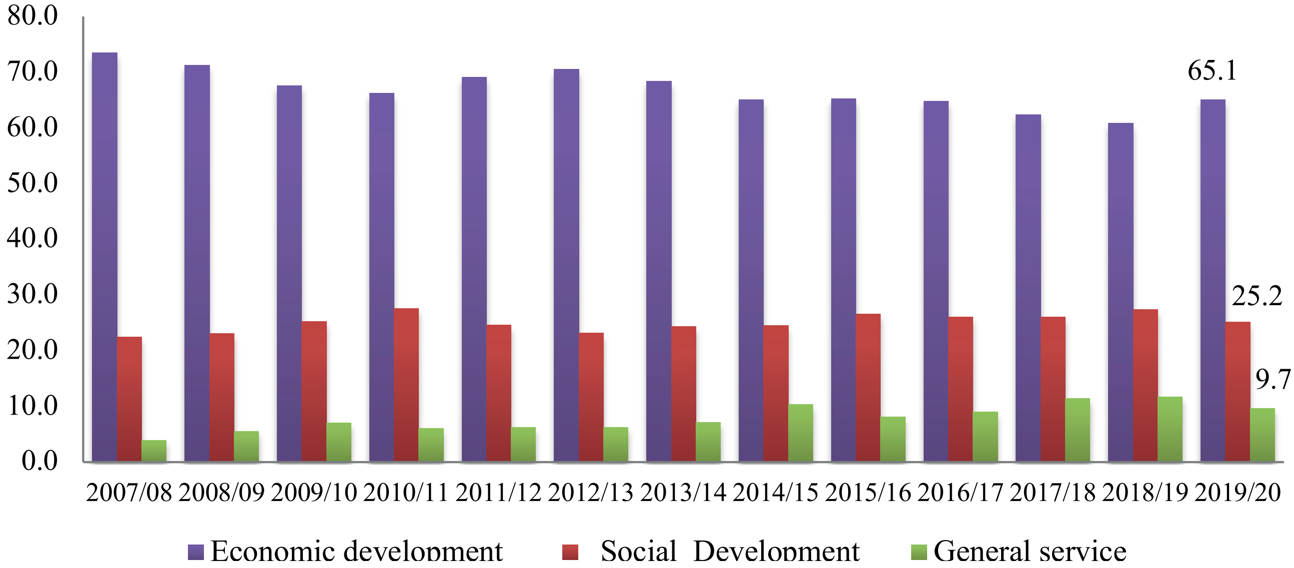


Figure 1.7.2.2.1: Share of Sectoral Capital Expenditure from total Capital Expenditure (in percent)

Source: Ministry of Finance

1.7.3 Deficit Financing

While Government expenditure needs are unlimited, financing resources are not, hence the prevalence of budget deficits are evident. But unless the extent of the deficit and its financing are managed prudently, it has negative consequences on macroeconomic stability. Therefore the bottom line in Government budget management is the level and its means of budget deficit financing. In Ethiopia the level and financing of the budget deficit is designed in view of promoting the desired macroeconomic goals such as controlling inflation, boosting private investment and growth and maintaining external credit worthiness.

The Government over the past years curtailed the overall budget deficit to about less than 3 percent of GDP. The cap was preserved as depicted in the table below. In fiscal year 2019/20, the overall budget deficit including grants was 2.7 percent of GDP. The gap was financed from both external (1.9 percent) and domestic (1.3 percent) sources through borrowing instruments. During the past ten consecutive fiscal years the budget deficits were a reasonable level and the financing was made through as non-inflationary ways as possible

Table 1.7.3.1: General Government Budget Financing from 2007/08-2019/20 (in percent of GDP)

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Revenue	12.8	12.1	12.1	13.4	13.8	14.3	14	14.4	15.2	14.1	12.2	11.5	11.1
Tax Revenue	10.2	9.7	8.71	11.51	11.51	12.4	12.7	12.7	12.5	11.5	10.7	10	9.8
Non-Tax Revenue	2.6	2.4	3.4	2	2.3	2	1.2	1.6	2.7	2.6	1.6	1.6	1.3
Grant	4.5	4	4.4	32	1.7	1.5	1.1	1	0.9	0.7	0.8	1.2	1.3
Expense	20.9	19.1	17.4	18.2	16.6	17.8	17.7	17.3	18.4	18	16.1	15.3	15.1
Recurrent	10.1	9.3	8.2	7.9	6.9	7.3	7.5	8.3	8.9	9.6	9.6	8.8	8.7
Capital	10.8	9.8	9.2	10.3	9.8	10.6	10.3	9.1	9.4	8.4	6.5	6.5	6.4
Overall Balance including Grant	-3.7	-2.9	-0.9	-1.6	-1.2	-1.9	-2.6	-1.9	-2.4	-3.2	-3	-2.5	-2.7
Overall Balance excluding Grant	-8.1	-7	-5.3	-4.8	-2.9	-3.5	-3.8	-3	-3.2	-3.9	-3.8	-3.8	-3.9
Financing	3.7	2.9	0.9	1.6	1.2	1.9	2.6	1.9	2.4	3.2	3	2.5	2.7
Domestic Financing	1.1	1	1	0.02	0.5	0.2	1.3	1.4	1.6	1.8	2.3	1.3	1.3
External Financing	3.7	2.7	-0.1	1.5	0.9	2	2	1.4	1.7	1.6	1.3	1.3	1.9
Privatization		0.4	0.1	0.3	0.4	0.1	-	0.04	0.03	0.6	0.4		

Source: Ministry of Finance

1.8 External and Domestic Debt Developments

Over the past two decades, the Government has spent significant resources on infrastructure, education, health, and other related sectors to achieve robust economic growth and poverty reduction.

Given the limitation in revenue mobilization, this level of spending requires borrowing by the Government. The investments mentioned above, especially infrastructure, require importing several goods and services, necessitating sizable external borrowing.

Foreign loans are a vital financing instrument to bring socio-economic development and help the economy adjust for internal and external shocks. However, unless managed prudently and used to finance development projects efficiently and effectively, borrowing could lead to debt stress down the line. Below, we discuss recent trends in external and domestic debts of the Government.

Box 1.8.1: Types of Government External Debt

There are three types of external debts based on the borrowing entity: central Government debts, Government-guaranteed external debt, and nonguaranteed external debt.

The central government external debt refers to all external loans contracted between external creditors and the Ministry of Finance. The Government is assumed to service these debts (repayment of principal and interest) through revenues collected from taxes and non-tax sources.

Government-guaranteed external debt comprises loans and suppliers credits contracted by public enterprises, mainly the Ethiopian Electric Power (EEP), Ethiopian Electric Utility (EEU), Sugar Corporation (SC), Ethiopian Railways Corporation (ERC), and Ethiopian Shipping and Logistics Services Enterprises (ESL) guaranteed by MoF or the public-owned Ethiopian Commercial Bank. The respective SOEs are expected to finance these debts using their own revenue. But as these SOEs are not considered creditworthy by the lenders for commercial loans, they must submit a Government Guarantee. By providing the credit guarantee, the Government is accountable for these contingent liabilities. These debts are also part of the country's debt sustainability analysis exercises.

Nonguaranteed external debts include loans contracted by public enterprises, primarily the Ethiopian Airlines (EAL) and Ethio-Telecom, without a guarantee from the Federal Government or a Government-owned bank. Since the borrowers are accountable for financing the repayment of these loans, these debts are not included in the country's debt sustainability analysis.

Source: Adopted, with minor editorial, from Ministry of Finance Annual Public Sector Debt Portfolio Report for the Year 2017/18 No. 19

1.8.1 External Debt Outstanding

Ethiopia's total external public debt, including central Government, Government-guaranteed, and public enterprises borrowing, increased at an annual growth rate of 20 percent from USD 2.3 billion in 2006/2007 to USD 28.6 billion in June 2020.[9] The Government used the borrowings to finance social and economic infrastructures and mega projects undertaken by State-Owned Enterprises (SOEs), which are vital for sustaining the country's growth trajectory. The most extensive expansion in external debt build up (in absolute value) occurred during the GTP I period (2010/11-2014/15), with outstanding external debt growing at an average annual rate of 24 percent.

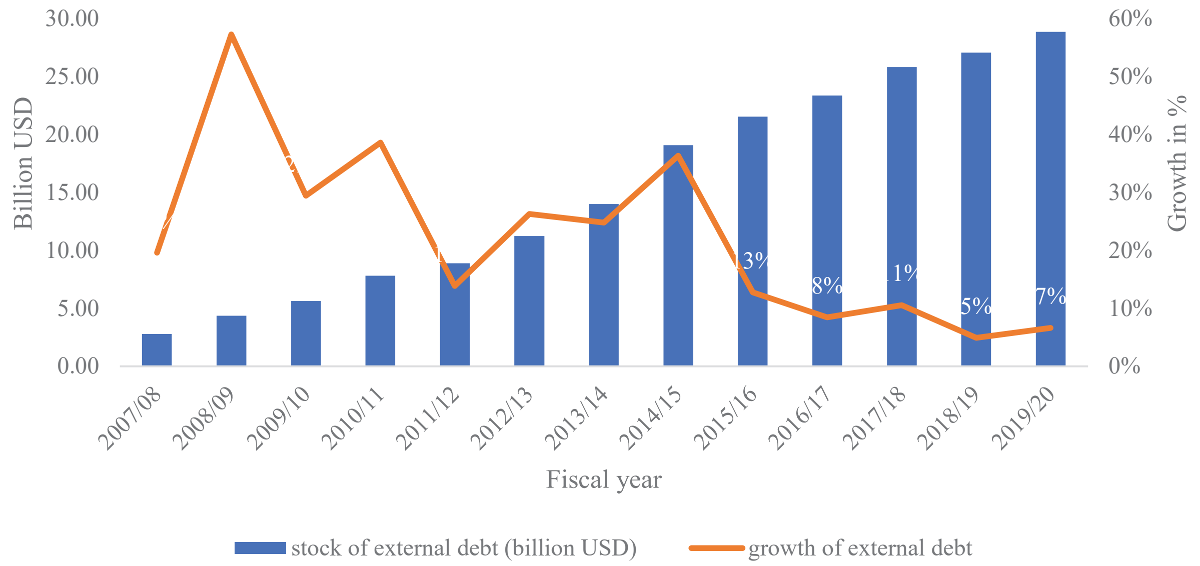


Figure 1.8.1.1: External Debt Trend in Ethiopia

Source: MoF, Public Sector Debt Statistical Bulletin, various editions

The fastest-growing public debt category in Ethiopia over the last decade and a half was borrowing by SOEs.[10] These include projects on energy, telecom, road, railway, industrial park, and water and irrigation infrastructures, and sugar industries. As figure 1.8.1.2 below shows, the annual growth on public debts drawn through Government guaranteed on average grew at a yearly rate of 48 percent against the overall indebtedness growth of 19 percent in the period 2006/07 to 2019/20. On the other hand, central government debt increased by 17 percent annually.

[9] Note that this is total external debt stock of the country including borrowing the two giant state enterprises (Ethiopian Airlines and Ethiopian Telecommunications

[10] Note that the although the PASDEP period is 2005/06-2009/10, we only use data starting from 2006/07 due to the large debt relief, under the Multilateral Debt Relief Initiative (MDRI), the country benefited at the end of 2005/06.

