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# Ethiopia

## Focusing Public Expenditures on Poverty Reduction

(In Three Volumes) Volume II: Appendixes and Statistical Tables

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## GOVERNMENT FISCAL YEAR

July 8 – July 7

## CURRENCY EQUIVALENTS

Currency Unit: Ethiopian Birr (Br)

Official Rate: US\$1.00 – Br 8.56 (December 18, 2001)

## ABBREVIATIONS AND ACRONYMS

ADB	African Development Bank	MEDAC	Ministry of Economic Development and Cooperation
ADLI	Agricultural Development Led Industrialization	MEFF	Macroeconomic and Fiscal Framework
ARM	Annual Review Meeting	MOF	Ministry of Finance
CAD	Central Accounts Department	MOE	Ministry of Education
CBE	Commercial Bank of Ethiopia	MOH	Ministry of Health
CBO	Community Based Organization	MOWR	Ministry of Water Resources
CDF	Comprehensive Development Framework	MTEF	Medium-Term Expenditure Framework
CFAA	Country Financial Accountability Assessment	MTR	Mid Term Review
CJSC	Central Joint Steering Committee	NBE	National Bank of Ethiopia
CPAR	Country Procurement Assessment Report	NGO	Non-Governmental Organization
CRDA	Christian Relief and Development Agency	O&M	Operation and Maintenance
CSA	Central Statistical Authority	OECD	Organization for Economic Cooperation and Development
CSAE	Center for the Study of African Economies	PAP	Program Action Plan
CSR	Civil Service Reform Program	PIM	Program Implantation Manual
DAG	Development Assistance Group (of Donors)	PEM	Public Expenditure Management
DFID	Department for International Development (UK)	PEP	Public Expenditure Program
DHS	Demographic and Health Survey	PER	Public Expenditure Review
DPPC	Disaster Preparedness and Prevention Commission	PIP	Public Investment Program
DSA	Decentralization Support Activity	PMO	Prime Minister's Office
ERSC	Economic Rehabilitation Support Credit	PPA	Participatory Poverty Assessment
EC/EU	European Commission/European Union	PRA	Participatory Rural Appraisal
EFY	Ethiopian Fiscal Year	PRGF	Poverty Reduction and Growth Facility
EMCP	Expenditure Management and Control Program	PRSC	Poverty Reduction Support Credit
EPRDF	Ethiopian People's Revolutionary Democratic Front	PRSP	Poverty Reduction Strategy Paper
ERA	Ethiopian Roads Authority	RHB	Regional Health Bureau
ESDP	Education Sector Development Program	RPER	Regional Public Expenditure Review
ESRDF	Ethiopian Social Rehabilitation and Development Fund	RRA	Regional Roads Authority
FIS	Financial Information System	RRTP	Rural Roads and Transport Program
FY	Fiscal Year	RRTS	Rural Roads and Transport Strategy
GDP	Gross Domestic Product	RSC	Regional Steering Committee
GFS	Government Financial Statistics	RSDP	Road Sector Development Program
GNP	Gross National Product	RTTP	Rural Travel and Transport Program
GOE	Government of Ethiopia	SDP	Sector Development Program
HICES	Household Income, Consumption and Expenditure Survey	SNNP/R	Southern Nations Nationalities and Peoples/Region
HIPC	Heavily Indebted Poor Countries	TA	Technical Assistance
HMIS	Health Management Information System	TOR	Terms of Reference
HSDP	Health Sector Development Program	TWG	Technical Working Group
IDA	International Development Association	UNCITRAL	United Nations Commission on International Trade Law
IDF	Industrial Development Fund	UNDP	United Nations Development Program
IFMS	Integrated Financial Management System	USAID	United States Agency for International Development
IMF	International Monetary Fund	VAT	Value Added Tax
IPF	Indicative Planning Figure	VLTTTS	Village Level Travel and Transport Study
I-PRSP	Interim Poverty Reduction Strategy Paper	WDC	Woreda Development Committee
JRM	Joint Review Mission	WMS	Welfare Monitoring Survey
LDC	Less Developed Country	WMU	Welfare Monitoring Unit

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## ETHIOPIA TRACKING POVERTY REDUCING SPENDING IN HIPCS ASSESSMENT OF BUDGETING SYSTEMS

1.1 This assessment is based on the standard checklist prepared by the World Bank and the IMF to assess the budgeting systems in potential recipients of HIPC relief.<sup>1</sup> This was originally prepared as part of the PER task on Tracking Public Expenditures for Poverty Reduction; and was subsequently updated during the joint World Bank-IMF HIPC mission during October 15-20, 2001. The draft was discussed and reviewed with the Ministry of Finance and Economic Development during the IMF-PRGF mission in November 2001.

### ETHIOPIA CONTEXT

1.2 To appreciate this assessment, it is important to bear in mind two contextual issues:

- (a) The Government's medium term program for public expenditure reform is contained in the Expenditure Management and Control Program (EMCP) which is one of the five components of the ongoing Civil Service Reform Program (CSRP). The main objectives of the EMCP are to bring about institutional and structural changes in public expenditure management so as to improve both its strategic and technical components. EMCP consists of the following components: (i) development and adoption of a new financial legal framework; (ii) basing planning and budgeting on a medium term Macroeconomic and Fiscal Framework; (iii) reform of the budgeting system; and (iv) improvement of and capacity building in the accounting and auditing systems.
- (b) The evolution of fiscal decentralization is a crucial factor in determining the pace and sequencing of public expenditure reforms. In Ethiopia, the federal financial regulations are echoed at regional level. Nevertheless decentralization has important practical implications, e.g. in terms of the required information flows between federal and decentralized levels. In addition, the unusual degree of regional autonomy in Ethiopia raises fundamental questions about the setting of expenditure targets as well as the tracking of them. These are discussed in the main text of the PER (both in Chapter 3 and in Chapter 5, which addresses the regional perspective of public expenditures).

### I. INVOLVEMENT OF DIFFERENT LEVELS OF GOVERNMENT

- Q1. What amount of total government poverty related spending is carried out by sub-national levels of government?
- Q2. What amount of expected additional spending (following receipt of HIPC debt relief) will be executed by sub-national levels of government?

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<sup>1</sup> The most recent version consulted for this assessment is Guidance for HIPC Tracking Missions and Finalization of Assessment and Action Plans, April 25, 2001.

1.3 In discussion with Ethiopian Authorities, the joint Bank-Fund HIPC mission (September 2001) identified education, health, roads and agriculture & natural resources as key poverty-related sectors. The regional (sub-national) share of combined federal-regional expenditure in these sectors in FY01 (preliminary actual figures) is about 63 percent (Table 1.1). If Roads, which is a large federal program is taken out, the regional share goes up to about 70 percent. The HIPC relief, expected to be of the order of USD75 million per year, will shift the balance in favor of the regions by about 2 percentage points.

**Table 1.1: Federal - Regional Shares in Poverty Related Spending, 2000/01**

Category	Total Expenditure (ETB million)	Percent of Total Federal	
		Share (%)	Regional Share (%)
Roads	1,379	23.8	59.7
Agriculture & Nat. Resources	1,483	25.6	35.4
Education	2,131	36.8	24.4
Health	794	13.7	37.7
Total	5,787	100.0	37.5

1.4 Regions are heavily dependent on federal funding, but this is transferred as an unearmarked subsidy.<sup>2</sup> This raises tracking issues both ex-ante and ex-post:

- (a) Ex post (reporting of expenditures), there are issues about the Federal Government's right to demand information from Regional Governments. However, the government does have the explicit constitutional right to audit all expenditures financed from the federal subsidy.<sup>3</sup> Moreover, the Ministry of Finance is able not only to demand regular reporting of regional expenditures but also to prescribe the formats to be followed. Therefore, in practice, ex-post regional tracking issues mainly concern the timeliness, reliability and classification of regional expenditure figures.
- (b) Ex-ante issues concern the setting of expenditure targets. Such targets may be expected to embrace regional as well as federal expenditures, but Ethiopia's federal system does not allow the federal government to dictate regional expenditure allocations across the board. However, discussion and mutual agreement on expenditure allocations, especially out of special dispensations such as HIPC, are not ruled out.

## II. BUDGET FORMULATION

### A. Comprehensiveness

Q3. How well does the coverage of the budget match the GFS definition of the general government sector?

<sup>2</sup> See Chapter 5 and Appendixes 6 and 7 for more detail on tax and expenditure assignments and on the federal budget grant formula.

<sup>3</sup> The federal subsidy is the major source of revenue for all regions except Addis Ababa. Apart from Addis Ababa, no region has own revenues sufficient to cover even its recurrent budget. However, regional budgets do not identify which items of expenditure are funded by the federal subsidy as opposed to their own revenues.

1.5 The Federal Government compiles reports both on its own budgetary expenditures and on the consolidated expenditures of federal and regional governments to give aggregates for general government. There is a reasonable fit with GFS definitions, and the revised chart of accounts (discussed below) will further enhance the ability to provide analytical reports. However, extra-budgetary funds are not included in the budget, and monthly or quarterly reports following the economic classification are not available.

Q4. How far are general government activities funded through defined extra budgetary funds?

1.6 There are a number of funds and activities which are not fully incorporated in the appropriation and reporting of the budget<sup>4</sup>. These include:

- (a) The Road Fund. Its revenues and associated expenditures are not appropriated nor are they incorporated in the government's financial statements. However, the operating expenses of the Office of the Road Fund Administration that are met by the government are appropriated and the Road Fund operates in a quite transparent manner.<sup>5</sup> Transfer of payments from the Fund to operating agencies (mainly the ERA and RRAs) are based on production of physical and financial performance reports against the agreed work plans and budget. Each road agency is required to keep a separate road fund account exclusive to road maintenance financing. In contrast to what happens with treasury funds, unexpended balances in these accounts are carried forward from one fiscal year to the next. The Road Fund Board is accountable to the Prime Minister.
- (b) Ethiopian Social Rehabilitation and Development Fund (ESRDF). This funding mechanism supplements expenditures which are directly appropriated through the budget. A comprehensive view of poverty-relevant public expenditures would require that ESRDF expenditures also be reported in detail. (Indeed, at an early stage in HIPC discussions, the use of the ESRDF itself as a mechanism for disbursement of HIPC resources was suggested).
- (c) Food Aid. The Disaster Prevention and Preparedness Fund also operates as an extra-budgetary fund. More generally, food aid, of which Ethiopia is a major recipient, is not well reflected in the budget and expenditure reports.<sup>6</sup>
- (d) Industrial Development Fund (IDF) and Privatization Receipts. Public enterprises are required to deposit dividend income to the Industrial Development Fund Account at the National Bank of Ethiopia (NBE). The IFMS report<sup>7</sup> was unable to ascertain whether all revenues are transferred from the IDF

<sup>4</sup> In response to this comment, the Government have clarified as follows: There are special funds which are established by law for specific purposes such as the Road Fund, Pension Fund etc. These funds have a special, as opposed to annual, appropriation. Government are contemplating displaying the status of these funds as an annex to the annual budget book. Similarly, in a further effort towards making the budget comprehensive and transparent, since the FY01 budget, Government have adopted the practice of showing food aid as an annex to the annual budget book.

<sup>5</sup> See *Road Fund in Ethiopia: From Inception to Realization*, Office of the Road Fund Administration, January 2001. Requiring the administrative costs of the road fund to be appropriated is a check against extravagant or inappropriate use of road fund revenues.

<sup>6</sup> The issues involved are thoroughly discussed in a recent study for the European Commission: *Public Expenditure Management Aspects of Food Security*, Resal Ethiopia, April 2001. Table 4 on page 21 of the study estimates the value of food aid relative to regional budgets, and estimates that for most regions the value of food aid averaged at least 10 percent of budgeted expenditures over the five years to 2000; for Somali, Amhara and Tigray, the estimates were 30 percent, 37 percent and 52 percent respectively.

<sup>7</sup> *IFMS scope, objectives and broad strategy*, Main report, PricewaterhouseCoopers, May 2001 (see ¶4.26).

to the Treasury Central Account. The Prime Minister's Office (PMO) maintains a separate fund for privatization which is operated along the same lines as the IDF. However, transfers to this account comprise only the sale proceeds while the liabilities are transferred to another entity, the Board of Trustees for the Privatization of Enterprises.

1.7 The absence of regional extra-budgetary funds or accounts or extra-budgetary resources could not be confirmed at this stage.

1.8 The Budget Reform component of EMCP has led to the introduction, starting FY02, of an annex which describes expected food aid (though this does not form part of the budget appropriation). Additional annexes are planned to cover Special Funds, such as those noted in the previous paragraph, contingent liabilities, pensions and debt, and aid. Making these components of public resources more visible will increase the transparency of the budget, and is a necessary step towards increased accountability for resources that are, at present, extra-budgetary. The government is committed to produce consolidated federal and regional budget, including all extra-budgetary funds and accounts, for the past year and the current year, starting in FY02, as part of the HIPC completion point trigger.

Q5. To what extent are non-tax receipts (which are not included in the budget) or other non-budgeted funds available to spending units?

1.9 In general, accountability for and transparency in the area of retained revenues is weak. There is a standing finance instruction that enjoins all public bodies to submit to MOFED the amount they have collected and details of its utilization. Even so, the quantum of retained revenues is not regularly and accurately reported on, and this erodes both efficiency of expenditure allocation as well as accountability. Both the ongoing EMCP and the recent IFMS have recommended a single consolidated treasury account system.

Q6. How would you describe the composition of the budget outturn at a functional or vote level relative to the originating budgeting?

1.10 Budget outturns in aggregate tend to be very close to the totals appropriated by the legislature. Expenditure controls are effective in preventing excess or unauthorized expenditures. Large gaps between capital budget estimates and actual implementation are precluded by including in the budget only those projects with secured financing. Additional projects are brought in via supplementary budgets if mid-year financing is secured on a confirmed basis.

Q7. Are donor funds included in the budget?

Q8. Are outturn data on expenditures financed by donors made generally available?

Q9. Are outturn data on such expenditures timely?

1.11 Government's financial regulations require the inclusion of all donor funds in the budget and in reported expenditures. In practice this has been difficult to achieve. Ability to capture funds (either ex-ante in budget appropriations or ex-post as memorandum information) varies according to the nature of the aid and the channel of funding adopted. Thus:

- Channel 1 funds (which follow the normal government financial channels) are, by definition, fully captured. Channel 2 funds (where funds are disbursed via the sector rather than the financial bodies of government) are more likely to be captured than Channel 3 funds (disbursed directly by donors).

- Certain categories of assistance (notably food aid and technical assistance) are generally not included and not appropriated.
- Loans are captured more thoroughly than grants.

1.12 Efforts to improve the capture of donor funds in the budget are continuing,<sup>8</sup> and the issue was extensively reviewed in PER 2000. It noted that MEDAC has the responsibility for maintaining an overview of aid flows, but that its ability to collect reliable data on actual disbursements is complicated by several factors:

- (a) many donor programs are very segmented and different disbursement channels and procedures are being used;
- (b) many projects are implemented at regional or zonal level and these administrative entities do not always have the capacity to report adequately on disbursements;
- (c) MEDAC depends to a large extent on supplementary information provided by line ministries (notably for SDPs) which are not necessarily the most efficient in gathering and communicating the relevant data; and
- (d) unwillingness, according to MEDAC, of some donors to provide information. (PER 2000, ¶4.15)

1.13 External aid accounts for a substantial proportion of public expenditures at both federal and regional levels. In FY01, external grants and loans accounted for as much as 28 percent of the total expenditure. PER 2000<sup>9</sup> provided the following figures on the percentage of aid in the regions' capital budgets:

**Table 1.2: External Aid in the Capital Budget**

Year	Percentage of aid <sup>10</sup> in the capital budget
1996/97	26
1997/98	21
1998/99	25
1999/00	44
2000/01	48

1.14 The amount of aid that is not presently captured is quite significant, and aid is directed disproportionately to a sub-set of activities which includes those deemed to be poverty-related. Thus it is quite possible that the apparent trends in both the levels and the shares of public expenditure on particular budget categories will be distorted by improved capture of aid flows.

1.15 In recent years, a particular concern has been to provide expenditure reports for the sector development programs. These have been sought at two levels: (a) overall reports on federal and regional sector expenditure that could be compared with the expenditure targets agreed during the formulation of the SDPs; (b) a system for in-year reporting on expenditure of earmarked funds disbursed via Channel 1 (the so-called Channel 1b, which, in practice has been used only by the World Bank). Reports have been gradually improving, but a number of difficulties have been apparent, including:

- delays in aggregation of regional expenditure reports (reflecting uneven capacity among regions and delays in closing end-year accounts);

<sup>8</sup> As noted in ¶7, it is planned to present a Budget Annex with details of aid flows.

<sup>9</sup> See PER 2000, p53.

<sup>10</sup> Aid includes external grants as well as loans.

- lack of desired detail in reporting (reflecting weaknesses in the classification system – see below – and the fact that the original SDP expenditure projections did not follow the government budget format);
- introduction of an interim tracking system for Channel 1b expenditures which did not fulfill expectations; and
- continued difficulty in capturing donor funding via Channels 2 and 3.

## **B. Classification**

Q10. Indicate the levels of classification that apply to budget transactions.

Q11. To what level does the functional classification break down?

1.16 Ethiopia has administrative and functional (sector and some sub-sectors) classifications for expenditure. The systems for making an economic classification are in place, but their operationalization is hampered by capacity constraints. In its present form, the economic classification is both unreliable and highly aggregated. As part of the EMCP, a new classification system and chart of accounts are being introduced, which will enable expenditures to be tagged down to cost center and program level. The revised classification scheme is fully described in Version 2.1 of the Budget Reform Design Manual. Among other features, it will ensure common coding across recurrent and capital budgets, rationalize expenditure codes into a single series with a more consistent economic classification and assign unique revenue codes to each (donor or domestic) source of funding.

1.17 The new classification is currently being introduced at federal level, and will be rolled over to the regions in the next 2-3 years.

Q12. What is the principal means for executing, tracking and recording HIPC-related spending?

1.18 There are at present no explicit systems to track poverty-related spending. However, the reformed budget classification would allow for: (a) the tracking of specific functional classifications of expenditure; (b) the assignment of a distinct revenue code for HIPC-derived funding (the 'virtual fund' approach); or (c) a hybrid of both approaches.

## **C. Multiyear Projections**

Q13. How would you describe the out-year estimates (medium term) for spending?

Q14. What level of detail is provided for such estimates?

1.19 The government has adopted financial regulations committing itself to systematic medium term planning of expenditures. A federal Macroeconomic and Fiscal Framework (MEFF) is to be prepared each year, on the basis of which funds available for federal recurrent and capital expenditure and for the regional subsidy are to be calculated. The MEFF is expected to provide the basis for the setting, and approval by the Council of Ministers, of ceilings – Indicative Planning Figures (IPFs) – for the capital expenditures of federal public bodies, which are consolidated into a three-year rolling Public Investment Program. According to regulations, only projects that are prioritized in the PIP are eligible for inclusion in the annual capital budget. A detailed financial calendar, developed as part of the budget reform, spells out the responsibilities of different bodies as well as the annual timing of each stage of the exercise.<sup>11</sup> The PIP was intended to be a stepping stone towards a Public Expenditure Program (PEP), which would program federal recurrent as well as capital expenditure. Implementation of these reforms

<sup>11</sup> The proposed financial calendar is reproduced in Appendix 2 of PER 2000 (Volume II).

to planning and budgeting would amount to the application of a Medium Term Expenditure Framework.

1.20 In practice, as successive PERs have noted, preparation of MEFFs and PIPs has hitherto been only a shadow exercise. The MEFF and PIP have never been submitted to the Council of Ministers for approval, and neither the procedures nor the timing mandated in the financial calendar have been adhered to. The Government's principal explanations for the failure to implement these reforms have been (a) the uncertainties associated with the border conflict, and (b) difficulties in forecasting of external resources. However, in connection with the Economic Rehabilitation Support Credit, the government has now given undertakings to make these reforms effective.<sup>12</sup>

1.21 The regions have adopted similar financial regulations committing themselves to the development of PIPs and PEPs but, through the preparation cycles for budgets up to FY2001/02, none had begun to do so. However, the Sector Development Programs (Health, Education, Roads) did incorporate five-year expenditure projections for both recurrent and capital expenditures, taking account of anticipated external as well as domestic resources, and setting targets for regional as well as federal expenditure. Timely medium-term projections by the government are virtually a precondition for meaningful medium-term planning by the regions, because they need to know the projected level of the federal subsidy which is under the control of the government, and the availability of external aid which is managed by the government.

1.22 In September 2001, there was a pilot initiative to begin preparation of PEPs at regional level, with the federal government undertaking to provide two-year projections of the federal subsidy as a basis for medium-term plans at regional level.<sup>13</sup> This timely intimation of resource envelope will enable the regions to make budget allocations better matching the priorities ascertained from the communities.

#### **D. Budget Composition<sup>14</sup>**

The HIPC Expenditure Tracking questionnaire does not address the issue of budget composition, but this is relevant because an apparently appropriate expenditure allocation may be undermined if there are chronic imbalances within it (e.g. between recurrent and capital expenditures, or between wage and non-wage recurrent expenditures).

1.23 PER 2000 examined this issue, and found that while Ethiopia avoids the extreme compression of recurrent expenditures that is found in many countries, there are still significant concerns about the adequacy of funding of operating costs. (These concerns were reiterated in the Regional PERs undertaken as part of the PER 2001 cycle). Moreover, there is no analysis of the balance between wage and non-wage recurrent expenditure. The present budget formulation

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<sup>12</sup> See World Bank, Report No. P7441-ET (*Economic Rehabilitation Support Credit*), April 30, 2001. Annex B (Letter of Development Policy), ¶21, includes the following undertakings:

Before the end of 2001/02, we are planning to undertake the following measures. By October 2001, the Council of Ministers will adopt a Macro-Economic and Fiscal Framework (MEFF) and a Public Investment Programme (PIP), which will lead to the budget for 2001/2002 [*sic, but should read 2002/003*] .. and by December 2001 it will submit it to the Council of People's Representatives. We will also prepare any legislation relating to the PEP and present it to the Council of Ministers. Furthermore, MEDaC, in coordination with the MOF, will prepare a plan that lays out the resource requirements and a timetable to help the regional states in carrying forward their multi-year planning and budgeting process.

<sup>13</sup> The planned approach is described in Perran Penrose, *Medium Term Expenditure Framework (MTEF) and Public Expenditure Programme (PEP)*, DSA Project Report P-43, April 2001.

<sup>14</sup> The importance of this issue was pointed out by Stephen Peterson, US-AID consultant.

system fails to address such issues in a systematic fashion. It is expected that the introduction of PEP will improve the balance between recurrent and capital expenditures and thereby the efficiency of overall expenditures.

### III. BUDGET EXECUTION

#### A. Internal Control

Q15. What are the principal forms of control to ensure that spending reflects the authorized budget?

Q16. (i) Do these controls involve or are they supplemented with commitment controls to limit expenditure commitments to available cash resources?

(ii) If cash rationing is a feature of the control system, describe the basis of decisions made about which activities should receive cash and which should not? Is there a way to protect cash for poverty reducing expenditures (describe)?

Q17. What do you estimate as the level of the stock of expenditure arrears at the end of the last financial year?

Q18. Are (government approved) supplementary budgets used to add to or substantially change the pattern of government spending?

1.24 Disbursement procedures are concisely described in the IFMS report.<sup>15</sup> Disbursements to public bodies are made by the MOF Treasury Department on request. Procedures are different for salaries, recurrent operating expenditure, and capital expenditure. For salaries, Treasury cash flow projections assume a monthly outflow of one twelfth of the annual allocation, but actual disbursements depend on requests supported by payroll documentation. Requests for recurrent operating expenditure, normally submitted monthly, also require supporting documentation. Requests for capital expenditure financed from the Treasury Central Account are made only when funding is required, and again require documentation such as payment certificates and bid documents.