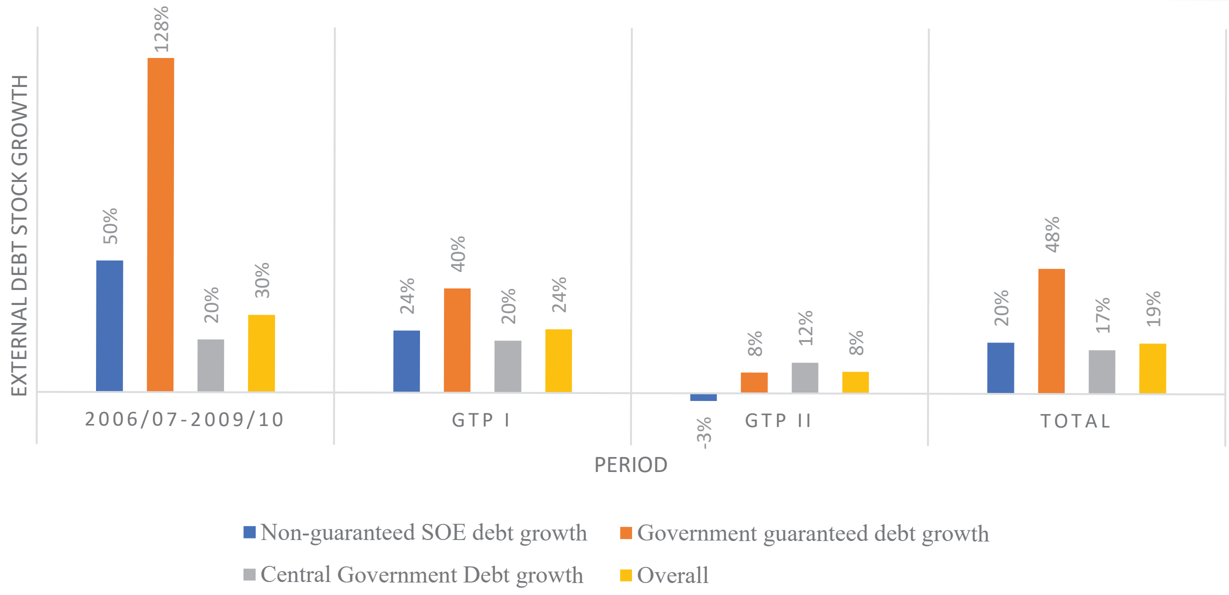


Figure 1.8.1.2: Growth of External Debt Stock by Debt Holder

Source: MoF, Public Sector Debt Statistical Bulletin, various editions

Note that the growth rates mentioned above are relative to each debt component's base as of the beginning of the period. In terms of absolute figures, non guaranteed loans grew from $ 281.48 million in 2006/07 to $3.614 billion in 2019/20. In the same period, government-guaranteed debt increased from $14.23 million to $7.24 billion and the stock of outstanding central government loans increased from $2.1 billion to $18 billion (see figure 1.8.1.3).

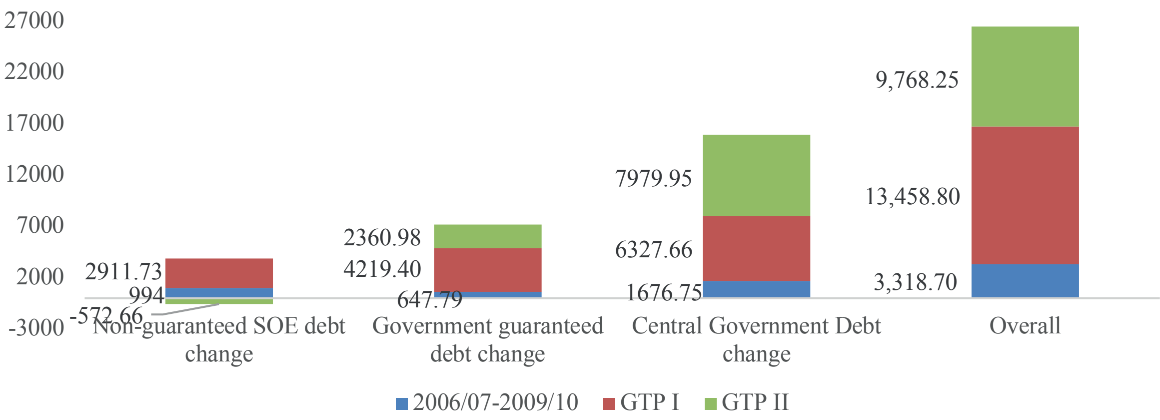


Figure 1.8.1.3: Change in External Debt Stock by Debt Holder across the three 5 year planning periods

Source: MoF, Public Sector Debt Statistical Bulletin, various editions

1.8.2 EXTERNAL DEBT COMPOSITION

The aggregate external public debt of the country comprises all federal government external loans contracted between external creditors and the Ministry of Finance, Government-guaranteed debt owed by state-owned enterprises, and nonguaranteed external debt contracted between public enterprises and external creditors.

At the beginning of the period (2006/07), the external public debt of the country was mainly borrowing by the central Government. Over the last decade and a half, borrowing by state-owned enterprises has come to play a significant role.

In 2006/07, 87 percent of all external public debts were due to borrowing by the central Government. This share declined to 52 percent by 2014/15 and increased to 62 percent by 2019/20. A mirror image of this trend is the Government-guaranteed borrowing by SOEs. Their share of the country's total outstanding external public debt was just 1 percent in 2006/07. Due to significant borrowing by SOEs for such endeavors as Sugar plants, power stations, industrial parks, railways, the share of government-guaranteed outstanding external loans increased to 25 percent by June 2020.

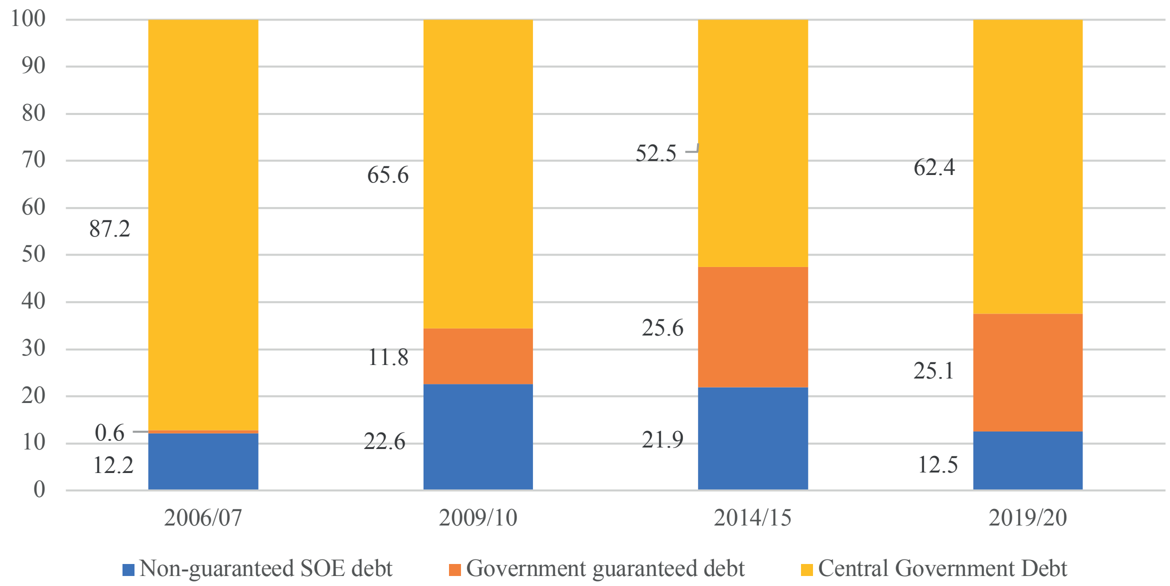


Figure 1.8.2.1: Composition of External Public Debt (in percent)

Source: MoF, Public Sector Debt Statistical Bulletin, various editions

Compared to the ones extended to the Central Government, most loans to SOEs tend to be commercially oriented[11]. These loans have higher interest rate, lower grace period, and less grant element. As a result, they give rise to a higher debt servicing burden.

[11] While only 5.6% of central government loan is from private creditors, the share of borrowing from private creditors for government guaranteed and non-guaranteed loans are 31% and 91%, respectively.

1.8.3 SOURCES OF EXTERNAL DEBT

The Ethiopian Government mobilizes external debt from three sources: Multilateral, Bilateral, and private creditors.

The multilateral sources include; World Bank, the African Development Bank, the European Union, Arab Bank for Economic Development for Africa, the OPEC Fund for International Development, IMF, etc.

Bilateral sources consist of the country's long-time development partners, the Paris Club members, and non-Paris Club members including UK-DFID, Exim-Bank of China, and Exim-Bank of India. Furthermore, Ethiopia has benefited from Asian and Middle East countries that have recently transformed from aid recipient to donor status. The ability to source finance from these diverse sources has lessened the impact of the global financial and economic crisis. Private creditors include commercial Banks, suppliers, and Euro bondholders.

As shown in figure 1.8.3.1 in 2006/07, almost all external public loans (99.3 percent) originate from official sources, with multilateral creditors claiming the lion's share (60 percent). The role of private creditors, hence non-concessional loans, steadily increased and reached 24 percent by 2013/14. With the Euro bond issuance in 2014/15, this share further increased to 35 percent.

Over the last five years, there is a trend reversal with official credits, particularly multilateral credit, being the overwhelming source of external lending for the country. By June 2020, 77.3 percent of the total external outstanding loan is owed to official creditors. In particular, 48 percent of the total outstanding loan is sourced from multilateral sources.

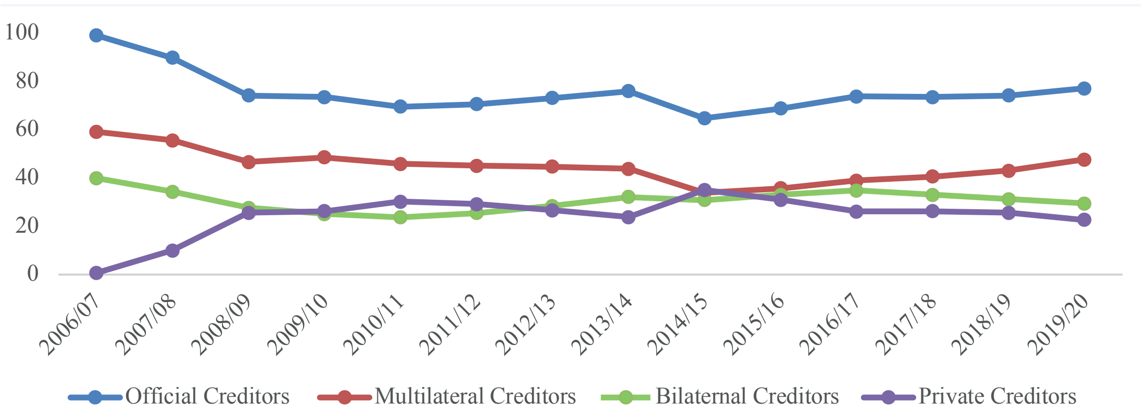


Figure 1.8.3.1: Total Public Sector Debt Outstanding by major Creditors (percent share)

Source: MoF, Public Sector Debt Statistical Bulletin, various editions

1.8.4 EXTERNAL DEBT AVERAGE TERMS AND GRANT ELEMENTS

External debt, by nature, entails future repayment of the principal and interest. The burden of financing the debt service depends on the attached interest amount and repayment and the grace period granted by the creditor. Loans with lower interest rates and longer grace periods entail less debt financing obligations. Similarly, loans with shorter maturity and higher interest rate increase the resources needed to service the associated debt.