1.25 Disbursement processes at regional government level are very similar, except that:

- For recurrent operational expenditure, regions may request the Treasury Department to make direct payments to suppliers; alternatively, there may be months when cash flow requirements are such that a region requires more than the average monthly federal allocation; Treasury takes these factors into account in its monthly instructions to the central bank – the National Bank of Ethiopia (NBE).
- Funds for capital expenditure are routed through the NBE and the Commercial Bank of Ethiopia (CBE); Treasury Department notifies the NBE of each region's appropriated subsidy, and this governs the funding facilities allowed to each region by CBE. CBE reports all withdrawals to NBE which provides periodic consolidated reports to the Treasury Department.
- Regional finance bureaus are responsible for authorizing disbursement requests and releasing the subsidy element of funding to sector bureaus at the regional level, and to zone finance departments, which in turn authorize and disburse funds to zone sector departments and woreda finance offices. Disbursements are made net of revenue collections at

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<sup>15</sup> *ibid.*, ¶4.42–4.47.

the woreda level, and are therefore cyclical, reflecting the seasonality of collections (see under Question 5 above).

1.26 Spending agencies must keep each line item of expenditure within approved estimates. As a part of the reform effort, effective last year, public bodies have been delegated the power to transfer resources from one budget head to another within certain limits. For transfers beyond their delegated powers, public bodies have to approach MOF. Approval of the Council of Ministers is required for (a) transfers from one public body to another; and (b) transfers from recurrent to capital expenditures. Supplementary expenditures require legislative approval, and quite rightly so.

1.27 This system has generally been effective in controlling expenditure without the need for cash rationing, although cash controls were reportedly applied during the later stages of the conflict with Eritrea.

1.28 The main weaknesses of the system are the following:

- Sub-optimal cash management. The system operates through large numbers of bank accounts (the federal government has around 500 bank accounts at NBE and some regional governments have over 100 bank accounts), and this makes it difficult to manage overall liquidity efficiently. Studies under the EMCP have recommended Single Treasury Account system.
- Lack of any effective system of commitment control. This was a weakness noted in early analyses by the Civil Service Reform Task Force. Although financial regulations require heads of public bodies to maintain commitment records, this does not appear to happen. (However, the insistence that projects do not appear in the budget before funding is secured, makes it less likely that a serious overhang of unbudgeted commitments could build up, at least on the capital side).
- The rigor with which expenditure controls are applied has costs in terms of ability to utilize available resources efficiently. Essentially, the process of expending the capital budget is not allowed to begin before funds are budgeted (and notification of capital budgets may reach spending agencies only well after the commencement of the FY). One result is an extreme bunching of capital expenditures in the final months of the FY. Utilization of donor funds for SDPs has been delayed by the need to follow the standard procedures for budgeting the funds as supplementary expenditures before they could be disbursed.

Q19. How would you describe the internal audit function?

1.29 Both internal and external audit functions have been targeted for reform under the EMCP, but for various reasons have experienced delay in securing donor TA.

1.30 Internal auditing is not developed within Ethiopia's civil service. Traditionally internal audit activities have been more of a "pre-audit" nature, serving simply as an additional step in the expenditure approval process.

1.31 The internal audit component of EMCP has been designed to develop and implement a proper, modern internal audit capacity in all government institutions, federal and regional, but in the absence of donor assistance there has been little progress beyond the design phase.

Q20. Is internal control supplemented by public expenditure tracking surveys that follow funds to the ultimate service provider or beneficiary?

1.32 There have been no specific tracking surveys along the lines carried out in other countries. However, given the strength of expenditure controls, it is believed that budgeted funds reach the intended spending agency. Prima facie, the more important issues appear to be the quality and usage of public services and facilities, rather than the diversion of funds.

#### Procurement procedures and standards

The HIPC tracking questionnaire has no explicit enquiry on the quality of public procurement procedures, although these would appear very relevant to an assessment of the overall quality of public expenditure management. Moreover, donors often cite concerns over procurement as a reason for earmarking their aid and insisting that their own procurement rules take precedence over the government's.

1.33 A Country Procurement Assessment Review (CPAR) was undertaken in 1998. National procedures for procurement of works, goods and services were found to be wanting in several areas; the government responded by making some changes in its financial directives in this regard but further revisions are needed to make the procedures acceptable in terms of their rigor and transparency. An ideal system would be for government procurement procedures to attain UNCITRAL certification. Experience from other countries indicates that analysis, adoption and absorption of the system under UNCITRAL could take up to 4-5 years. This is an issue that needs to be taken up in the bank's CPAR scheduled for FY02/FY03.

## B. Recording Expenditures

Q21. When are budget tracking reports from line ministries and treasury received?

Q22. Are the (internal) tracking reports supplemented by information on accounts payable or pending bills?

Q.23. Is there regular reconciliation of all government bank accounts (those held in the central bank and the commercial banks) with the government's accounting records?

1.34 Each level of the financial disbursement system receives monthly reports from the bodies to which it disburses funds. These reports are suited more for expenditure control rather than analysis of expenditures for management purposes. However, it is very difficult to obtain aggregate reports at regional and national levels because of delays and lack of comprehensiveness of reports from lower levels.<sup>16</sup> Thus ESDP and HSDP have experienced great difficulty in

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<sup>16</sup> The recent *Diagnosis of Existing Control Capacities in Ethiopia* (page 23) comments on reporting as follows:

The legal framework requires that all administrations (federal, regional, zonal and woreda) report on their financial and physical performance on a monthly, quarterly, semi-annual and annual basis. However in practice we found that this was not the case. A delay in collating data at all levels renders the basic monthly reports impossible to prepare reliably and consequently has an impact on other reports.

In addition there is a potential misunderstanding as to the definition of what the reports should disclose. Some bodies show disbursement while others try to show actual expenditure, similarly disclosure of revenue is either actual revenue or predicted. Without clear definitions the regions, and then the federal level, are receiving reports that are inconsistent. The problem is compounded by the lack of detailed checking. Our investigations identified the source of the problem at the woreda level where there is difficulty in collating data from remote regions and there is insufficient trained staff.

obtaining periodic aggregate expenditure reports for their sectors (although in their case the problem is compounded by the fact that initial expenditure targets were not configured to match the government budget structure and classification). Systematic information on commitments is not available.

1.35 The IFMS report notes that the federal and regional governments maintain very large numbers of bank accounts. While the NBE indicated that they send a reconciliation statement on the consolidated fund account to the MOF daily and reconciliation statements on respective accounts to the spending agencies on a monthly basis, reconciliation of fiscal and monetary accounts is a major weakness in the current system. No aggregate systematic reconciliation is performed on a regular basis, among others because of difference in timing of accounts (Fiscal accounts use the Ethiopian year, while monetary accounts use the calendar year). The government's annual consolidated reports do not provide an account of how government has obtained and utilized cash and cash equivalents (this would normally be done by showing "below-the-line" accounts).<sup>17</sup>

Q24. In (monthly or otherwise) reports of the consolidated operations of government, how large has the statistical discrepancy between revenue minus expenditures (derived from MOF data) and financing items (derived from banking data) been on average over the past two years?

1.36 The gap between estimated deficits and financing totals can be as high as 1.5 percent of GDP. The gap is attributed, among others, to gaps in reporting by sub-national governments and lack of reconciliation between monetary and fiscal accounts.

#### IV. BUDGET REPORTING

##### A. Regularity and Reliability of Reports

Q25. What in-year reports are published for tracking budget performance?

1.37 The IFMS report describes the reporting system as follows:<sup>18</sup>  
All institutions that receive budget allocations are required to submit the following reports to MOF:

- Monthly reports referred to as the Ge/He 29xxs series incorporate information on recurrent revenue, recurrent expenditure, capital expenditure and fund transfers between the treasury and the relevant institution.
- Annual reports referred to as "Zegeba reports". Essentially Zegeba reports analyze variances between budget appropriations, actual disbursements from Treasury and actual expenditure incurred by the institution.

1.38 The Central Accounts Department [CAD] uses the accounts module of the BDA system [a computerized Budget Disbursement and Accounts system developed under the budget reform project] to capture and consolidate monthly returns received from public bodies and regional governments. CAD reconciles consolidated information from the BDA system with Zegeba reports and seeks explanations for any variances from the relevant public body/regional government. This provides a basis for generating annual reports on "budgetary revenue and expenditure".

<sup>17</sup> *ibid.*, ¶4.86–4.91.

<sup>18</sup> *ibid.*, ¶4.83ff.

1.39 In addition, the Policy and Research Department of MOF compiles reports on the federal government's fiscal performance on a monthly basis within six weeks from the end of the month. The lag in preparing a consolidated statement for the combined federal-regional governments is longer. These reports provide information on revenue, expenditure and financing. To compile this report the department depends largely on the disbursement records maintained by the Treasury.

1.40 While the system is well established, actual reports remain highly aggregated, and there are considerable delays in obtaining reports that incorporate regional as well as federal expenditures. These deficiencies reflect (a) the weaknesses of the classification system (which are being addressed as indicated under Question 10 above); and (b) delays in receiving information from lower decentralized levels, which reflect the length of the communication chain involved, weaknesses in capacity, and the operation of manual systems.

Q26. How often does the public and/or legislature receive budget tracking reports?

1.41 Budget estimates are reported on an annual basis to the legislature, and hence the public. There is no routine in-year reporting to legislature or public.

#### **B. Final Audited Accounts**

Q27. What is the period between the end of the fiscal year and the routine booking of transactions?

Q28. How soon after the end of the relevant year are the accounts forwarded to audit?

Q29. How soon after the end of the relevant year are the audited final accounts presented to the public and/or the legislature?

1.42 Routine booking of transactions is closed after a grace period of one month following the end of the fiscal year. The gap could be longer, extending up to four months, in the regions.

1.43 One of the primary objectives of the accounts project within EMCP has been to clear a four-year backlog in closing regional and federal accounts. Progress was held up by a diversion of attention to the introduction of the interim tracking system for Channel 1b funds, but the backlog has again been substantially reduced and at least two major regions are now effectively current.

1.44 However, there are a number of outstanding issues concerning the auditing of accounts. Within the present constitutional framework, each Regional State has a responsibility to audit its own accounts. The Federal Auditor General is responsible for auditing the accounts of federal ministries and other federal agencies, but the Federal Government also has the right to audit all regional expenditures that are funded through the federal subsidy. The IFMS report<sup>19</sup> raises two sets of concerns: (a) that the accounting information available to the Auditor General is not a satisfactory basis for arriving at the required judgments (e.g. because the AG is not presented with sufficient information on assets such as bank accounts to support the MOF accounts of revenues and expenditures); and (b) lack of transparency, in that there seems to be no comprehensive report by the Auditor General that is in the public domain.

1.45 It was intended that expenditure reports on ESDP and HSDP would be certified by the Auditor General, but this has not occurred.

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<sup>19</sup> *ibid.*, ¶3.26–3.30.

1.46 An EC-sponsored study to review the quality of financial controls in Ethiopia has concluded that:

On the whole the project team found controls to exist but not necessarily to comply with those prescribed by the Ethiopian Government in the relevant proclamations and directives. The controls over financing are strong, and there is no evidence of overspending of the budget. The major weaknesses found in the existing system were:

- the budget process is seriously affected by resource and time constraints leading to inconsistencies in the way budgets are prepared and serious delays in setting the budget;
- the reporting process is seriously delayed due to lack of qualified staff at the local government levels. As a result, the Federal administration is three years behind schedule in the preparation of the annual consolidated accounts;
- the role played by Internal Audit is confused and ineffective; and
- the external audit department is understaffed and, as a result, is not capable of fulfilling all of its duties.

1.47 The study makes a number of recommendations for rationalization of procedures and, in particular, for strengthening of staffing in audit and accounting units across regional and federal government. There is particular stress on the need for targeted training for woreda and zone financial staff, and for review of staff complements at local levels.

1.48 Within the CSR/EMCP, the component for strengthening external audit has, as yet, failed to obtain donor funding.

## V. BUDGET EVALUATION

Q30. Are any efforts being mounted to assess the effects of spending on the incidence of poverty?

- a) Tracking studies of HIPC-related funds or targeted evaluation of sector or other poverty programs.
- b) Broad social indicators of poverty.
- c) None.

1.49 The relationship between public expenditure and poverty has been one of the main topics investigated by PER 2001. Findings are fully set out in a background paper<sup>20</sup> and also reported in Chapter 3 of the main PER document. In brief the findings are:

- (a) The sector programs for health and education include agreed sets of performance indicators and a procedure for annual joint donor/government reviews of performance. Tracking studies of HIPC-related funds is not yet applicable.
- (b) Basic surveys to monitor poverty overall are adequate in scope, frequency and sample size. They form part of an overall welfare monitoring system which is well-conceived but has yet to be made properly effective. The main problems are to do with timely processing of data and reporting, and the need to go beyond the basic measures of income poverty in order to exploit

<sup>20</sup> Mokoro Limited, *Tracking of Public Expenditures for Poverty Reduction*, Ethiopia PER 2001 Discussion Paper, August 2001.

available data more effectively. Delays in reporting means that use of poverty information in policy formulation and resource allocation is limited. There is a particular need to disaggregate data, especially on a geographical basis, and to make the resulting information available at regional and zonal levels.

- (c) General program evaluation of outcomes is extremely rare, though systematic information on outputs is available for a number of sectors, including health, education and roads.<sup>21</sup>

<p>Q31. Please identify current providers of technical or donor assistance and their plans in the table provided.</p>
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<sup>21</sup> PER 2000 included (in Chapter 5) a review of the scope for shifting attention from inputs to results, and its Appendix 5 provided an overview of available output and outcome indicators.

**Table 1.3: Technical Assistance**

Institution	TA up to 2002	TA beyond 2002
Possible IMF (to be confirmed)	Examination of comprehensiveness of budgetary classification of the new chart of accounts, taking into account GFS standards. Consolidation of federal and regional budgets (ex-ante and ex-post), starting FY 2001/02. Review of the impact of reporting procedure on the quality of fiscal data, at the federal and regional levels. Reconciliation of monetary and fiscal accounts, starting with FY 2001/02.	
World Bank	PERs in collaboration with the government to provide analytical underpinnings for PE reform. Topics covered included: (i) Aid management; (ii) Tracking of poverty related spending; (iii) Regional public finance issues; (iv) Shifting from inputs to results.	PERs will (i) sharpen and deepen regional focus; (ii) study impact of social sector expenditures; (iii) provide analytical basis for tracking surveys; (iv) surveys to evaluate impact of public expenditure at the facility level.  Under the Capacity Building component, the focus will be on strengthening expenditure management and control, especially at the sub-national level. In parallel, the Bank will support analytical work on intergovernmental fiscal and administrative relationships within regions in order to identify specific reforms necessary to ensure the efficient, sustainable, and prudent transfer of untied resources to local governments. .
US-AID	Implementation of the following components of the EMCP: (i) PIP; (ii) Budget Reform; (iii) Accounting Reform. The progress has been varied across the different components.	(i) Making MEFF the basis for planning and budgeting; (ii) Rolling over new chart of accounts to regions; (iii) Shift over from PIP to PEP at federal and regional levels; (iv) development of BIS; (v) Cost-center budgeting; (vi) Roll over of budget reforms to regions.
European Union	Feasibility study of IFMS.	Design and implementation of IFMS to make expenditure management more efficient and scientific.
UNDP	Training and dissemination of financial proclamations and regulations. Setting out the implementation of a legal framework for financial administration.	Preparation of Internal Audit manual and training on that.

**Table 1.4: Action Plan to Upgrade the PEM Capacity to Track Poverty-Related Expenditure (PRE)**

		SHORT- TERM MEASURES		MEDIUM- TERM MEASURES		
		Action	TA provider and timing 1/	Action	TA provider and timing 1/	
Formulation	Classification	1. Implement comprehensive budgetary classification at federal level, including training, and assessment of early experience.	USAID	1. Implement comprehensive budgetary classification at regional levels, including training.	USAID	
	Comprehensiveness	1. Review intergovernmental relationships at federal, regional and woreda levels, including transfer mechanisms	World Bank	1. Include all donor activities into federal and regional budgets.	USAID	
		2. Adhere to budget calendar		2. Introduce cost center budgeting	USAID	
	Multiyear projections	3. Include all extra-budgetary funds and accounts, and food aid into the federal and regional budgets				
4. Consolidate federal and regional budgets (ex-ante), starting FY 2002/03, at the beginning of the year.		IMF (TBC)				
Execution	Internal controls	1. Link planning and budgeting to MEFF and PIP.	World Bank/USAID	1. Introduce 3-year Public Expenditure Program at the federal and regional levels.	World Bank/ USAID	
		2. Introduce 2-year Public Expenditure Program at the federal level.	World Bank/USAID			
	Reconciliation	1. Initiate review, and reform if necessary, the institutional and legal framework for control and internal audit (including assigning to a central agency the responsibility for overseeing internal audit functions)	EU	1. Strengthen control and internal audit by training; development of manuals and work plans [and enforcement of existing regulations].	EU Canada Ireland World Bank	
		2. Introduce commitment budgeting and accounting, double entry bookkeeping, modified cash-management, and asset management systems at federal level; design manuals and provide training.	USAID	2. Conduct public expenditure tracking surveys		
Reporting	Reporting	3. Strengthen control and internal audit by training; development of manuals and work plans [and enforcement of existing regulations].	EU	3. Introduce commitment budgeting and accounting, double entry bookkeeping, modified cash-management, and asset management systems at regional levels; design manuals and provide training.	USAID	
		4. Reform procurement procedures by changing regulations and imposing sanctions for non-compliance		4. Adopt and implement procurement code.		
	Final Audited Accounts	1. Conduct a survey of the number of bank accounts at the federal and regional level	IMF (TBC)			
		2. Reconcile monetary and fiscal accounts, starting with FY 2001/02.	IMF (TBC)	1. Clear backlog of accounts at regional levels.	USAID	
Final Audited Accounts	Final Audited Accounts	1. Review the impact of reporting procedure on the quality of fiscal data, at the federal and regional levels	USAID	2. Consolidate federal and regional budget accounts, at the beginning of the year.		
		2. Clear backlog of accounts at federal level.		3. Maintenance of uniform accounting system and computerized IFMIS	EU	
		3. Improve reporting (timeliness and accuracy) of monthly reports from the federal and regional governments to MoFED.		4. Introduce IFMIS at the federal and regional levels.	EU (TBC)/GAP	
		4. Consolidate federal and regional budget outturns (ex-post), starting FY 2001/02, at the beginning of the year.	IMF (TBC)			
		5. CFPA to identify the strengths and weaknesses of the accountability systems and to develop , among other things, a strategy for strengthening accountability systems.	World Bank			
		6. Finalize design study for IFMIS, and prepare pilot project for five federal agencies.	EU			
		1. Initiate review, and reform if necessary, the institutional and legal framework for external audit (including making the Auditor General independent).	EU	1. Strengthen external audit by training; development of manuals; capacity building	EU Canada Ireland	
				2. Development of audit and accounting professions.		

1/ TBC = to be confirmed; GAP = TA provider to be specified.

## POVERTY AND PUBLIC POLICY IN ETHIOPIA

[This Annex briefly reviews the approach to poverty that is reflected in Ethiopia's public policy documents, and especially the I-PRSP].

### Commitment to Poverty Reduction

2.1 There is no doubt that attacking poverty – especially rural poverty – is at the center of Government's concerns, although many policy documents express this concern in terms of equity rather than poverty as such. The Prime Minister has stated that *our only 'holy cow' is protecting the interests of the rural poor – the vast majority*, and this is reflected, among other things, in a land policy that aims to ensure universal access to land, in an overall development strategy (Agricultural Development Led Industrialization – ADLI) that focuses on agricultural development, and in social sector programs that prioritize the extension of basic services across the country.<sup>22</sup> To the extent that there is policy debate between GOE and its development partners, this concerns the effectiveness of government's poverty strategy: the Government's commitment to poverty reduction is not in doubt.

### I-PRSP Analysis and Strategy

2.2 The key document laying out the government's poverty focus and strategy is now the Interim Poverty Reduction Strategy Paper (I-PRSP).<sup>23</sup> This is presented not as a new initiative, but as *a broad picture of the poverty reduction strategy that Ethiopia has pursued in recent years and intends to elaborate in its preparation of a full-fledged PRSP*. In its account of poverty in Ethiopia, the I-PRSP concurs with the now widely-accepted view of poverty as multi-dimensional and complex, and commits Ethiopia to attain, at least, the internationally accepted targets for the reduction of poverty by the year 2015. A series of indicators and targets are presented in tabular form, and, where possible, compared with the relevant International Development Goals.

2.3 The I-PRSP and other official documents describe poverty in Ethiopia as widespread and multi-faceted. Although consumption poverty is used as the main yardstick of the extent of poverty, there are numerous references to indicators of other dimensions of poverty. These include education participation rates, health and nutrition indicators and the extent of household food insecurity. Poverty is seen as predominantly a rural problem and a problem of hunger. The strategies outlined in the I-PRSP aim to reduce poverty through ensuring macro-economic stability, promoting market liberalization, and increasing social sector spending. The main pillars of poverty reduction as described in the I-PRSP are: ADLI, reform of the judiciary and civil service, decentralization and empowerment, and capacity-building. Strategies include development programs in agriculture, education, health (including HIV/AIDS), roads and the ESRDF.

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<sup>22</sup> The 1994 Constitution (Article 90, ¶1) mandates that: *to the extent the country's resources permit, policies shall aim to provide all Ethiopians access to health and education, clean water, housing, food and social security*.

<sup>23</sup> Conveniently published in World Bank Report No. 21769-ET: *Ethiopia: Interim Poverty Reduction Strategy Paper 2000/01 – 2002/03 and Joint IDA/IMF Staff Assessment*, January 30, 2001.

2.4 The I-PRSP focuses on how to reduce poverty among resource-poor small-scale farmers who represent almost 90 percent of Ethiopia's poor. The I-PRSP also notes that poverty in Ethiopia is less homogeneous than is implied by that figure. It acknowledges that regional variations in poverty exist and that there are gaps in understanding with respect to pastoralists, farmers in dry-land areas and the urban unemployed. Other official documents show clearly differentiated regional trends in welfare indicators, worryingly high numbers of malnourished children and marked female disadvantage as measured by illiteracy rates and other indicators of welfare. Figures from the Disaster Preparedness and Prevention Commission (DPPC) appear to suggest that the number of food aid recipients is increasing.

2.5 On the links between poverty and public expenditure, the I-PRSP anticipates that reduction in military expenditure will provide room for increasing expenditure oriented towards poverty reduction, such as the social sector. These expenditures will be duly costed to ensure consistency with resource availability. Furthermore, public expenditure management will be strengthened to facilitate the identification and tracking of poverty related expenditures.

2.6 This is reflected in the following specific policy measures which are included in the Poverty Reduction Policy Matrix 2000/01 – 2002/03:

- Give priority to education, health, agriculture and roads in programming and budgeting.
- Maintain consistency between current and capital expenditures.
- Increase the share of public expenditure in education, health, agriculture and natural resources, and roads to 14.7, 7, 10.2 and 10.1 percent of total expenditure.
- Introduce macroeconomic and fiscal framework (MEFF) in planning and budgeting (2001/02).
- Adhere to the Financial Calendar.
- Define a time frame for introducing cost-center budgeting.

2.7 The strategy for decentralization and empowerment links fiscal federalism to further decentralization to the district (woreda) level within the regional states. This is noted as a medium to long term process, but one which will create room for tackling poverty directly at the grass roots level. It is expected to provide a basis for meaningful participation by the people in local development programs (especially primary education, primary health care, rural water supply, rural roads and agricultural extension). The I-PRSP states that fiscal federalism "grants the regions full autonomy in budgetary expenditures", but does not explain how this is reconciled with the policy matrix targets for the shares of key sectors in *total* (i.e. federal plus regional) expenditures.

## WELFARE MONITORING IN ETHIOPIA

### Overview of Available Data

3.1 Ethiopia has a large number of different data sources that can be used for welfare and poverty analysis. Box 3.1 summarizes the main potential sources, and also shows the reporting levels that each of the surveys allows for – i.e. the lowest level of geographical disaggregation at which the results can be reported without compromising statistical representativeness. Sample sizes have been increasing in recent years. This increases the scope for meaningful disaggregation, but also increases the logistical problems involved in getting the data to the responsible analysts in a reasonable time. Broadly speaking, however, the Central Statistical Authority delivers an elaborate and complicated survey program with relatively limited time lags.

3.2 Box 3.2 gives an overview of the type of information available in the main national data sets and matches potential data sources to the four principal dimensions of poverty. These data are sufficient for a broad, multi-dimensional analysis of poverty and welfare. For example, the nationally representative Welfare Monitoring Surveys interviewed in 1995 and in 2000 the same households as those covered by the Household Income, Consumption and Expenditure Survey (HICES) survey. Consequently, monetary and non-monetary welfare indicators can be compared. In other words, links between consumption (monetary indicators) and health, education or nutrition outcomes can be explored. Also, links between assets (e.g. livestock) and poverty can be explored in the most recent data.