At the start of the decade, public enterprises were borrowing a significant amount of external finance. They were borrowing $2.5 billion USD per annum in the first four years compared to $1.46 billion in the last four year of the period (2016/17-2019/20). The borrowing in the first four years of the decade (2010/11-2013/14) was 19 percent higher than the borrowing by the Central Government. Also, the SOEs were sourcing a considerable share from private creditors (30 percent). As a result, the average grant element of the total external loan was 41 percent, with a grace period of 6.13 years, maturity of 23.5 years, and an interest rate of 1.42 percent (see table 1.8.4.1).

Poor project execution, mainly by SOEs, manifested in significant delays and cost overruns, and financing these projects through external borrowing has led to an increased likelihood of debt stress. To address the eminent debt stress, in 2017 the Government put forward a policy that prioritizes debts of higher concessionary elements and lower interest rates. The policy is especially given prominence with the launch of the Home Grown Economic Reform launched in September 2019.

Table 1.8.4.1: Public External Debt, New Commitment, Amount, Average Terms & Grant

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Average (2010/11-2019/20)
Grand Total											
Committed Amount(Mn USD)	2,585.99	2 ,687.87	7819.41	5,369.26	3,638.44	3,217.92	3 ,824.03	2629.67	2,822.30	4,728.05	4,101.38
Interest Rate (avg. percent)	1.42	1.4	2.25	2.22	2.91	1.36	2.02	2.11	1.71	1.16	1.86
Maturity (avg.yrs)	23.5	27.82	21.94	23.82	2 2.61	30.2	24.12	31.14	28.5	15.65	25.19
Grace period (avg.yrs)	6.13	5.74	5.23	6.1	6 .37	5.35	6.06	5.9	5.79	5.43	5.75
Grant Element (avg percent)	40.99	32.97	38.94	34.4	2 1.07	40.12	31.29	33.13	36.74	30.13	35.41
Central Government											
Committed Amount(Mn USD)	1,420.30	1,495.60	2,588.18	2,920.02	2,603.28	2,442.13	3,044.90	1,585.09	2,049.70	1,461.51	2,161.07
Interest Rate (avg. percent)	1.29	1.83	1.04	1.05	3.02	0.75	1.63	1.03	0.74	0.78	1.32
Maturity (avg.yrs)	32.69	37.14	3 7.38	34.22	2 7.02	37.25	27.17	42.81	34.9	27.8	34.25
Grace period (avg.yrs)	8.32	9.19	6 .94	8.7	8 .07	6.19	7.04	7.59	7.87	7.51	7.80
Grant Element (avg percent)	49.73	50.56	6 1.31	53.71	2 3.48	52.7	38.18	54.07	52.55	48.93	50.05
Other Public Sector											
Committed Amount(Mn USD)	1,165.69	1,192.27	5,231.23	2,449.24	1,035.16	775.79	779.13	1,044.58	772.6	3,266.54	1,771.22
Interest Rate (avg. percent)	1.58	2.12	2.85	3.6	2.62	3.28	3.57	3.76	4.29	1.32	2.90
Maturity (avg.yrs)	12.31	16.17	1 4.30	11.43	11.52	8	12.21	13.43	11.53	10.21	11.87
Grace period (avg.yrs)	3.46	1.42	4 .38	3.01	2.11	2.71	2.24	3.34	0.25	4.5	2.56
Grant Element (avg percent)	25.93	16.83	2 7.43	10.66	1 4.06	8.9	9.17	9.48	3.35	24.94	13.66

Source: MoF, Public Sector Debt Statistical Bulletin, various editions

Although most of the country's debt commitment contains grant elements, it is not free from debt service obligations. Accordingly, developments in debt service in terms of principal payments and interest payments follow the recent outstanding debt stock trends.

The total debt service increased from USD 241.88 million in 2010/11 to USD 2 billion in 2019/20. By 2010/11 most of the debt servicing was devoted to repayment of non-guaranteed debt (56 percent). By 2019/20, a larger share of debt repayment (40 percent) is geared towards fulfilling commitments arising from government guaranteed loans borrowed by SOEs compared to the share that is due to repayment of non-guaranteed loans (39 percent). This reflects the significant expansion of SOE loans in recent years, their shorter maturity, higher interest, and lower concessionary element.

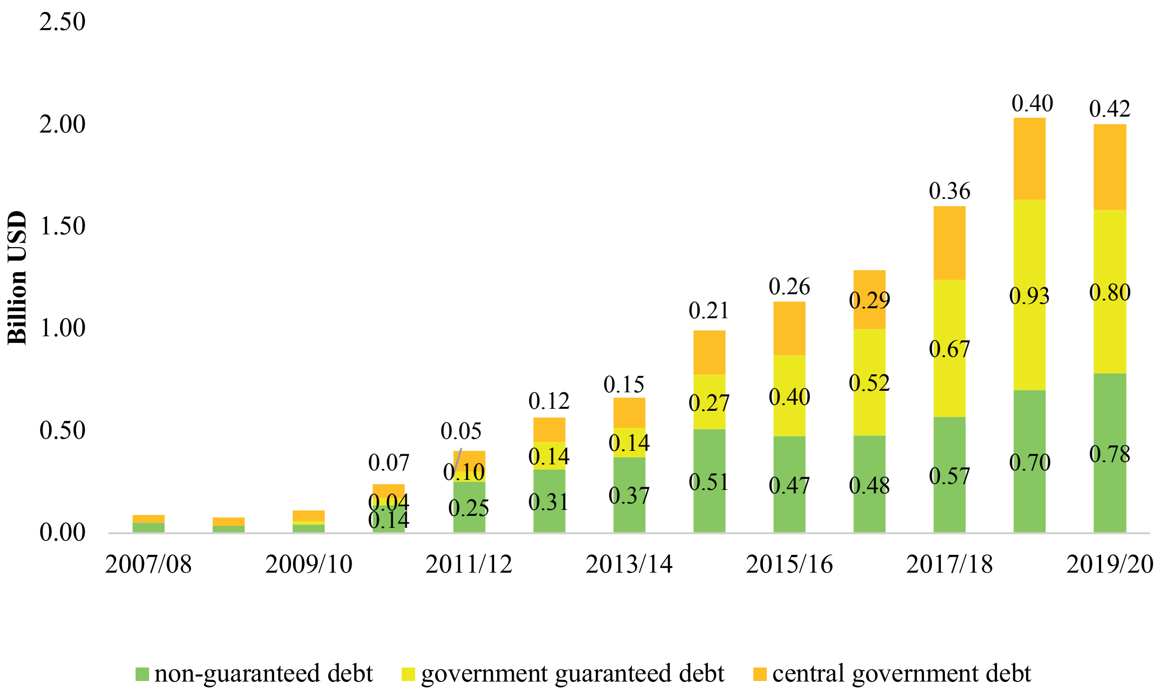


Figure 1.8.4.1: External Debt Servicing by Major Borrower Category (billions of USD)

Source: MoF, Public Sector Debt Statistical Bulletin, various editions

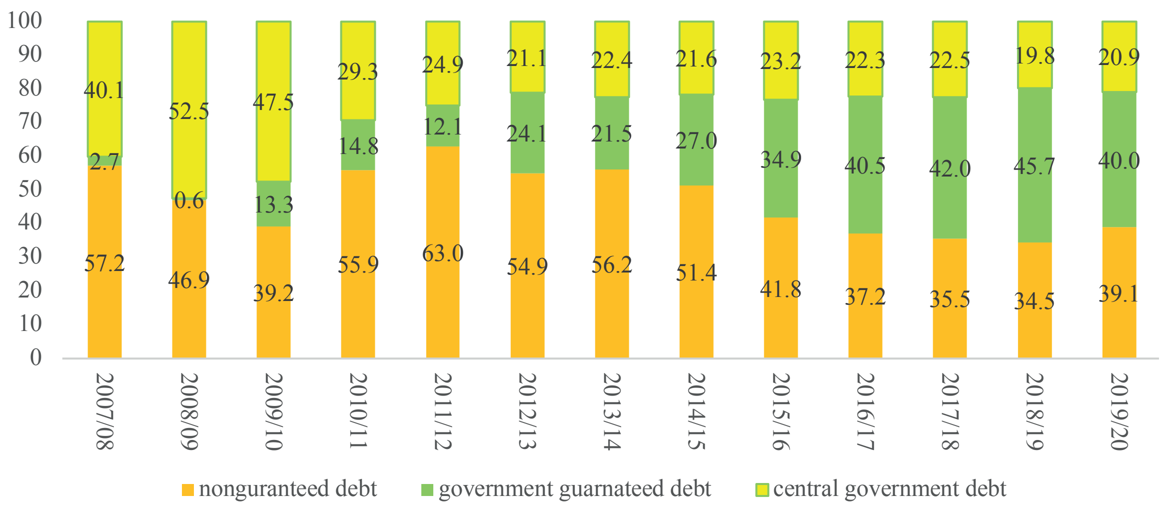


Figure 1.8.4.2: Share of External Debt Servicing by Major Borrower Category (in percent)

Source: MoF, Public Sector Debt Statistical Bulletin, various editions

1.8.5 EXTERNAL DEBT DISBURSEMENT

The country's external loan commitment is spent to finance economic and social sectors that directly impact medium and long-term socio-economic development. These include electricity and transport-oriented mega projects, industrial parks aimed at facilitating the growth of the manufacturing sector, and universities that enhance human capital accumulation.

As the country's development strategies emphasize infrastructure development, the lion's share of external loans is devoted to financing infrastructure development. Between 2010/11 and 2019/20, about 24.26 percent of the total government loan disbursements financed transport and communication, followed by 19.6 percent for road transport, 17.5 percent electricity, 8.8 percent industry, and tourism, and 7.46 percent for agriculture (table 1.8.5.1).

Table 1.8.5.1 Public Sector Loan Disbursements by Economic Sector (in Percent)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Average
Agriculture	0.72	1.99	6.23	9.23	1.60	14.60	17.89	6.77	8.91	6.67	7.46
Transport and Communication	42.11	21.76	34.44	44.46	24.03	3.93	8.94	16.56	31.55	14.84	24.26
Highway Transport	14.29	16.15	13.37	10.14	30.02	45.33	28.05	20.83	10.27	7.59	19.60
Electricity, Gas, Steam	16.96	29.91	15.02	14.36	16.01	14.49	16.98	28.41	6.68	16.13	17.50
Industry and Tourism	5.47	9.40	7.11	5.05	19.22	11.00	14.42	7.65	8.08	1.39	8.88

Source: MoF, Public Sector Debt Statistical Bulletin, various editions

The Ethiopian Government recognizes the impact of external debt burden on future generations. As a result, any single external loan is subject to scrutiny and approval by the Ethiopian People's Representative (Parliament). As a means of building transparency and accountability in debt management, each loan is issued in Negarit Gazeta.