### Scope of Data and Institutional Responsibilities for Monitoring and Analysis

3.3 Primary responsibility for conducting national surveys rests with the Central Statistical Authority (CSA) which is accountable to the Ministry of Economic Development and Cooperation (MEDAC). The CSA has significant capacity constraints (its draft program for the next 5 years envisages a near trebling of its professional staff and similar increases in other resources)<sup>24</sup>. Nevertheless, the CSA does a generally commendable job in managing its survey program. The CSA has published data reports on the HICES/WMS of 1995/96 and the WMS of 1998. However, since the CSA's main role is to gather data and make it available to users, these reports do not go beyond a set of descriptive statistics and cross tabulations by reporting levels. The Demographic and Health Survey, conducted in 2000 by CSA, was the first of its kind and is intended to be repeated every 5 years. A report of the key indicators from this survey is now available.

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<sup>24</sup> MEDAC, January 2001, *A Medium Term National Statistical Program for Ethiopia (2000/01 – 2004/05)*, Executive Summary, p23, Table 3.2.

**Box 3.1: Selected Welfare Monitoring Data**

Source	Survey type	Coverage (time)	Coverage (place)	Reporting Levels	Collection/Analysis
<b>A. Nation-wide official data</b>					
Welfare Monitoring Survey (WMS)	Cross-section household data	1995/96, 1997, 1998, 2000/01	Nationally Representative	National, Regional, Zonal, Urban/Rural	CSA, WMU
Household Income, Consumption and Expenditure Survey (HICES)	Cross-section household data	1995/96, 2000/01	Nationally Representative	National, Regional, Zonal, Urban/Rural	CSA, WMU
Demographic and Health Survey	Cross-section household data	2000	Nationally representative	National, Regional, Urban/Rural	CSA
Census	Household and individual data	1994	National	National down to Woreda	CSA
Data from Health Sector Development Program	Administrative reporting	Yearly	National	Currently National down to Region **	Min of Health
Data from Education Sector Development Program	Administrative reporting	Yearly	National	Currently National down to Region **	Min of Education
Numbers eligible for food aid	Administrative reporting	yearly	Aggregation from administrative data	Region, Zone, Woreda **	DPPC
<b>B. Independent quantitative sources</b>					
Ethiopian Rural Household Survey – sub-sample	Panel household data (i.e. same households)	1994, 1994b, 1995, 1997, 1999, 2000	15 Villages *	Villages (reflecting livelihood diversity, not statistically representative)	Economics Dept, AAU with Oxford University
Ethiopian Urban Household Survey	Panel household data	1994, 1995, 1997, 1999	10 major towns, 1,400 households	Main towns	Economics Dept, AAU with Gothenburg University
<b>C. Qualitative data collection and analysis</b>					
Participatory Poverty Assessment	Multiple qualitative methods	1997	10 specific communities, 6 rural and 4 urban	Diverse communities, but not statistically representative	World Bank in collaboration with Government
Consultations with the Poor	Multiple qualitative methods	2000	10 specific communities (drawn from Addis Ababa and two regional woredas)	Poor villages, not representative beyond specific communities	Forum for Social Studies/World Bank

\* For 6 communities (350 households) data go back to 1989; for 4 communities data (500 households) data extend to 2001.

\*\* Reporting levels are a statistical issue for survey based data (i.e. the lowest level of geographical disaggregation at which the results can be reported without compromising statistical representativeness). For administrative data, we give the reporting levels typically used in publications and data bases.

**Box 3.2: Key Welfare Indicators From National Data**

<b>A. Nation-wide official data</b>	<b>Economic opportunities</b>	<b>Capabilities</b>	<b>Vulnerability</b>	<b>Empowerment</b>
Welfare Monitoring Survey (WMS)	Limited consumption and asset information	health access and use, literacy, enrolment and dropout malnutrition	malnutrition, vaccination, gender issues etc access to roads, access to public service, infrastructure and communications	
Household Income, Consumption and Expenditure Survey (HICES)	Consumption, income			
Demographic and Health Survey		health access, knowledge and use; fertility Population, literacy, enrolment health infrastructure, recurrent health inputs	Malnutrition; infant, child and maternal mortality	
Census	Limited asset (housing)			
Health Sector Development Program indicators		education infrastructure, recurrent education inputs		
Education Sector Development Program indicators			eligibility for food aid	
Food security monitoring				
<b>B. Independent quantitative sources</b>				
Rural Household Survey	Consumption, income, assets, labor, land, investment, activities, credit	Health access and use, literacy and education access, enrolment and dropout	Nutrition, risks faced, coping mechanisms, informal insurance, safety net access, mortality	Intra-household power, local politics and participation
Urban Household Survey	Consumption, income, assets, labor, investment, activities, credit	Health access and use, literacy and education access, enrolment and dropout	Nutrition, coping mechanisms, informal insurance, safety net access, mortality	
<b>C. Qualitative data</b>				
Participatory Poverty Assessment	Wealth rankings, perceived problems		perceptions of security, risk and vulnerability	poor people's perspective on autonomy and participation
Consultations with the Poor	Perceived problems and opportunities		perceptions of security, risk and vulnerability	involvement in formal and informal institutions

NB: Some indicators are relevant to more than one dimension of poverty

3.4 Within MEDAC there is a Welfare Monitoring Unit (WMU), which is responsible for analysis and reporting. The WMU was intended to be the focal point of a coherent Welfare Monitoring System, as described in Box 3.3. Up to now, the WMU has fulfilled only a small part of its intended role. Initially, the WMU identified the analysis of the HICES to derive consumption poverty information as its main priority. Analysis of the Welfare Monitoring Survey was also on the agenda, but after the first task was completed. The WMU produced a report (Poverty Situation in Ethiopia), in March 1999, which analyzed the HICES 1995/96, but only with respect to consumption poverty and some basic descriptive statistics on the non-monetary data. For example, there was no attempt to link the non-monetary and monetary characteristics. The report also drew on the 1996 WMS and described national and geographical poverty levels based on an absolute poverty line and some limited analysis of the non-monetary welfare data. This is the WMU's only substantial report so far, and the complementary activities described in Box 3.3 have not yet been undertaken.<sup>25</sup>

3.5 The education and health data collected under the ESDP and HSDP are drawn from a variety of administrative sources and are collated by the respective federal Ministries. Health and Education indicators are reviewed in more detail in Annex 3.4.

3.6 Food insecurity is one of the principal symptoms of poverty, and the Disaster Preparedness and Prevention Commission (DPPC) is responsible for monitoring the food security situation in order to determine requirements for food aid. This is based on continuous monitoring of household vulnerability, and therefore provides valuable additional insights into the poverty status of the Ethiopian population. The avoidance of major famines since 1984 is an indication that the system is quite effective. Box 3.4 describes the monitoring system. Because its data focus on whole woredas, the DPPC monitoring is quite "broad brush". There is strong continuity – each year the majority of woredas requiring relief also needed help in previous years, which strongly suggests that the most of the food relief requirements stem from chronic poverty rather than temporary emergencies.<sup>26</sup> There are discrepancies in the way that the 'food insecure' and 'the poor' are counted by the DPPC and the Welfare Monitoring Survey respectively. The WMS may be more comprehensive because DPPC excludes poor households not in need of food aid. However, the WMS has excluded people without addresses (pastoral populations and the homeless) – who may be a significant percentage of the poor population in particular areas.

3.7 In 1999 and 2000 the regional governments of Oromiya, Amhara, SNNP and Tigray regions created Food Security Offices, which are in charge of identifying food insecure areas, analyzing the causes of food insecurity, designing actions to remedy these situations and to coordinate with line administrations for the implementation of these actions.<sup>27</sup> USAID is providing support to the Food Security Units in Amhara, Oromiya, SNNP and Tigray to produce "vulnerability profiles" which should elucidate the socio-economic and physical causes of vulnerability, out of which should come packages of appropriate solutions. This is being piloted in 16 woredas.

3.8 Boxes 3.3 and 3.4 below also highlight two fairly large-scale surveys based on non-government research. These panel data sources are not suitable for describing the evolution of national welfare outcomes, but their panel nature (following the same households over time) and detail in the questionnaires allows a substantive analysis of the link between welfare outcomes,

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<sup>25</sup> However, as noted in the main chapter, there is now a renewed impetus for the WMU's work.

<sup>26</sup> See Resal Ethiopia, *Public expenditure management aspects of food security*, April 2001, p28.

<sup>27</sup> See Resal Ethiopia, *ibid.* page iii.

events and policies for the communities involved. The administrative data can provide further complementary information.

3.9 Two major participatory surveys have been undertaken (with research in 1997 and 2000). Both were sponsored by the World Bank. The participatory surveys are again not representative, but they give useful specific contextual information that may help understanding of the complexities of the poverty situation beyond the communities involved.

3.10 Although the regional governments have a substantial degree of autonomy, they do not have separate statistical programs of their own, and therefore rely mainly on statistics compiled by federal agencies. The Medium Term Statistical Program document stresses the importance of improving the links between federal and regional governments for the consolidation of administrative statistics, and highlights the need for close coordination of statistics work between different levels of government. It is envisaged that future statistics legislation would clarify the respective roles of federal and decentralized levels of government, and lay the basis for development of stronger regional statistical systems.<sup>28</sup>

### **Box 3.3: Welfare Monitoring System and Role of the Welfare Monitoring Unit**

A Welfare Monitoring System (WMS) was set up in 1996, at the same time as the Ethiopian Social Rehabilitation and Development Fund (ESRDF) was established. It was intended to operate as follows.

**Objectives of the WMS.** The WMS exists to monitor the social impact of the Government's economic reform program and its contribution to poverty reduction, helping decision-making and planning. The WMS is built around an Annual Review of Social Trends and Welfare reflecting changes in the status of different population groups, and identifying key policy issues for further consideration. The system is designed to: (i) present a national and regional review of welfare indicators showing their spatial distribution and movements over time; (ii) identify poor and vulnerable groups that require targeted assistance; (iii) assess the short and medium term effects of macro-economic and sectoral policies and programs on the poor; and (iv) monitor changes in status of the poor and vulnerable population groups.

**Features of the WMS.** The WMS has supported the establishment of a Welfare Monitoring Unit (WMU) in MEDAC. The WMU is responsible for (i) coordination of the various elements of the system; (ii) creation and maintenance of the socio-economic database to facilitate the preparation of an annual Review of Social Trends and Welfare, and to support further analytical work and evaluation studies; (iii) analysis and policy advice, commissioning position papers on the social impact of Government policies, working with research agencies as well as private sector consultants; (iv) workshops and seminars at central and regional levels to disseminate and promote discussion of information generated by the monitoring system. The WMU also controls a Study Fund to support studies or surveys on specific issues relevant to the WMS. The Fund aims to promote and foster the development of in-country analytical and research skills, both in government agencies and independent research groups and the private sector. It may also be used to promote methodological innovation (including the application of beneficiary and participatory poverty assessments), and the development, testing and application of rapid low cost processes for data collection, entry and processing. The Central Statistical Authority is also a key player in the WMS and has received support to implement a household survey program designed to provide annual indicators to monitor welfare levels across the country.

**Institutional Structures and Responsibilities.** The WMS is overseen by a national inter-ministerial *Welfare Review Committee* (WRC) chaired by the Minister of Economic Development and Cooperation. The WRC should regularly review the policy implications of WMS reports. The *Welfare Monitoring Unit (WMU)* serves as the secretariat for the WRC. A small technical multi-agency *WMS Advisory Group* has been established and is chaired by the Head of the WMU, and with members drawn from line ministries, CSA, research institutions, and NGOs. The Advisory Group is to meet regularly to help ensure that implementation of the WMS benefits from a wide range of views and technical experience, and to review the quality of WMS outputs. The group may (i) contribute to the review of the Annual Review of Social Trends and the impact of economic and social policies and programs on welfare levels; (ii) contribute to the review of applications for use of the Study Fund and make recommendations to the Steering Committee; (iii) carry out a technical review of Study Fund outputs; and (iv) review and comment on questionnaires for household and community surveys implemented as part of the WMS. The *Central Statistical Authority (CSA)* is represented on the Advisory Group and is a major supplier of data for the WMS. The Welfare Monitoring System supports the strengthening of the CSA's capacity for data collection, data processing, data storage and dissemination. Sectoral Ministries and the DPPC also undertake data collection and analysis in their own sectors, and maintain their own information systems. The results of these analytical activities should also be fed into the WMS.