In recent years, as the debt burden grows and the export performance slows, the debt repayment capacity of the country is becoming a concern. Cognizant of this fact, the Government recently decided to slow down the access to a commercial loan to mitigate the risk of debt stress until export performance is improving. A debt directive has also been affected to strengthen the debt management framework of the country.

1.8.6 DOMESTIC DEBT OUTSTANDING

In 2019/20, the public domestic debt stock stood at Birr 917.02 billion compared to Birr 773.54 billion in 2018/19, increasing by 18 percent. The growth rate of public debt has slightly decreased from the average growth rate of the period 2010/11-2019/20, which was 23 percent. It is also measurably lower than the average growth rate over the last five years of 21 percent.

The growth numbers discussed above are in nominal value. A look at the domestic debt to GDP ratio paints a different picture. As shown in figure 1.8.6.1, domestic debt as a share of GDP has only increased by 5 percentage points between 2010/11 and 2019/20. In fact, domestic public debt as a share of GDP has declined from its peak of 29 percent in 2017/18 to 27 percent in 2019/20. Most of the movement in the debt to GDP ratio over the last decade reflects the change in SOE debt to GDP ratio.

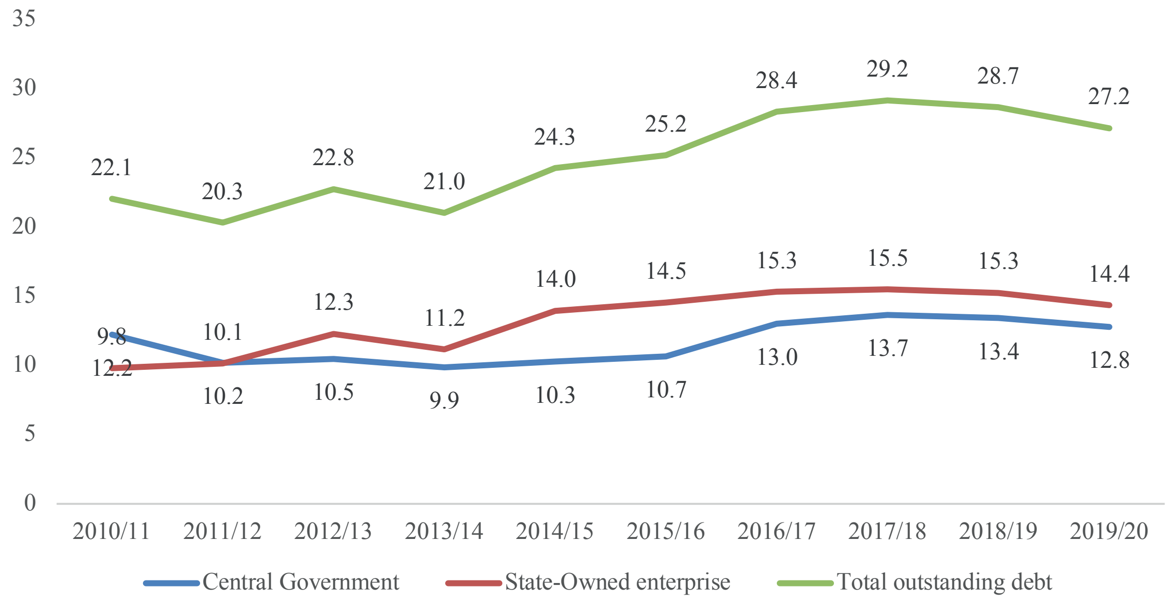


Figure 1.8.6.1: Domestic Debt to GDP (in percent)

Source: MoF, Public Sector Debt Statistical Bulletin, various editions

In terms of composition, SOE's bonds and loans make up 53 percent of the total outstanding domestic public debt in the country as of 2019/20 and on average for 2010/11-2019/20. Until 2018/19, direct advances by the National Bank to the central Government and T-Bills account for the next highest share of outstanding loans, 24 percent and 18 percent, respectively.

Following debt structuring in 2019/20, i.e., conversion of outstanding direct advances to bonds owned by the National Bank, the share of outstanding direct advances has declined to 3.4 percent of total outstanding public debt, whereas the percentage of central Government bonds held by the National Bank has increased to 25 percent. The restructuring is part of the financial sector reform embedded in the Home Grown Economic Reform Agenda. It is meant to transition into a state in which monetary policy plays an active stabilization role.

Table 1.8.6.1: Domestic Public Debt Outstanding by Borrowing Instructions (in millions of Birr)[12]

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Central Government	**64,709.51**	**78,251.53**	**93,168.03**	**107,472.93**	**137,215.09**	**167,231.90**	**238,473.04**	**300,918.85**	**361,886.31**	**432,393.66**
Direct advance	41,835.00	46,264.95	55,264.95	64,264.95	83,264.95	100,764.95	127,764.95	152,264.95	187,264.95	31,000.00
T-Bills	10,362.62	19,862.78	25,934.63	32,286.86	43,604.80	57,252.56	73,271.56	111,513.56	138,034.36	23,724.00
Treasury Notes	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	149,332.56
Bonds	12,511.89	12,123.80	11,968.45	10,921.12	10,345.34	9,214.39	37,436.53	37,140.35	36,587.01	228,337.10
State-Owned Enterprises	**51,861.00**	**77,761.00**	**109,373.92**	**121,504.69**	**186,102.60**	**227,901.95**	**281,056.62**	**341,727.62**	**411,651.70**	**484,624.47**
Bonds and Loans	51,861.00	77,761.00	109,373.92	121,504.69	186,102.60	227,901.95	281,056.62	341,727.62	411,651.70	484,624.47
Total Outstanding domestic debt	**116570.51**	**156012.53**	**202541.95**	**228977.62**	**323317.69**	**395133.85**	**519529.65**	**642646.47**	**773538.01**	**917018.12**

Source: MoF, Public Sector Debt Statistical Bulletin, various editions

1.8.7 DOMESTIC DEBT SERVICE

In 2019/20, a total of Birr 51.17 billion has been spent by the central Government and SOEs to service their domestic debt obligations. Of the 51.17 billion, 43.5 billion is repayment by SOEs and the rest is repayment by the Central Government. This repayment represents 10 percent of the total outstanding loans of SOEs at the end of 208/19.

The debt service payment represents a 67 percent increase compared to 2018/19. Of the total repayment of 51.17 billion Birr, 37.34 is interest payment and 13.83 is a payment of the principal. In 2019/20, the principal and interest repayments increased by 361 percent and 39 percent, respectively, compared to 2018/19. The significant increase in principal payment is due to the rise in the repayment by SOEs. This increase is part of the financial stability objective embedded in the Home Grown Economic Reform. It is meant to increase the safety and soundness of the public commercial Banks.

[12] Note that in 2019/20 the significant decline in the stock of T-bills is because they are converted to treasury notes.

Table 1.8.7.1: Domestic Debt Service Payment (in billions of Birr)						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Central Government	3.16	4.83	5.38	5.81	7.83	7.72
Principal	0.33	1.13	0.85	0.30	0.52	0.52
Interest	2.84	3.70	4.53	5.51	7.31	7.20
State-Owned Enter-prises	0.00	12.96	14.78	24.08	22.81	43.45
Principal	0.00	0.80	1.59	4.77	3.33	13.31
Interest	0.00	12.16	13.19	19.31	19.48	30.14
Total Dometic debt service	3.16	17.79	20.16	29.89	30.64	51.17
Prinicpal	0.33	1.93	2.44	5.06	3.85	13.83
Interest	2.84	15.86	17.72	24.83	26.80	37.34

Source: MoF, Public Sector Debt Statistical Bulletin, various editions

PART TWO
RECENT DEVELOPMENTS IN FISCAL POLICY

2. DEVELOPMENTS IN FISCAL POLICY

2.1 DEVELOPMENTS IN FISCAL DECENTRALIZATION: VERTICAL IMBALANCE AND INTERGOVERNMENTAL TRANSFERS

Ethiopia follows a decentralized fiscal system in which the constitution clearly outlines the Federal Government's and sub-national governments' responsibilities for revenue, expenditure, borrowing, and intergovernmental transfers.[13]

The constitution assigns each revenue source to the Federal Government, Sub-national governments, or as a concurrent revenue source to the two levels of governments. Similarly, it assigns responsibilities to the federal and sub-national governments in terms of expenditure and resource allocation.

As borrowing is the federal Government's sole domain, an inter-governmental transfer system is instituted to fill the gap between the expenditure responsibilities of sub-national governments and their revenue streams.

The allocation of revenue sources, especially the sole responsibility of the Federal Government to International trade taxes, has been the source of significant vertical imbalance. As shown in figure 2.1.1, as of 2019/20 the Federal Government collects above 73 percent of tax revenue, whereas regional governments collect 27 percent. But the share of tax revenue accruing to Regional Governments has been steadily increasing. The percentage of tax revenue collected by Regional governments increased to 27 percent in 2019/20 compared to 17 percent in 2007/08. Similarly, Regional Governments' share of non-tax revenue has increased significantly over the last decade. i.e., from 23 percent in 2007/08 to 42 percent in 2019/20.

A significant source of non-tax revenue, property and land tax is assigned to regional governments. However, the limited urbanization in the country and the lack of capacity of sub-national governments to administer property taxation has been a limiting factor in terms of full utilization of this source of revenue and closing the vertical imbalance between the federal and sub-national governments.

So far, tax revenue is the most significant source of revenue mobilization for both the Federal and Sub-national governments. Therefore, the total revenue share of both governments mirrors that of their share in tax revenue. As of 2019/20, the federal Government and sub-national governments collect 72 percent and 27 percent of total government revenue.