The WMS is intended to encourage stronger links between government agencies and research establishments such as the Ethiopian Health and Nutrition Research Institute (EHNRI), the Institute of Development Research (IDR) and the Economics Department of Addis Ababa University (ED/AAU). The Advisory Group includes representatives from the academic community, and the Study Fund is intended to help promote policy-relevant research. The WMU and CSA are also expected to provide technical support for building up regional welfare monitoring capacity.

### Box 3.4: Monitoring of Food Relief Requirements<sup>1</sup>

According to DPPC training manuals (dated March 2000) being prepared and circulated by the DPPC, the general method for assessment of those requiring relief is as follows.

(i) Monthly grass roots early warning information is sent from woreda "early warning units" in the woreda level of the Bureau of Agriculture (BOA) to zonal level. If this information reveals a serious situation, the woreda (through its Woreda Disaster Preparedness and Prevention Committee = WDPPC) is invited to apply for Woreda Relief Assistance on a special form which requires the following information:

- the total number for PAs (Peasant Associations) and the "affected" PAs in each agro-ecological zone in the woreda
- the total population of the affected PAs
- the degree of affectedness (on a 3-point scale)
- the percent of the population affected in each PA in each "degree of affectedness scale".

These lead to an estimate of the number of people affected which in turn leads to an estimate of the number "eligible for relief". The precise operating criteria for a household's eligibility seem to be locality specific (in many areas it is "not even having one ploughing ox") but guided by the general principle that to be eligible a household has to be:

- expected to experience a major fall in household income (below a "normal" level) AND
- unable to cope with the fall by its own coping mechanisms AND
- likely to face a significant fall in food consumption to the point of risk of starvation OR
- likely to have to take drastic measures such as the sale of essential assets so as to avoid starvation.
- the estimated duration (in months) of the relief required
- the start date for the required relief
- the estimated number of people not now eligible but requiring close monitoring of their condition.

(ii) These woreda level assessments of the need for relief are collected at zonal level, checked there for consistency and accuracy, and forwarded to the regional level (where the Disaster Prevention and Preparedness Bureaus act as the secretariat for the Regional Early Warning Committees) where the same procedure is repeated

(iii) The regional level may send out field assessment missions to clarify and adjust woreda and zonal-level demands. In any case it decides on the level of needs and forwards a request for relief to the National Early Warning Committee of which the Early Warning Department of the DPPC is the secretariat.

The National Early Warning Committee then in turn sends out inter-agency field assessment missions to the regions and these missions will visit a number of the woredas requesting assistance. In the light of these missions' reports the national Early Warning Committee makes decisions and in most years launches an appeal to donors.

<sup>28</sup> MEDAC, January 2001, *A Medium Term National Statistical Program for Ethiopia (2000/01 – 2004/05)*.

## EXPENDITURE TRACKING AND RESULTS MONITORING IN EDUCATION AND HEALTH

### Introduction

4.1 The education and health sectors have a prominent role in Ethiopia's poverty reduction strategy. Sector-wide strategies have been developed and the management frameworks for both the Education Sector Development Program (ESDP) and the Health Sector Development Program (HSDP) are innovative in the way they seek to coordinate federal and regional activities with aid agencies' support. Both ESDP and HSDP have a system for monitoring and review of performance, with efforts to track results as well as expenditures. These sectors therefore offer important insights into the poverty focus of services, expenditure levels and shares, the ability to track expenditures and monitor results, and the respective roles of federal and regional bodies. There are also important lessons to be drawn about effective aid management.

4.2 This Annex summarizes the detailed findings on which the main Chapter's overall conclusions are based. For both ESDP and HSDP, the Mid Term Reviews, which were carried out in March/April 2001 by mixed teams provided by government and donors, are the principal source of the information presented here.<sup>29</sup>

### Institutional Responsibilities and Expenditure Shares

4.3 In both these sectors the lower levels of service provision, and hence the bulk of public expenditures, are a regional responsibility. However, the inter-relationships between federal and regional levels are complex. The constitutional framework requires the regions to follow national policies even though the federal government does not specify regional budgets in detail or even earmark the federal subsidy to particular sectors. Comprehensive Sector Development Programs (ESDP and HSDP) were initiated in 1997/98. The initiative came from the Ethiopian government, which had prepared 20 year strategies for each sector, and details of the first five-year phases were worked out through intensive collaboration between the federal and regional sector bureaus in dialogue with a series of joint donor technical assistance missions.

4.4 Key features of the SDPs were:

- Detailed expenditure programs for 1997/98–2001/02 were developed. These specified recurrent and capital expenditure targets for each region and the federal government, broken down by year and by broad components of expenditure. Expenditure projections included donor as well as domestic funding.
- For each sector a monitoring system was specified, focused on a core set of performance indicators.

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<sup>29</sup> See *Report of the Mid Term Review Mission, 7 February to 8 March 2001*, Ethiopia Health Sector Development Programme 1997/98–2001/02 (EC 1990–1994), 8<sup>th</sup> March 2001, and *Mid Term Review Mission February 13<sup>th</sup> – March 3<sup>rd</sup> 2001*, (2 volumes), Ethiopia Education Sector Development Programme 1997/8 – 2001/2.

- Governance mechanisms were established, in which a Central Joint Steering Committee (CJSC), chaired by the Minister for Social and Administrative Affairs in the Prime Minister's Office (PMO), brings together government and donors to oversee and coordinate the two programs. Regional Joint Steering Committees perform similar functions in the Regions. Each year joint review missions (JRM) are conducted, prior to an Annual Review Meeting (ARM) of federal, regional and donor stakeholders.
- Expenditure tracking became a prominent concern, not only for the purpose of reporting on SDP expenditures as a whole, but also for tracking earmarked funds disbursed (by the World Bank) through Channel 1b.

4.5 Thus, as well as being intrinsically important, these sectors offer practical lessons of experience on expenditure tracking and performance monitoring undertaken jointly by Government and donors. Implementation of the SDPs, and, in particular, donor participation, was severely disrupted by the conflict with Eritrea. This experience, too, offers general lessons about the management and targeting of aid which are developed in Chapter 4 of this PER.

### **Poverty Relevance of Expenditures**

4.6 Education and health are identified as priority sectors for poverty reduction, and feature strongly in Ethiopia's Interim PRSP where "a healthy, literate and active labor force" is identified as critical for enabling society "to carry out its economic activities and to effectively shoulder its political and social responsibilities". Primary health care and primary education are identified as especially poverty-targeted, given the larger numbers of poor people who use services at this level, compared with their use of higher levels of provision. Even by African standards, current welfare indicators in Ethiopia are poor partly because of extremely low levels of health and education provision.<sup>30</sup>

4.7 The first objective for both SDPs is to increase service coverage at primary levels so as to ensure greater access by a higher percentage of the population and of the poor. From an equity point of view, both programs explicitly identify a need to redress acute shortfalls in provision in rural areas and in the Emerging Regions, and to give attention to gender. At the same time, the programs recognize the importance of providing quality services so as to achieve a positive and sustained impact on welfare. For monitoring purposes, the programs have agreed a range of indicators to measure both access to and quality of provision, and these have been reported on annually.

### **Expenditures and Expenditure Tracking**

4.8 The Mid Term Review's (MTR's) principal findings on ESDP expenditures were as follows:

- Absolute levels of expenditure. In spite of the country's difficult situation, Government expenditures, 4,842 million birr, were slightly higher than the 4,748 million birr projected. However, considerably more resources than initially planned have gone to federal programs and less to regional

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<sup>30</sup> For example, Collier et al report government expenditure on health during the 1990s, at \$1.4 per annum per capita, as among the lowest in the world. (see *Density versus Quality in Health Care Provision: the use of household data for budgetary choices in Ethiopia*, Collier, P., Dercon, S. and Mackinnon, J. June 2001, CSAE Working Paper, Oxford.)

programs. Donors were expected to provide about 28 percent of total funding. Donor disbursements were between \$114 million and \$150 million (depending on whether or not overall budget support attributable to education is included) during the first three years of implementation, which was only about 40–50 percent of the \$284 million indicated in the PAP for this period.

- Sector share of total expenditure. It was planned that education's share of the national budget would increase throughout the ESDP period from 14.6 percent in 1996/97 to 19 percent in 2001/02. Instead it fell to 14.3 percent in 1997/98, then to 11.9 percent in 1998/99 and to a low of 10.5 percent in 1999/2000. The decline in sector share was not due to a reduction in Government spending on the sector, but rather to the increase in expenditure on other sectors, including defense, and the shortfall in donor funds.
- Composition of expenditures. There was a substantial departure from the original expenditure priorities. Federally managed programs (i.e. tertiary level education) have spend 21.5 percent more than planned over the three year period, while the regional States have spend 28.5 percent less. It was initially expected that the federal programs would use 16.9 percent of available resources over the first three years of ESDP implementation but in fact have used 25.1 percent. The under allocations and expenditures at the regional level are partly due to a reduction of Federal subsidies to the regions since the beginning of the program. In 1997/98 the block grant to the regions was 5,443 million birr. This fell to 3,142 million birr by 1999/2000 (it has risen to 4,418 million birr in the 2000/01 FY budget).
- Efficiency of expenditures. The squeeze on funding has meant that educational institutions have not received adequate funding for non-salary expenditures.
- Quality of expenditure reporting. In order to encourage donors to provide budgetary support to ESDP through channel 1, it was essential that all resources provided to the educational sector from whatever source, in whatever form, at whatever level be accounted for very soon after the end of each fiscal year. On the basis of these accounts, there would be a sector wide audit which would provide channel 1 donors the assurances that their funds were being effectively utilized for education. Unfortunately regional accounts are taking one or two years to be closed, and this may have discouraged donors from providing budgetary support. Regional accounts are nevertheless being closed increasingly rapidly. An overall summary of ESDP expenditures (collated by MOF) has been available 6–8 months from the end of the FY, but regions cannot relate this precisely to their budgets, and the figures do not give all the desired breakdowns. The original intention to have expenditure figures audited by the Federal Auditor General has not been realized. (The annual Joint Review Mission provides a performance review but is not a formal financial audit).

#### 4.9 The MTR findings for the HSDP are similar:

- Levels and shares of expenditure. Overall budgetary allocations to the health sector increased over the three years of the HSDP, despite a shift within the budget towards defense expenditures in EFY 1991 and EFY 1992. Absolute levels of health expenditure have not increased in every region, but, overall, health as a share of regions' total budget has increased. Nevertheless,

allocations to the sector, in every region, have remained below HSDP projections, with capital and recurrent expenditure at 76 percent and 62 percent of target.

- Composition and efficiency of expenditures. The cut-backs have been primarily absorbed in non-salary recurrent expenditures. As a result, recurrent expenditures have not been commensurate with the expansion in the sector. Also, allocations to the components of the HSDP that are of a supporting nature (monitoring and evaluation, health sector management, HMIS and operational research, and health financing initiatives) have been extremely low and related activities consequently slowed down. Actual expenditures have been even lower due to difficulties in utilizing donor funds. The overall result is that while there has been steady expansion, serious shortages in funding are evident at the facility level, particularly in recurrent expenditures, e.g. for per diems and drugs, resulting in under-utilization of the facilities.
- Quality of expenditure reporting. Financial information (along with drug-related information) is one of the weakest elements of the management information system. The regional and donor dimensions of expenditure pose a particular challenge. While donor procedures require reporting on utilization of funds at the national level and government budgetary procedures require more accurate information than presently available on the flow of donor resources (in the case of channels 2 and 3), fiscal responsibilities and authority has been devolved to the regions and in some cases even to the zonal levels. Financial information does not necessarily flow up the system. The MTR thus encountered delays and gaps in financial reporting resulting in parallel systems and off budget allocations, interruptions in the flow of resources due to inadequate reporting on the use of advances, as well as inconsistencies in financial accounts at different levels of the system. Shortage of trained staff has been shown to delay the disbursement, accounting and reporting of fund utilization. Another consideration is that the structure of the government budget, financial reporting and associated organizational structures differ from HSDP components (particularly in the case of the recurrent budget). It is therefore difficult to track expenditures in accordance with the HSDP budget categories. Thus, in the event that donor resources are fully integrated into the budget, as is the vision under channel 1 arrangements, the extent to which such resources contribute to the various components of the program is unclear.

#### **Issues in Performance and Impact of Expenditure (Education)**

4.10 The following objectives were defined for the first phase of the ESDP:

- Increasing *access* to primary education by expanding enrolments from 3.1 million to 7 million.
- Increasing *equity* by increasing the number of schools in rural areas and increasing the number of girls enrolled.
- Improving *quality* by providing a text book for each child in core subjects and improving teacher training.
- Improving *relevance* by reforming the curricula.

- Increasing education's *share of the budget* and encouraging private sector and community financing.

4.11 Education's performance indicators show that of these only access has been achieved so far during Phase 1 with 6.5 million children enrolled in Grades 1–8 in 1999/2000. Indicators of quality declined in most respects over the same period, with particular shortfalls in the numbers of qualified primary school teachers and of text books, and with increases in class sizes. As a result primary school dropout rates in 1999/00, at 18.9 percent, were more than four times the 2001/02 target of 4.2 percent and the repetition rate for grades 4–8, at 12.9 percent, was double the 2001/02 target of 6.4 percent. A survey conducted by the National Organization of Examinations reported poor performance of students at Grade 4 as measured by competence in English language, environmental science and in reading comprehension. In terms of equity, the gross primary enrolment rate in the two most under-served areas stood at 8.5 percent as against a 2001/02 target of 25 percent. Girls' share of primary enrolment rose from a baseline figure of 38 percent to 39.2 percent, as against the 2001/02 target of 45 percent, and girls' participation shows a progressively declining trend through the higher levels of the education system.

4.12 Lack of qualified teachers, of management capacity, and of equipment and transport were identified at all levels as the main problem hindering implementation. Another relevant issue here was limited involvement by the private sector in publishing text books, with poorer quality books being produced as a result. Paying attention to increasing capacity was identified as the main priority for the ESDP in its next phase. As noted earlier (¶4.9) delay in closing regional accounts has discouraged donors from providing funds through channel 1. This further reduces the funds available to enhance capacity.

4.13 Overall, the Mid Term Review came to the following key conclusions:

- Children had been encouraged to enroll in school even though there were insufficient resources or funds for operational costs, with consequent decline in quality of service and outcomes.
- A new, less poverty-targeted focus had emerged of expansion in the tertiary sector.
- Capacity shortfalls in all departments and at all levels were the main obstacle to effective implementation.

#### **Issues in Performance and Impact of Expenditure (Health)**

4.14 Similar objectives were identified for the first phase of the HSDP as for the ESDP. These were:

- Increasing *access/coverage* of health facilities and therefore of utilization.
- Improving service *quality* through training and an improved supply of essential inputs.
- Strengthening *management* of health services at Federal and Regional levels.
- Encouraging *participation* by the private sector and NGOs by creating an enabling environment for participation, coordination and *mobilization of funds*.

4.15 The review found that there had been a steady increase in the number of health facilities being provided nation wide and – with an emphasis on health posts and centers – that a focus on

primary levels of care had been maintained. The number of hospitals, at 78, exceeded the 2001/02 target figure of 66, and there was an enormous increase in health posts from 67 to 833. Expansion of health centers was 44 percent of target: to 338 from a baseline of 243 in 1996/97 and against a 2001/02 target of 459. Numbers of health stations, which were due to be phased out in favor of health posts, remained more or less at their original level, reflecting popular preference for facilities that offer curative as well as preventive services.<sup>31</sup>

4.16 The public's utilization of the services, however, did not match the expansion in physical provision and grew no faster than the population growth rate of 2.9 percent. Outpatient visits thus remained unchanged at about 27 new consultations per 100 persons per year, contraceptive use rose from 9.8 percent in 1996/7 to 10.8 per cent in 1999/00 compared with the 2001/02 target of 20 percent. All immunization rates except for polio registered a decline. For example, DPT3 coverage of children under 1 year old declined from 67 percent to 38 percent and TT2 coverage of pregnant women from 32 percent to 26 percent between 1996/7 and 1999/00. It was noted that there is no budget line for immunization in regional budgets, which makes the program very dependent on outside funding; regional councils should consider providing regional funds for EPI activities.

4.17 The review found that, so far, the HSDP had had limited impact on the delivery of basic health care to mothers and children, and had made slow progress in implementing child health activities. Malnutrition was noted as one of the most common problems affecting children and adults, with more than half of under-5s being stunted. The review noted the complex causes of malnutrition (poverty, inadequate care, low levels of female education, natural and manmade disasters) and the lack of effective focal points for nutrition in the RHBs. The Review pointed to the need for a concerted response to malnutrition, coordinated with other relevant bodies like the Ministry of Agriculture.

4.18 The quality of care available in health facilities is constrained by a lack of staff capacity, reckoned both in terms of numbers and in terms of skill levels. Ethiopia has an average of 20 trained health workers for 100,000 people which is extremely low even by African standards.<sup>32</sup> Furthermore, there are significant disparities in provision so that some Regions fare considerably worse: 17 and 28 doctors per 100,000 in Addis Ababa and Harari respectively against 2 per 100,000 in Somali. Particular areas of concern are shortages of midwives and junior nurses. Given the range of problems presented at health posts, stations and centers, the Review also recommended that a cadre of general nurses should be created for the lower levels of the service who would provide more effective treatment than the existing first level health workers. The Ministry of Health has taken a number of initiatives to encourage, motivate and retain staff, and staffing levels are projected to double over the next 10 years. Notwithstanding this, the Review estimates that acceptable staffing levels will not be attained within 25 years.

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<sup>31</sup> Health posts are intended to deliver preventive care and to carry out public health activities.

<sup>32</sup> The Review notes averages of 100 trained health workers for 100,000 people in Uganda and almost 200 to 100,000 for Tanzania.

## ROAD SECTOR POLICY AND INSTITUTIONS

### Introduction

5.1 Roads represent a major expenditure commitment and are considered one of the "pro-poor" sectors. This Annex provides the background to the issues which are discussed in the main chapter. It summarizes the institutional framework, notes the performance indicators in use, and also describes the Rural Roads and Transport Strategy (RRTS) and the Road Fund.

### Institutional Framework

5.2 The main institutions responsible for investment in and maintenance of the road network are (a) the Ethiopian Roads Authority (ERA), responsible for overall sector planning, for development and maintenance of the federal road system, and for overseeing and extending technical support to Regional Road Agencies; (b) the regional Rural Road Authorities (RRAs), responsible for rural (feeder) roads; and (c) the Road Fund which started operating in 1998, and finances road maintenance of both federal, regional and municipal roads with income from earmarked fuel taxes (to be supplemented from other sources in the future).

5.3 Roads can be grouped roughly into four categories: trunk roads, link roads, regional roads (also called rural roads) and village level rural roads. Of the total road network of 30,000 km (excluding village level roads), 16,000 km are trunk and link roads administered by the ERA. The Federal Government accounts for roughly three quarters of total government spending on roads, which is allocated to the ERA. In selecting road projects, the ERA relies primarily on the expected economic rate of return.<sup>33</sup> Most of federal road construction work (almost 90 percent in 2000/01) is contracted out to international and local sector, with the ERA concentrating on contract management. It supervises and provides technical support to the regional RRAs, four of which (in Gambela, Benishangul, Afar and Somali regions) are quite weak.

5.4 At present, the income of the Road Fund consists of the earmarked fuel levy and of the sales and municipal tax on fuel. The sales tax has been assigned to the Fund as a proxy for the Government's contribution towards covering the cost of the maintenance backlog. It is meant to be replaced by increases in the fuel levy and other specified, but as yet unused, sources of funds in the future. The Road Fund allocates its resources according to a formula: 70 percent to the ERA, 20 percent for regional roads and 10 percent for municipalities.

5.5 As in health and education, there is a comprehensive sector development program, designed to incorporate both government and donor funded activities. The 10-year Road Sector Development Program (RSDP), covering the period 1997-2007, sets out the Government's strategy for development of the road system and spending priorities for both the Federal and Regional governments. However, the RSDP is administratively simpler, and less radical in its approach to aid management, than ESDP and HSDP. The more straightforward technology, the large size of individual projects, and the dominant role of the federal agency (ERA) means that

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<sup>33</sup> The RSDP1 *Mid Term Review and Revised Implementation Plan* (p13) notes also that project priorities were set in the following order of importance based on their facilitation of:

- access to the ports
- access to the existing resource areas
- access to new resource areas
- access to food deficit areas
- balancing of the distribution of rural infrastructure among regions

the RSDP mainly comprises a coordinated set of projects which are financed in traditional project fashion by individual donors.

## **Expenditures and Expenditure Tracking**

### *Financing of expenditures*

5.6 Roads construction, rehabilitation and maintenance are financed through three channels: (a) allocations from the Federal budget to the ERA for road construction, upgrading and rehabilitation; (b) allocations from Regional budgets to the respective Rural Roads Authorities for construction of rural roads; and (c) allocations from the extra-budgetary Road Fund to the ERA and the RRAs for road maintenance. In 1999/00, government expenditure on roads of Birr 1 billion accounted for some 8 percent of the total budget, to which must be added a further Birr 250 million (equivalent to 2 percent of the budget) from the extra-budgetary Road Fund for road maintenance.

5.7 RSDP I (1997-2002) focuses on rehabilitation, upgrading and maintenance of federal roads (accounting for three quarters of planned expenditure) as well as construction and maintenance of regional (rural) roads. Disbursements to date are shown in Table 5.1 below. The Mid Term Review of the RSDP shows implementation delays for the federal program, but regional investment well in excess of targets. Regions financed some 2000 km of rural roads more than was planned, evidence of the high priority attached to improving the rural road network. Maintenance expenditures were financed through the Road Fund.

5.8 The bulk of funds for road construction/rehabilitation and maintenance have been spent on the federal network, while village level rural roads have received no allocations under the RSDP for either expansion or maintenance, in part because it was still under formulation during the RSDPI period. These past few years show signs of a drive towards greater efficiency and cost-effectiveness in the use of funds for road development as evidenced by: (a) the preparation of the RSDP; (b) the establishment of the Road Fund, resulting in increased and sustainable financing of maintenance; (c) improved management of resources by the road authorities, which have become more accountable and performance oriented (greater reliance on private contractors, establishment and monitoring of performance indicators, establishment of technical and financial audit system).

**Table 5.1: Total Disbursement Under RSDP I, 1997/98–1999/00**

	Construction*	Maintenance	Other	Total	%
Federal	2,396	367	234	2,997	74
Regional	925	110		1,035	26
Total	3,321	477	234	4,032	
%	82	12	6		100

\* Includes rehabilitation and upgrading.

### *Tracking expenditures on roads*

5.9 Virtually all government expenditure on roads can be tracked through the federal and regional budgets, which show allocations to the ERA and the RRAs, and through the Road Fund. Some spending on roads may be included elsewhere in the budget, as part of projects in other sectors (e.g. access roads) while DPPC spending on roads would be extra-budgetary. Some bilateral projects that bypass the budget may include outlays on roads. However, such expenditures are thought to be minor (it should be possible to track most of these once the new budget format is in place). There is no reliable information on road expenditures funded by NGOs.

5.10 The ERA has received a great deal of technical assistance to improve accountability and performance. It prepares monthly technical and financial progress reports. Quarterly reports are prepared for individual donor-financed projects. ERA's Monitoring and Evaluation branch regularly monitors the progress of the various components of the RSDP. With regard to road

maintenance expenditures, the Federal network is split into ten maintenance districts, each of which is a self-accounting unit. With the help of assistance by GTZ, these districts will soon enter into performance agreements with ERA's Operations Department. A system of technical and financial audit is also being introduced by the Road Fund.

## Performance Indicators

5.11 The ERA annually monitors the impact of the RSDP by tracking changes in 16 indicators (see Table 5.2). Baseline data for most of these indicators were collected in 1997. Five indicators have been selected for possible use in monitoring the impact of public expenditure on roads: road density by type of road, vehicle kilometers traveled, roughness and road condition, vehicle operating costs and freight and passenger tariffs. ERA is also considering inclusion of three more indicators: employment opportunity, income generation and improvement in skill levels.