[13] Article 94 to 100 of constitution of the Federal Democratic Republic of Ethiopia

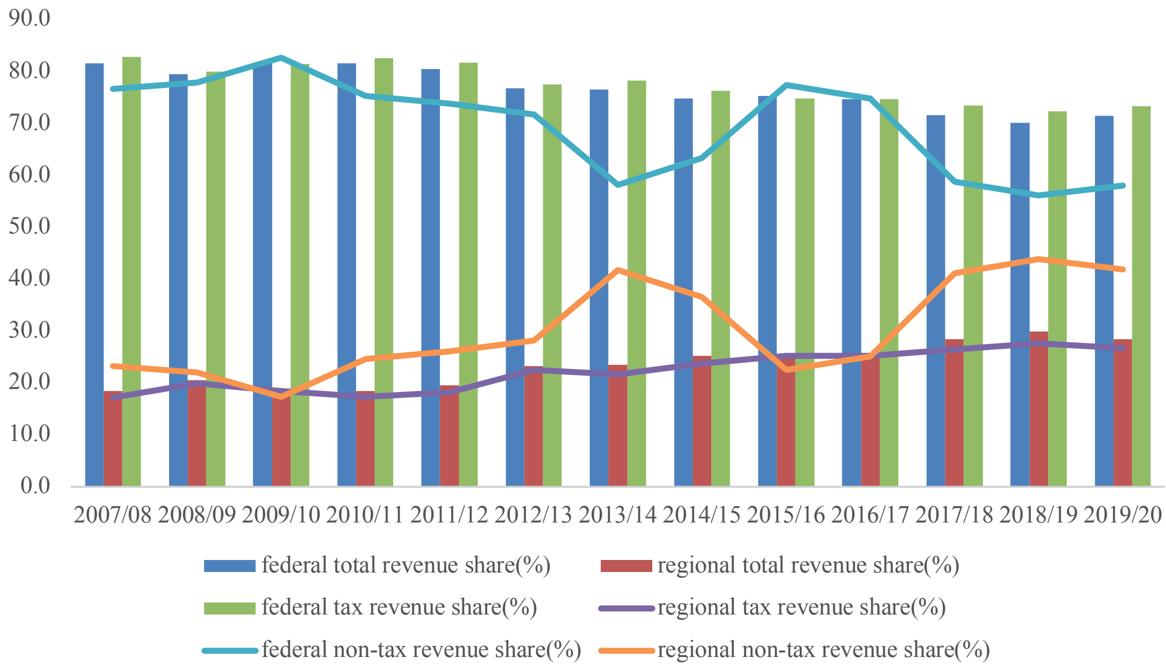


Figure 2.1.1: Revenue shares of Federal and Regional Governments in Ethiopia

Source: Ministry of Finance

Regional Governments in Ethiopia are responsible for providing major basic services, including primary and secondary education, health, rural road, agriculture, and natural resources related services. Over time, the responsibility for providing basic services has been further pushed to Regional Governments and Woredas.

As shown in Figure 2.1.2, the share of Regional Governments in total government expenditure has increased from 42 percent in 2007/08 to 52 percent in 2019/20.

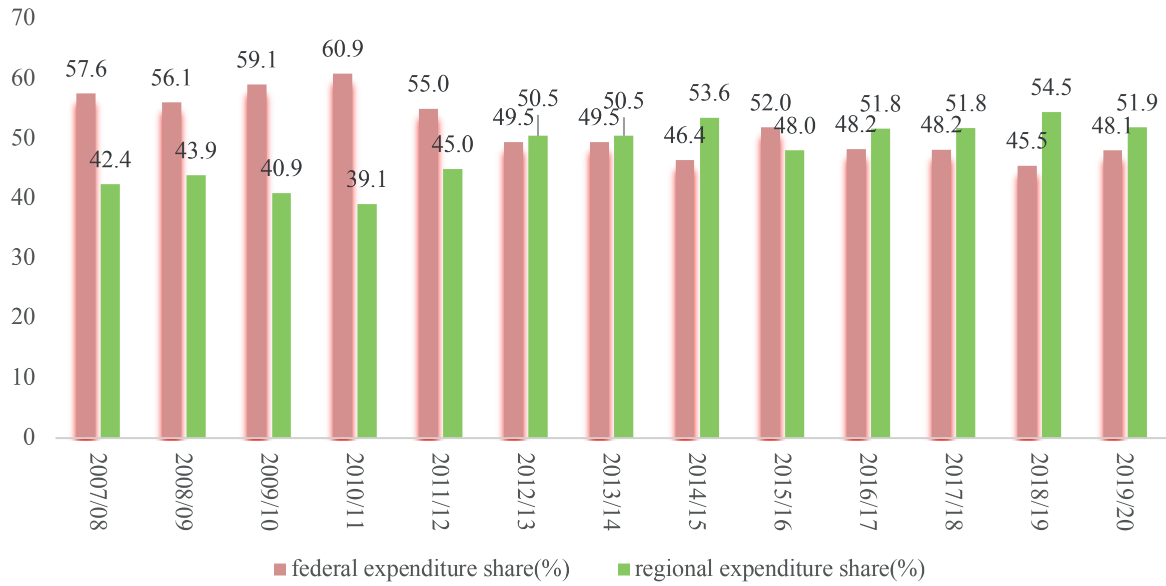


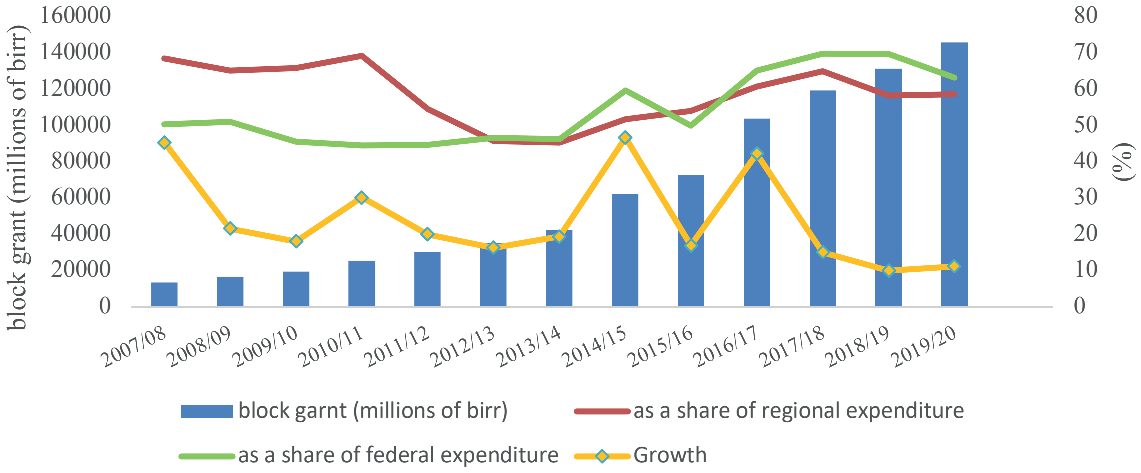
Figure 2.1.2: The Share of Regional and Federal Governments in Total Government Expenditure in Ethiopia (in percent)

Source: Ministry of Finance

The gap between the expenditure responsibilities and revenue sources of both layers of Government is evident from the two figures above. Most importantly, while Regional Governments are assigned significant expenditure responsibilities, most of the lucrative tax sources are reserved to the Federal Government.[14] As a result, the revenue of Regional Governments is not sufficient to discharge their expenditure responsibilities.

The mismatch between the expenditure responsibilities and revenue of Regional Governments is covered by an intergovernmental transfer from the Federal Government to Regional Governments.

In Ethiopia, there are two types of grant transfer systems: Specific and General Purpose grants. Specific purpose grants are earmarked grants to specific programs/projects. General-purpose grants are block grants which are distributed to the regions using the formula decided by the House of Federation. Therefore, general purpose grants are funds that Regional Governments are free to use as they see fit.



Figur 2.1.3: Developments in Intergovernmental Budget Transfers[15]

Source: Ministry of Finance

As mentioned above, there is a vast chasm between regional governments' expenditure responsibilities and revenue flows. This is a deliberate design to allow the Federal Government to control the public financing system and narrow both the vertical and horizontal imbalances. Vertical and horizontal balance is achieved by redistributing the Federal Government's revenues using an agreed intergovernmental fiscal transfer system.

[14] Note that property tax and income (employee) tax, that are assigned to regional governments, will play a significant role whereas international trade tax will be a less significant source of government revenue as the country develops. So, the significant vertical imbalance that currently exists partly reflects the economic structure of the country.

[15] The figure is based on general purpose grants.

Figure 2.1.3 shows that most regional governments' expenditure is financed by block grant transfer from the Federal Government. Accordingly, the Federal Government progressively allocated block grant transfers over the last decade. In this regard, aggregate block grant transfer to Regional Government reached Birr 145.9 billion in 2019/20 from a level of Birr 13.5 billion in 2007/08. Block grant transfer, in nominal terms, in recent years exhibited extraordinary growth and registered an annual average increase of 19.8 percent from 2007/08-2019/20. It is 56.6 percent of the regional Governments' expenditure. Also, it is equivalent to 61.1 percent of the total annual spending of the Federal Government as of 2019/20 .[16]

2.1.1 RECENT CHANGES IN FISCAL DECENTRALIZATION

The House of Federation has recently changed the formula applied to share concurrent revenue between the federal and regional governments to address administering issues that arise since the last sharing formula is issued. The new formula also reduces the vertical imbalance between federal and regional governments. Concurrent taxes in Ethiopia are taxes levied on:[17]

- Profit, sales, excise, and personal income taxes on enterprises they jointly establish.
- The profits of companies and on dividends due to shareholders
- Turnover (VAT) tax levied on companies
- Excise, turnover, VAT, Royalty tax levied on companies
- On incomes derived from large-scale mining and all petroleum and gas operations, and royalties on such operations.

Article 62(7) of the Constitution of the Federal Democratic Republic of Ethiopia assigns the House of the Federation (HoF) the power to determine how concurrent revenues shall be divided between the Federal and Regional Governments. Accordingly, the HoF promulgated a formula in 2003[18]. However, several administrative issues that arise in operationalizing the sharing formula were not sufficiently addressed in that first iteration. To address these issues and reduce the vertical fiscal imbalance we discussed above, the HoF prepared a new formula in June 2019 and has notified the Ministry of Revenue to undertake all the necessary preparations and start implementing the new formula as of the 2020/21 fiscal year.[19]

[16] This figure refers to the ratio of general grants to regions to the total federal expenditure of the federal government. Note that in this case, total federal government expenditure only includes actual expenditure by the federal government. i.e., it excludes transfers to regions.

[17] Note that companies means business entities that have legal personality.

[18] HoF minutes, 2nd ordinary meeting March 13, 2003'

[19] Detail administrative issues that are observed in operationalizing the formula and how they are addressed in the new system are discussed in the "የአዲሱ የጋራ ገቢዎች ማከፋፈያ ቀመር ስርዓት ትግበራ እና በ2013 በጀት ዓመት የ 1ኛ ሩብ ዓመት የጋራ ገቢዎች ክፍፍል ሪፖርት", ገቢዎች ሚኒስትር, ህዳር 03/2013 ዓ.ም

As shown in table 2.1.1.1, the new formula increases the share of revenue Regional Governments receive from personal income tax collected from enterprises jointly established by Regional and Federal Governments. Similarly, the percentage of revenue regional governments receive from VAT and excise taxes from jointly established enterprises and private corporations have increased.

Table 2.1.1.1: The Change in Concurrent Revenue Share Formula

	Source and type of concurrent revenue	Previous formula Share of		New formula Share out of	
		Federal	Regions	Federal	Regions
1	**From enterprises jointly established**				
1.1	Business profit tax	Capital share contribution	Capital share contribution	50%	50%
1.2	Personal income tax	50%	50%	-	100%
1.3	VAT and Excise tax	70%	30%	50%	50%*
2	**From Private Companies**				
2.1	Business profit tax	50%	50%	50%	50%**
2.2	VAT and Excise tax	70%	30%	50%	50%***
2.3	Taxes on dividends	50%	50%	50%	50%**
3	**From large scale mining; all petroleum and gas operations**				
3.1	**Royalty**	**60%**	**40%**	**25%**	**50%##**
3.2	**Profit tax**	**50%**	**50%**	**50%**	**50%**

Source: Ministry of Revenue, Q1 2020/21 report[20]

* Each region will receive the transfer per its share in Federal grant transfers.

** Direct taxes: If the enterprise operates in more than one region, each region's share is equivalent to the enterprise's salary expense in that region.

***Indirect tax: Each region will receive the transfer per its share in Federal grant transfers.

to the region the resource is extracted from, ### of which is dedicated to environmental protection, #*#* to other regions.

The increased share from indirect taxes mentioned above has led to significant revenue gain to regional Governments. Specifically, in the 2020/21 fiscal year, compared to precideing fiscal year (2019/20), regional Governments' revenue, mobilized from concurrent revenue, has increased by about 283 percent.

[20] "የአዲሱ የጋራ ገቢዎች ማከፋፈያ ቀመር ስርዓት ትግበራ እና በ2013 በጀት ዓመት የ 1ኛ ሩብ ዓመት የጋራ ገቢዎች ክፍፍል ሪፖርት", ገቢዎች ሚኒስትር, ህዳር 03/2013 ዓ.ም

There are two noticeable changes in the shares of regions from concurrent revenue. First, on average, regions have received a significantly increased revenue than similar period last year. Second, the change is more substantial in some regions than in others. Both phenomena have a straightforward explanation.

In the old sharing scheme, if a firm is incorporated in Addis Ababa, its entire VAT payment is collected by the Federal Government even if it operates in other regions. Since Addis Ababa does not share revenues from concurrent revenue, the Federal Government keeps the entire proceeds. On the other hand, in the new scheme, no matter the location of the firm, 50 percent of the proceeds are funneled to regions. Given the centrality of Addis Ababa in the country's economic sphere, this change tends to increase the total revenue regions receive significantly. In addition, under the new scheme, proceeds from indirect taxes (VAT and excise) are allocated to regions per their share in the Federal grants. Since the Federal grant scheme considers the development level and existing revenue mobilization challenges of regions, the change resulting from the new sharing scheme tends to be very dramatic in some regions. A good illustration of the latter case is the Somali and Harari regions.

Another aspect of the significant increase in the share of regions from the excise tax is its implication to the block grant they receive from the federal government. The total revenue that regions received in 2020/21 increased to 24.7 billion birr compared to 6.45 billion birr during the 2019/20 fiscal year. The federal government needs to either find additional 18.24 billion Birr of revenue, or it has to decrease its spending either as a form of recurrent and capital expenditure or block transfer to regions.

Table 2.1.1.2: Concurrent Revenue Share Under the New Formula (Birr)

Region	12 month 2020/21	12 month 2019/20	Growth(%)
Oromiya	9,458,076,927.13	3,003,077,287.76	214.95
Amhara	5,263,210,865.39	1,358,551,608.47	287.41
SNNPR	3,612,538,965.66	770,139,400.23	369.08
Somali	2,038,419,723.03	78,497,331.40	2496.80
Tigray	1,718,205,414.29	1,046,691,104.30	64.16
Sidama	986,250,005.69		
Afar	706,927,030.33	119,632,925.79	490.91
Benishangul	407,676,534.25	30,065,168.54	1255.98
Gambella	299,721,840.63	24,278,626.71	1134.51
Harari	205,823,037.21	23,521,358.76	775.05
Total	**24,696,850,343.61**	**6,454,454,811.96**	**282.63**

Source: Ministry of Revenue

2.2 TAX POLICY CHANGES

Another development in the fiscal policy space since the publication of the last flagship report is the new excise tax proclamation that came into effect in February 2020.[21] The new proclamation repeals the previous one, which had been in effect since 2003. [22]

Below we discuss the rationale for the new proclamation and the changes introduced relative to the previous proclamation.

2.2.1 THE RATIONALE OF THE NEW PROCLAMATION

The proclamation has three objectives: ***broaden the tax base, protect the environment, reduce uncertainty, and ease tax enforcement.***

Broadening the tax base: the proclamation expands the list of goods and services that are luxury, hazardous to health, cause of social problems, and basic goods that are inelastic .e.g. the proclamation has increased the tax on older cars and has kept the tax on luxury cars relatively high. The combined effect is that ***smaller, more efficient, newer, and fewer cars*** will be imported to the country. The ambition is that the growth in greenhouse gas emission will be slowed down.

Reduce uncertainty: levying the excise tax on domestically produced goods based on the cost of production has been problematic in creating uncertainty for the taxpayer regarding the amount of tax they owe. In the new system, the base for the excise tax is changed to ex-factory price.

Ease tax enforcement: Changing the basis for the excise tax from the cost of production to factory gate price, and other related issues will improve the capacity to collect the proper tax amount.

2.2.2 MAIN CHANGES INTRODUCED IN THE NEW PROCLAMATION

The following changes are among the most significant changes introduced in the new proclamation vis-à-vis the previous one.

[21] The Excise Tax Proclamation No. 1186/2020.

[22] The Excise Tax Proclamation No. 307/2002.

1. Inclusion of new goods and exclusion of goods that were in the list of excisable items under the previous proclamation. Newly included goods are motorcycles, plastic bags, wigs, and human hair, fireworks, and artificial flowers. Excluded goods are laundry and dishwashing machines, clocks, and watches

2. A significant change in the tax rate on used cars: the excise tax rate on used vehicles ranged from 0 percent to 100 percent in the previous proclamation. In the new proclamation, the range is 0 percent and 500 percent. In particular, the new tax rate on used cars is much higher than in the previous proclamation. Excise on used cars ranges from 55 percent to 500 percent depending on the years of service as well as the capacity of the car. New vehicles, on the other hand, are taxed at the rate that ranges from 5 percent to 100 percent based on the engine size and type of energy they use[23].

3. Change in eligibility criteria: the new law introduces the requirement that eligible importers or producers of excisable goods need to be licensed by the tax authority.

4. The base of computation of excise tax on domestically produced goods: in the new proclamation, the base for excise tax is changed from the cost of production to the ex-factory selling price.

The data from the 2020/21 fiscal year indicates that the new rule has significant revenue implications. For instance, excise tax on imported items decreased by 8.1 percent compared to the 2019/20 fiscal year. The major contributing factors for a decline in excise tax are the 5.5 percent decrease in excise tax from automobiles and a 59 percent decrease from petroleum products.

Excise tax collection from domestically produced goods shows a different trend than the one collected from imported goods. Compared to the fiscal year 2019/20, excise tax from domestically produced goods increased by 54.9 percent in the current fiscal year. The main contributors for the increase are beer (69.5 percent increase) and alcohol and alcohol products (102.4 percent increase).

2.3 DISASTER RELATED FISCAL RISK

The Federal Government conducts fiscal policy through its medium-term macroeconomic and fiscal framework. Under this system, revenue is forecasted based on anticipated values of important macroeconomic variables that affect future revenue streams of the Government. The forecasted revenue and the fiscal policy rule (deficit to GDP ratio) determine the expenditure ceiling. Uncertainty about revenue and expenditure needs, i.e., fiscal risks, is inherent since both are based on forecasted values.

Fiscal risks arise due to factors that have an unanticipated effect on public finances by making fiscal outcomes deviate from expectations or forecasts. Such factors may include potential shocks to government revenue, expenditure, assets, or liabilities that do not feature in budget forecasts.

Among such factors are:

[23] Hybrid and electric cars are taxed at a lower rate for a given engine capacity.

- Natural disasters such as drought, flood, pests (e.g., locust), and epidemics (e.g., COVID-19).
- Uncertainty about the path of macroeconomic variables (e.g., GDP, inflation).
- Contingent liabilities due to SOE loans that the Government either explicitly or implicitly guarantees.
- PPP contracts that may necessitate payment by the Government under certain conditions.

Each of the factors mentioned above is an important source of fiscal risk. A first fiscal risk statement is prepared in 2019. The statement identified the following risks:

- **Macroeconomic risks:** these include external shocks such as a decline in coffee price or an increase in oil price and deviation of macroeconomic aggregates from forecast.
- **Specific risks:** these include (a) contingency liability that comes from the debts of state owned enterprises, and PPP contracts, (b) natural disasters such as drought, (c) the health of the financial sector.
- **Structural and Institutional Risks:** these include (a) how public finance management affects revenue mobilization, (b) project management performance and its link to the performance of government guaranteed debt, (c) and contingency budget.

Significant progress was made towards identifying and quantifying macroeconomic risks and their impact on the fiscal outlook of the Government.

On the other hand, the statement only includes a qualitative discussion of disasters and it limits the discussion to drought. Work is undergoing to prepare a robust understanding of the magnitude of disaster related risks and their implication for fiscal outlook. In this section, we highlight some of the findings of these studies.

Over the last five years, the country has been going through several turmoil: demonstrations against the Government, ethnic clashes and the ensuing displacement of people, drought, flood, locust invasion, and the recent domestic law enforcement that claims lives and led to significant property damage.

Apart from the humanitarian disaster, each of these shocks significantly affects the country's fiscal position. In particular, fiscal outlays and revenues deviate from forecasts following each of these shocks.

As we do not have good data on the fiscal implication of conflicts on the fiscal outlook, in this section, we focus on the significance of natural disasters, namely drought, flood, and locust.

2.3.1 DROUGHT

Ethiopia has been experiencing recurrent drought for a very long time. The droughts are different in terms of severity (water shortage), areas covered, and duration. Fitting a probability distribution function to the historical data shows that the 2015/16 drought, for instance, is a 1 in 38 years phenomenon. Similarly, the magnitude of a 1 in 2, 1 in 5, 1 in 10, 1 in 50, and 1 in 100 years drought are estimated.

Drought affects the fiscal outlook through two channels. First, it directly affects agricultural production and hydropower generation through a water shortage. These, in turn, lead to reduced economic activity and government revenue (both tax and non-tax). Second, the loss in agricultural production leads to an increased number of people that need humanitarian assistance beyond the typical PSNP caseload.

Table 2.3.1.1 : Magnitude of Droughts in Ethiopia and their Fiscal Implications

Drought magnitude [24]	Agriculture GVA loss (%)	Hydro-power loss (%)	GDP loss (%)	Loss of general Govern-ment reve-nue(%)*	Number of people that need assis-tance**	Expenditure need (in million USD) using PSNP cost ($78.9 per person)	Expenditure need (in million USD) using HDR cost ($106.8 per person)
1 in 5	0.67	1.33	0.58	0.37	7,464,880	588.98	797.25
1 in 10	1.48	3.19	1.28	0.81	9,522,784	751.35	1,017.03
1 in 30	2.95	6.05	2.54	1.60	12,668,642	999.56	1,353.01
1 in 38	3.2	6.70	2.75	1.73	13,163,119	1,038.57	1,405.82
1 in 50	3.61	7.40	3.11	1.96	13,904,835	1,097.09	1,485.04
1 in 100	4.54	9.48	3.92	2.46	15,262,800	1,204.23	1,630.07

Source: Disaster Risk Model, MOF

*This includes tax and non-tax revenue of both the Federal and Sub-national Governments. The loss is calculated as the share of the baseline revenue. In addition, we assume the buoyancy of the agriculture sector is zero.

** Note that this number is in addition to the PSNP safety net recipients under a typical year.

Considering the population growth, reduced poverty incidence over time, the loss in agricultural production, the effect on GDP and tax revenue, and the number of people who need assistance, and the expenditure associated with it are calculated.

To put this in more concrete terms, if the 2015/16 type drought (1 in 38 year) occurred again in 2019/20, tax revenue would decrease by $195.56 million, and spending needs would increase by$1.04 billion. The total fiscal cost is estimated at $1.23 billion. This is equivalent to 16 percent of the Federal Government Budget of the 2019/20 fiscal year budget[25].

[24] The return period is the time period over which Ethiopia should expect to see a drought of the same severity and magnitude in terms of its capacity to cause crop and other associated losses. For example, a 1-in-10-year return period refers to a drought that happens, on average, once per 10 years. In other words, such a drought has a 10 percentprobability of happening in a given year.

[25] The total budget of the federal government for the fiscal year 2019/20 was 240.179 billion birr (excluding general and specific purpose grants to regions). The exchange rate we used is 31.34, the average official exchange rate in 2019/20.

2.3.2 FLOOD

Using the historical data on floods and fitting a probability distribution function, the frequency with which each magnitude of flood occurs in the country is calculated.

Flood affects the fiscal outlook of the Government via two main channels. First, it affects agricultural production. Through the backward and forward linkage of the agriculture sector, the initial shock is propagated throughout the economy. The reduced economic activity (GDP) leads to lower government revenue. Second, people are displaced, and infrastructures are damaged following floods. The ensuing expense for humanitarian assistance to feed the displaced people and the outlay to maintain the damaged infrastructure leads to unforeseen substantial expenditures.

To make the fiscal numbers concrete, let's assess the fiscal cost of a 2020 type flood[26] based on 2019/20 GDP and revenue figures. Tax revenue would decrease by $21.5 million, expense increases by $221.83 ($90.16 due to humanitarian assistance and $131.67 due to reconstruction cost of damaged public assets). The total fiscal cost is $243.33 million.

Table 2.3.2.1: Magnitude of Floods in Ethiopia and their Fiscal Implications

Flood magnitude	Agriculture GVA loss (%)	Other sector loss (%)	GDP loss (%)	Loss of general Government revenue(%)*#	Number of people that need assistance ##	Expenditure need (in million USD)###	Cost of reconstruction of damaged public assets (million USD)
1 in 10	0.53	0.28	0.36	0.19	1,366,006	27.01	131.67
1 in 30	0.62	0.48	0.52	0.32	1,644,709	49.95	162.62
1 in 50	0.66	0.61	0.63	0.41	1,761,550	62.13	178.73
1 in 100	0.73	1.05	0.95	0.71	1,968,289	82.51	212.08

Source: Disaster Risk Model, OPM[27]

[26] Equivalent to a 1 in 10 year flood

[27] Oxford Policy Management

2.3.3 LOCUST

Another significant source of disaster-related fiscal risk emanates from locust invasion. The fiscal costs of locust invasion arise from three sources. First, there are substantial resource requirements to control the spread of the locust. These include spending on fuels, airplane rental, pesticides, communication, and IT equipment, etc. Second, the crop damage that results from the locust invasion will give rise to humanitarian needs. Meeting these needs requires significant financial resources. Third, the agricultural loss will propagate throughout the economy. The ensuing economic decline results in a loss of revenue to the government. Estimating the humanitarian need and the decline in economic activity and hence the loss in tax revenue under each scenario requires time and detailed information that is not available at the moment. Therefore, in this section, we highlight the material cost involved in controlling the locust to provide the reader with an indication of the fiscal risks involved if the Ethiopian Government finances the entire cost.

Data from the Ministry of Agriculture shows current spending to fight the undergoing locust invasion by FAO of 959.4 million Birr, 3.62 billion Birr material support from the World Bank, and 203 million Birr expense from the Ethiopian Government[28].

2.3.4 DISASTER FINANCING

As shown in the preceding discussion, disasters pose significant fiscal risk. In order to respond to the humanitarian and reconstruction needs that arise following disasters, the Government of Ethiopia uses a combination of financing sources. It first uses available contingency funds that are already included in the budget. Second, it puts forward a supplementary budget and(or) reallocates from existing budget items. Finally, it complements these funds through external assistance.

Below, we discuss the pros and cons of each of these mechanisms of financing disaster-related fiscal risks.

- **Run a larger deficit:** the Government can run a larger deficit equivalent to the fiscal gap resulting from the disaster. This option, however, has several undesirable aspects. First, it leads to significant domestic borrowing (e.g., direct advance from the national bank) that may lead to runaway inflation. Second, humanitarian assistance requires importing food items from abroad. Borrowing in foreign currency that is necessary to import the food items may increase the debt stress probability of the country. In addition, since the government has put forward a policy of taking on only concessional loans, access to additional loans is quite limited. Also, foreign borrowing is time consuming and may not be accessed in time to respond to the acute humanitarian need that resulted from disasters.

[28] Note that these are preliminary figures that may be revised once financial reports are finalized.

- **Reserve fund for disasters:** another option is to build up and maintain a dedicated reserve fund for disasters. In an environment with limited scope for robust domestic revenue mobilization, the opportunity cost of this option is likely to be high. In addition, it is challenging to keep contingency funds in foreign currency since the country is already rationing foreign currency to even priority sectors. The current practice is that the Federal Government maintains a small contingency budget (usually not more than 3% of its total budget). However, even this limited amount is not exclusively committed for disaster response. Instead, it is spent on any unforeseen expenditure needs. As a result, it is routinely and quickly depleted even in average years. Therefore, it is unlikely that this source will be remotely sufficient when significant natural disasters hit the country.

- **Reprioritization (Reallocation):** the option usually followed during times of significant natural disasters is prioritizing humanitarian assistance at the expense of other development projects that are already incorporated in the budget. Cost overruns and delays in public projects resulting from this approach are significant drags to the country's development agenda. In addition, the system requires a decision as to which programs to be delayed or cut. The process will slow down the response to humanitarian disaster needs.

- **Foreign Assistance:** another critical source of funds for financing significant disaster responses of appealing to foreign assistance. Although this source of funds is relatively cheap to the government (when offered as grants or concessional terms), and complements the limited fiscal resource of the country, it is very unpredictable, often insufficient, and involves many delays. The resulting suffering of the people that require humanitarian assistance is an undesirable aspect of this source of finance.

It is clear from the discussion above that the current risk financing instruments at the disposal of the Ethiopian Government are not sufficient to meet the recurrent humanitarian and reconstruction needs arising as the result of natural or human-made disasters. Climate change may also further increase the frequency and/or severity of natural disasters and the resources required to respond to the shocks.

In addition, the lack of budget tagging of financing climate induced disasters creates uncertainty regarding the actual fiscal cost of financing the disasters mentioned above. Currently, there is an ongoing budget tagging project that will help improve the quality of information and increase the reliability of fiscal risk estimates.[29]

The preceding discussion points to the need to develop a clear and robust disaster risk financing strategy. Accordingly, activities are underway to craft such a strategy that considers the country's fiscal outlook, risk profile, and financial market structure.

[29] The project is undergoing with the support of BRE(Building resilience in Ethiopia program)

2.4 PUBLIC EXPENDITURE EFFECTIVENESS IN HEALTH SECTOR

The Government has recognized that strong public finance management (PFM) systems are vital to the improved effectiveness of public spending and, thus, to the achievement of the development outcomes targeted in the Growth and Transformation Plan 2016-20 (GTP 2). To deliver better PFM, the Government is pursuing a broad programme of ambitious reforms, embracing both revenue and expenditure measures. Although efforts are being made to increase domestic revenues, attention is needed to ensure that the processes of allocation and management of public expenditures are achieving the best results possible. It is important to recognize that the maximum value for money is being achieved in the budget cycle.

While building social and economic infrastructures which the nation aspires to (as laid down in GTP2) cannot easily be reached with the level of domestic revenues, efficient and effective utilization of the limited resource is inevitable. Over the years public expenditure performance reports focused on numerical growth. What results have been achieved with the allocated resources has not been addressed. Thus systematic assessment of value for money in public spending is urgently required. To this end MoF has initiated Value for Money (V4M) studies that will be undertaken in major social and economic sectors. The study has started by taking the Health sector as an entry point.

As the first stage in this initiative, during 2011 (2018/19) fiscal year, the MoF in collaboration with the Federal Ministry of Health (MoH) and with the help of the Bill & Melinda Gates Foundation (BMGF) has undertaken an assessment of the Value for Money (V4M) being achieved through the expenditures of the government of FDRE on health care. The overall purpose of the Value for Money (V4M) initiative being pursued by the Ministry of Finance is two-fold:

- To identify ways in which improvements might be made so as to achieve greater, or more equitable outcomes in the health sector with the same level of public resources - either by adapting the patterns of allocation of public spending for the health sector or by strengthening the methods of management of public resources in the sector; and
- To develop appropriate skills and methodologies which might be applied in future by the Ministry of Finance and other stakeholders to conduct similar studies of value for money in other sectors.

The exercise is intended to be practical – using data and analytical techniques, which could be readily reproduced in other sectors in Ethiopia. Based on available data and technical skill in the Ministry of Finance and Ministry of Health with the support of the Fiscus team in the development of the methodology and in providing quality assurance over the final report, a brief summary of the study outcomes have been discussed as follows.

2.4.1 FINDINGS OF THE VFM STUDY

Ethiopia's health system coverage has improved substantially over the period between 2000 and 2016 and this expansion of services has been associated with historic health improvements, particularly, under-5 mortality and child mortality. Disease-related mortality rates have also declined sharply in relation to tuberculosis, malaria, and HIV/AIDS. In addition, there have been coherent policy responses to reduce health inequities across different part of the country – especially notable in this respect is the health extension programme which has been one of the main flagship programmes within the sector.

As a result, Ethiopia's performance in all major health outcome indicators is above the average for low income Sub-Saharan African countries. In particular, Ethiopia has infant mortality and under five mortality rates significantly below the average of low income Sub-Saharan African countries and a level of life expectancy at birth (65 years) which is close to the maximum for this group (67 years). On the other hand, Ethiopia has lower health expenditure than neighboring countries. Average total per capita health expenditure in Ethiopia was US$ 27 in 2016 compared to the average for low income Sub-Saharan of US$38. Ethiopia's per capita health expenditure financed from external sources was US$ 8.2 while the average for Sub-Saharan African countries stood at US$11.

Ethiopia has therefore witnessed major improvements in health outcomes in the last 10-15 years with a level of per capita health spending significantly below neighboring countries – a fact that is indicative of a relatively efficient system. There is reliable survey data to support this finding, as well as a variety of independent reports (World Bank, 2016; WHO, 2014).

However, there are still gaps that need policy attention in relation to maternal and child health outcomes. There is also wide disparity among regions, urban-rural residents and wealth quintiles for certain health outcomes.

The challenge is to continue to deliver efficient and effective health results in the 'success areas', whilst also addressing the important policy gaps. The V4M study has identified four important policy gaps, where new measures are needed from health sector stakeholders working in conjunction with the Ministry of Finance. These are:

- The need to address more effectively the divergences in health outcomes across the regions;
- The need to sharply improve the rates of skilled birth attendance and the coverage of postnatal care, so as to reduce the continuing high rate of pregnancy-related mortalities.
- The need to address nutritional deficiencies more effectively so as to bring down the high rates of stunting in children under 5, building upon the Sequota Declaration.
- The need to enhance the expenditure classification and reporting systems in the sector so as to be able to attribute expenditure to specific health care delivery programmes, while strengthening budget execution and ensuring the integrated, effective use of all sources of sector finance – federal and regional, domestic and external.

2.4.2 RECOMMENDATIONS

Despite the progresses achieved so far in the sector the following Key Recommendations have been forwarded by the V4M study of the Health Sector:

(i) Measures to reduce divergences in Health Outcomes across Regions

As part of a programme of cross-sectoral measures to address regional inequalities. It would be desirable to dedicate higher levels of per capita recurrent spending on health care to those regions with less favourable health outcomes. Actions are proposed in three areas:

- **Guidelines should be issued to Regional Governments, recommending that a minimum of 10 percent of regional resources should be allocated to health care.** Only if higher shares of Block Grants and regional revenues are allocated to health care by Regional States can the historical imbalances be corrected. A voluntary guideline endorsing a minimum allocation would be a first step. The possibility of introducing Federal matching grant schemes should also be considered as a way of providing additional incentives to enhance regional health care financing.
- **Support should be provided by MoH and MoF to enhance the effective execution of the investment budgets for health facilities allocated by the regions.** More careful planning and execution of investments is needed to make an appreciable difference to the unequal pattern of health care coverage currently prevailing: targeted support by FMOH with backing by the Ministry of Finance should improve efficiency in implementation of investment expenditure.
- **A concerted Government campaign is needed to raise external funding to the health sector and to target it towards the disadvantaged regions.** The Ministry of Finance and the Ministry of Foreign Affairs should work with MoH to aggressively mobilize additional external funding for the health sector by demonstrating that Ethiopia receives very low per capita assistance compared to its peers, despite the country's better performance in improving health outcomes.
- These additional resources should be explicitly targeted towards the disadvantaged regions and towards the areas of poorer performance.

(ii) Measures to raise rates of Skilled Birth Attendance and increase coverage of Postnatal Care

- **A better understanding of the reasons for the continued low rates of Skilled Birth Attendance and post-natal care is needed and building upon that, a more carefully targeted federal programme of actions.** The precise balance of supply and demand related factors will vary from region to region and, consequently, a regionally differentiated programme of actions will be required. Nevertheless, it is clear that the primary problem in the short-to-medium term lies on the demand side: for a variety of reasons, the majority of pregnant women in Ethiopia do not seek access to skilled birth attendance at the time of delivery, and as a direct consequence the rate of pregnancy-related mortalities is higher than in peer countries in SSA.

MoH should devise an explicit strategy to address this problem, with an appropriate budget and with clear annual targets by region aimed at achieving steady improvements in SBA rates. Promoting caring, respecting and compassionate behavior should be an important aspect of this strategy. This can be promoted through focusing on:

- Across the board training in CRC for all health personnel;
- Continued support to CRC implementation such as incentivizing CRC performance, through cash prizes for exceptional CRC health care;
- Enhanced responses to complaints of poor CRC health care, including disciplinary actions.

The Health Extension Programme (HEP) should be evaluated to assess why it has had such limited impact on SBA rates and rates of access to post-natal care and it should be upgraded based on the evaluation results. The Ethiopian HEP is one of the most innovative community-based health programmes in Sub-Saharan Africa. There is every reason to believe that an enhancement of the HEP programme approach could help to raise SBA and PNC utilization rates.

The existing interventions which appear to be impacting positively on SBA rates should probably be scaled up as part of this enhanced SBA strategy. Subject to favourable ongoing assessments of these interventions, further investments should be considered in relation to:

- Maternal waiting rooms;
- Ambulances for remote regions [for pickup and drop off];
- Customizing health facilities according to religious and cultural practice.

(iii) Measures to address Nutritional deficiencies more effectively and reduce Stunting in Children

Nutritional deficiencies represent one of the most serious health problems in Ethiopia. The human and economic costs are enormous, falling hardest on the very poor and on women and children. According to EDHS 2016, about 38 percent of children under age 5 are stunted or too short for their age, and 18 percent are severely stunted. This compares with a regional average of 28 percent for low income SSA countries

Actions should be undertaken by the Ministry of Finance, MoH and other agencies in two areas:

- **The FMOH in collaboration with the regional health bureaux should give enhanced attention to interventions aimed at raising utilisation of iodised salt and consumption of vitamin A supplements by infants and young children.**
- **Enhanced attention is needed to expand co-ordinated cross-sectoral efforts to address the nutrition problem.** A more explicit cross-sectoral strategy is needed, with an appropriate budget and with clear annual targets by region aimed at achieving steady reductions in stunting. The Sequota Declaration should provide an appropriate framework for this but it needs to be scaled up, made more detailed and given greater political prominence.

(iv) Measures to enhance expenditure classification and reporting systems, strengthen budget execution and improve the integration of external and domestic resources

A number of areas have been identified where there is room for significant improvements in efficiency, which would impact positively on value for money. In particular, improvements should be made in the following areas:

Firstly, the composition of regional health expenditure is skewed towards recurrent expenditure and specifically towards salaries and personnel costs. Capital investment comprises only 26 percent of regional health expenditure on average, while salaries comprise on average 67 percent of recurrent expenditures.

Secondly, execution rates for budgeted capital investments at the regional level are only 70 percent on average. These relatively low execution rates would appear to be the result of weaknesses in the planning and management of investment projects at the regional and woreda levels.

Thirdly, there has been an apparent stalling in the efforts to strengthen harmonization and alignment of aid resources for the sector. Given that a large proportion of capital investment within the sector is funded from external sources, H&A weaknesses are likely to lead both to inefficiencies in externally funded investments and to negative distortionary effects for domestically financed investments.

In each of these areas, MoH should diagnose more carefully the causes of these problems and develop realistic action plans to achieve levels of improvement that can be targeted and monitored annually through the process of budget negotiations with MoF.

The Ministry of Finance needs to lead efforts to establish a budget classification system for the health sector that can help to identify funding by broad health care programmes. The MoF has piloted a system of programme budgeting at the federal level. However, this structure is not as yet applied at the regional level, nor in the classification of programmes funded from external sources.

Moreover, it is not clear that this structure is necessarily the one which best meets the needs of the health sector. There is a need to undertake a consultation process on the most appropriate budget programme classification, to introduce this on a pilot basis and then to roll it out comprehensively across the sector.

2.4.3 NEXT STEPS: TAKING FORWARD THE RECOMMENDATIONS

Moving from recommendations to implementation is the challenge that must now be addressed. This should be done by linking the implementation of the measures recommended here to the process of discussion and review of the annual budget between MoH and the Ministry of Finance. Making progress in each of these areas will require concerted and collaborative action by the MoH working with the MoF and in some cases with other agencies. By devising a joint programme of actions, linked to annual levels of funding and annual progress targets, it should be possible to ensure that the programme of actions is feasible within the existing budgetary and administrative constraints and that progress can be monitored six-monthly, with appropriate changes made to implementation plans in the light of progress. Such an arrangement might be described as a "Health Compact" between MoF and MoH.

Careful discussion and consultation will be needed to ensure an appropriate design for such a "Health Compact". The Budget and Fiscal Policy Directorates of Ministry of Finance will lead this process of consultation with MoH to draw the support of Development Partners as appropriate.

REFERENCES

Africa Development Bank (2019): , African Economic Outlook 2019

African Development Bank (2016): Jobs for Youth in Africa, (Link)

Brookings (2019): Foresight Africa Top Priorities for The Continent in 2019¸ African Growth Initiatie.

Barone, Guglielmo and Sauro Mocetti.(2011) "Tax morale and public spending inefficiency" International Tax and Public Finance. Vol 18, Issue 6

Coulibaly, Silwé, and Logan (2018), "Taking stock: Citizen Priorities and assessments three years into the SDGs" Afrobarometer, Policy Paper No. 51. 2018.

Davina Jacobs, Jean-Luc Hélis, and Dominique Bouley: (2009)., "Budget Classification", No 2009/006, IMF Technical Notes and Manuals.

Drechsler, M., Coll-Black, S., Tatin-Jaleran, C., & Clarke, D. (2017). "Quantifying Costs of Drought Risk in Ethiopia : A Technical Note" World Bank, Washington, DC. Retrieved from https://openknowledge.worldbank.org/handle/10986/34192

FDRE: Ministry of Finance Public Sector debt Portfolio report for the year 2017/18, N.19

FDRE: Ministry of Finance Public Sector debt Statistical Bulletin, 2018

FDRE: Proclamation No 1/1995 Constitution of the Federal Democratic Republic of Ethiopia

FDRE: The Excise Tax Proclamation No. 1186/2020

FDRE: The Excise Tax Proclamation No. 307/2002

FDRE: የአዲሱ የጋራ ገቢዎች ማከፋፈያ ቀመር ስርዓት ትግበራ እና በ2013 በጀት ዓመት የ 1ኛ ሩብ ዓመት የጋራ ገቢዎች ክፍፍል ሪፖርት, ገቢዎች ሚኒስትር, ህዳር 03/2013 ዓ.ም

FDRE: House of Federation: 'HoF minutes, 2nd ordinary meeting March 13, 2003

https://addisstandard.com/economic-analysis-towards-a-dynamic-job-creation-framework-for-ethiopia/

https://qz.com/africa/1313380/nigerias-has-the-highest-rate-of-extreme-poverty-globally/

IMF (2018b): World Economic Outlook, Challenges to Steady Growth

IMF (2018a): Regional Economic Outlook: Sub-Saharan Africa Capital Flows and The Future of Work,

Nader Kabbani (2019), "Youth Employment in the Middle East and North Africa: Revisiting and Reframing the Challenge", Brooking Doha Center, Policy Briefing, February 2019,

National Bank of Ethiopia Annual Report 2018/19

National Bank of Ethiopia Annual Report 2019/20

OECD/ATAF/AUC(2020): Revenue Statistics in Africa 2018, accessed from http://oe.cd/revenue-statistics-in-africa

Oxford Policy Management (2021) Disaster Risk Model

The Harvard Ministerial Leadership Program: Achieving the Demographic Dividend Learning from the Experience of Bangladesh, Chile, Ethiopia, Rwanda, & Thailand, 2018

Seid, Yared; Taffesse, Alemayehu Seyoum; and Ali, Seid Nuru. (2017), "Ethiopia - An agrarian economy in transition" In Africa's lions: Growth traps and opportunities for six African economies, eds. Haroon Bhorat and Finn Tarp. Chapter 2. Pp. 37-76. Washington, D.C.: Brookings Institution Press. https://www.brookings.edu/book/africas-lions-growth-traps-and-opportunities-for-six-african-economies

Young Africa Works Strategy: Finding solutions to youth unemployment in Africa. The Mastercard Foundation. https://mastercardfdn.org/our-strategy/young-africa-works/.

Design by TTree Advertising and Printing 2021