**Table 5.2: Roads Sector Monitoring Indicators**

Indicator	Description	Index/Ratio	
		1997	2000
Road density	A: index per 1000 km <sup>2</sup>	22.8	27
	B: index per 1000 population	0.45	0.5
Traffic flow	Total adjusted vehicle km	100.9	115.2**
Roughness and road condition*	Roughness: paved	110.8	117.0
	Gravel	102.5	125.5
	Road condition (%): paved (good)	22	19
	" (fair)	23	12
	" (poor)	55	69
	Gravel (good)	20	2
	" (fair)	30	20
	" (poor)	50	78
Vehicle operating costs	VOC index	100	148.5
Freight and passenger tariffs	Unit price index		
	Trunk roads: passenger	100	135.6
	Freight	100	114.3
	Regional roads: passenger	100	97.8
	freight	100	442
Accident rate	Accidents per 1000 vehicle km	2.3	2.59**
ERA budget and expenditure	A: maintenance budget/total budget	0.159	0.146
	B: actual maintenance budget	100	236.2
	C: actual maintenance exp/maintenance	0.603	0.878
Kms under routine maintenance	Federal roads	100	85.6
	Regional roads	100	156.9
Maintenance budget/mtnce need	Maintenance budget/theoretical cost of	0.55	0.53
Time for payments	Payments ratio: consultants	1.38	0.9
	contractors	1.25	0.4
Time for contract administration	Feasibility study	1.74	0.59**
	Approval of feasibility study	1.20	1.83**
Contract work/total construction wk	Ratio priv.sector/total construction (kms)	0.47	0.45
Labor-based/total construction	Ratio (kms)	0.34***	0.29
Axle load: overload/legal	Ratio overload/within legal limits: front axle	0.02	0.03
	Rear axle	1.01	0.8
Unit costs	Construction: paved	100	
	Gravel	100	131.9
	Rehabilitation: paved	100	68
	gravel	100	140
	Routine maintenance: paved	100	200
	gravel	100	200
Journey time	Light vehicle: paved	100**	90
	Gravel	100**	104.6
	Heavy vehicle: paved	100**	97.7
	Gravel	100**	103.2

Roughness and Road Condition Figures are based on a sample of 2000 km of roads surveyed

## **Rural Roads and Transport Strategy**

### *Evolution of rural transport strategy*

5.12 Of all public expenditure on roads, the rural road program may be of most direct benefit to the poor. While the focus of RSDP I was on the federal road network, RSDP II (2002-2007) is intended to stress development of rural roads, including village level rural roads. The broad framework for rural transport development is set out in the Rural Road and Transport Strategy (RRTS). The findings of the Village Level Travel and Transport Study (VLTTS) helped to gain a better understanding of transport problems at the village level and have been used to develop an approach (the RTTS) towards reducing the village level transport burden as part of the broader Rural Roads and Transport Program (RRTP). The Rural Roads and Transport Strategy (RRTS) addresses the problems of rural transport through a program (RRTP) that combines investment in infrastructure, institutional changes, capacity building and the development of new financing arrangements. The Rural Travel and Transport Program (RTTP) is part of this broader program and focuses on transport development at the village level.

### *Rural Travel and Transport Program*

5.13 The RTTP includes three main components: (a) expansion of the village level road system; (b) an increase in conventional and intermediate means of transport; and (c) assistance towards the citing of socio-economic facilities (water points, schools, grinding mills etc.) that would reduce the transport burden of rural communities. Targets have been set for the entire (high and low level) rural roads program. They are: (a) to reduce the proportion of farms that are more than half a day's walk from an all-weather road from 65 percent to 25 percent by 2007; and (b) to reduce the average distance of rural households from any type of motorable road from 6 hours to 3 hours.

5.14 In marked contrast to the rest of the RSDP program, which is largely centrally planned and financed from the budget, the RTTP relies on the initiative, and to some extent on the financing, of local communities. The rationale for this approach is that priorities for local roads are best decided upon by the communities themselves, and that their financial contribution would ensure ownership of the roads and hence responsibility for maintaining them. Special emphasis will be given to the use of labor intensive methods in the development and maintenance of village level roads as a way of generating income in rural areas.

5.15 The RTTP structure. Village Development Associations (VDAs) will be responsible for planning and implementing local road projects as well as for mobilizing funds. Roads serving several villages will be the responsibility of the Woreda Development Committees (WDCs), who also play a coordinating role regarding village level projects and resource mobilization. At the regional level, Regional Steering Committees (RSCs) will guide and monitor the execution of the rural transport program. The RRAs will assist the RSCs and provide back-up support to the WDCs and VDAs. Finally, at the national level the Central Coordinating Board (CCB) carries overall responsibility for the planning and coordination of the RTTP, assisted by the ERA.

5.16 Resource mobilization. The funding for the development of rural roads and transport is expected to come from various sources. Central to it will be the contribution from communities in the form of labor, materials and cash, which is to be channeled through Community Rural Development Funds to be established at woreda level. Additional resources would come from the regional rural roads budget, which would include donor funding, and from the Road Fund, NGOs and possibly the DPPC. These same sources of funds would be expected to finance the investments in socio-economic facilities (schools, health posts, boreholes etc.) that are an integral part of the effort to reduce the rural transport burden.

5.17 RTTP Implementation. The RTTP contains several new features that require careful preparation if the program is to be implemented successfully. Villages and woredas are not

accustomed to playing an active role in making investment decisions and in raising funds for their projects. The proper functioning of the institutional structure, with responsibility for planning, execution and monitoring split between various levels of authority, and with the ERA and RRAs playing a supporting role, needs to be tested. To gain experience with the program and draw lessons before implementing it nation wide, a pilot project will explore the difficulties involved in planning, formulating and executing investments in rural roads and related areas at community level as well as issues concerning mobilization of local resources. Eight woredas have been selected to serve as demonstration models. In parallel, manuals will be prepared to assist communities in dealing with administrative, technical and operational aspects of the RTTP. While VDAs and WDCs will plan and implement road projects, regional sector bureaux are planning investments in related areas (health posts, schools, water points). These plans, prepared at different levels, need to be carefully coordinated.

## The Road Fund

5.18 The Road Fund was established in 1997 and started functioning, i.e. providing funds for road maintenance, in 1998. The Fund was set up to ensure that adequate and sustainable resources would be available for proper maintenance of the road network. Road user charges, based on the fee-for-service principle are its main source of income. These consist, apart from a government budget allocation, of a fuel levy, vehicle license renewal fee based on axle load, fines from overloading and any other road tariffs that may be levied in future. Currently, the Fund relies only on a fuel levy and a contribution from the Government, which is meant to cover the cost of dealing with the maintenance backlog at the time the Fund was established. As a proxy for its contribution, the Government has assigned the sales tax on fuel to the Fund. In addition, the Fund receives the municipal fuel tax as a proxy for financing the maintenance of municipal roads. As the Road Fund started collecting the levy and taxes on fuel a year before it started operations, and as initially its annual income exceeded its disbursements, it currently has a substantial positive balance. At the end of 1999/00, it had total resources of Birr 727.8 million against total disbursements for maintenance of Birr 524.6 million (see Table 5.3).

**Table 5.3: Road Fund Operations (Birr million)**

	1997/98	1998/99	1999/00	2000/01
Collection of fuel taxes	328.9	181.9	217.0	
Allocations	163.0	212.0	264.2	250.0
Of which to:				
ERA	(118.0)	(152.0)*	(194.2)*	(169.8)
RRAs	(30.0)	(40.0)	(40.0)	(48.5)
Municipalities	(15.0)	(20.0)	(30.0)	(24.2)
Road safety				(7.5)
Disbursements	158.9	117.5	248.2	

Includes allocations for emergency maintenance of Birr 12m. in 1998/99 and 54m. in 1999/00.

### *Maintenance needs*

5.19 The assessment of total maintenance needs takes into account road length and unit maintenance costs by category of road (trunk, link or rural road) and type of maintenance (routine or periodic). These past few years, efforts have focused on routine maintenance due to the limited capacity of the road authorities. A good deal of periodic maintenance needs is being taken care of as part of the ongoing rehabilitation and upgrading of the road network. With reliance on private contractors growing, expenditure on periodic maintenance is expected to increase. Total routine maintenance costs are expected to fall as the share of improved roads in the total road network increases as a result of ongoing and planned rehabilitation and upgrading of roads at both federal and regional level. The Maintenance Action Plan for the next five years foresees an initial sharp rise in the cost of periodic maintenance to be financed by the Fund. However, as in the case of routine maintenance, unit costs, and hence total costs are expected to fall significantly over the next few years as a result of the ongoing road rehabilitation and upgrading works.

### *Allocation criteria*

5.20 The Road Fund allocates resources to the ERA and regional road authorities on the basis of a formula: 70 percent for federal, 20 percent for regional and 10 percent for municipal roads. The ERA has split the country into 10 districts and shares the 70 percent between districts based on the length and condition of the road network in each district. The regional share of 20 percent is split between the individual regions on the basis of road length. Regions receive funds for at least a minimum road length, which benefits those with a road network below the minimum.

### *Implementation capacity*

5.21 While most maintenance used to be undertaken in-house, a growing share is contracted out to the private sector. The pace of the shift to private contractors is limited by capacity constraints, both in the private sector and in the ability of road authorities to manage contracts. Technical assistance is being provided to strengthen the latter. However, for the time being, maintenance needs are not being met and as a result Road Fund allocations have not been fully utilized. Over the past three years, actual expenditures as a percentage of the Road Fund allocation were 83 percent for the ERA, 79 percent on average for the RRAs and 82 percent for the municipalities<sup>34</sup>. No disbursements for maintenance were made to Afar, Gambela and Somali regions during the first three years of the Road Fund, underlining a substantial difference in implementation capacity between the regions.

### *Indicators*

5.22 The performance of the maintenance system is regularly monitored through the use of two indicators, one measuring roughness of the surface (IRI) and the other the overall road condition. The latter classifies roads according to their condition as 'good' 'fair' or 'poor'. There has been a significant increase since 1997 in both paved and gravel roads classified as being in 'poor' condition.

### *Financial control and performance evaluation*

5.23 Each Road Authority has a separate account into which disbursements by the Fund are deposited. Unlike budgetary appropriations, Road Fund allocations, if unused, can be carried forward to the next year. Road Authorities have to submit annual maintenance work programs to the Road Fund Board for approval. This consist of a detailed physical work program and a financial plan showing cash flow needs. Physical and financial progress reports have to be submitted before payments are made. The ERA receives monthly payments based on performance payment certificates, while quarterly payments to the RRAs are based on quarterly cash flow programs.

5.24 The Road Fund's revenues and its associated expenditures are not appropriated nor are they incorporated in the Government's financial statements. However, the operating expenses of the Office of the Road Fund Administration that are met by the federal government are appropriated. This is a safeguard against extravagant use of road fund revenues for administrative overheads.

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<sup>34</sup> These figures overstate the implementation capacity as expenditures include purchase of some equipment.

## TAX AND EXPENDITURE ASSIGNMENTS

### **Budgetary Resources**

6.1 Budgetary resources at the regional level are drawn mainly from three sources: Regions' own revenues derived from tax and non-tax sources assigned to them under the Constitution, federal devolution, customarily called treasury subsidies, which are driven by a formula (discussed in detail in Appendix 6) and external aid. Although federal financial regulations require that all external aid be channeled through the federal consolidated fund, a significant proportion of aid flows to the regions directly. This happens for a variety of reasons, most notably due to the budget offset system, whereby the formula based federal subsidy due to each region is reduced by an amount equal to the expected aid flow to the region in the year.<sup>35</sup>

### **Sub-national Borrowing**

6.2 Article 51 of the Constitution empowers the regions to 'borrow from internal sources' subject to terms and conditions set by law. According to a 1992 proclamation predating the Constitution, the only law to date on the subject, a region could borrow for projects that have a feasibility study showing its ability to repay the debt and subject to approval by the federal government. Presumably the federal decision will depend on the merits of the project and the ability to repay the debt although this is not clear since no region has reportedly made such a request so far. It is also not clear where the regions are to borrow from – the federal government, the National Bank of Ethiopia (the central bank), or commercial banks. Given the problems that sub-national borrowing has caused in terms of macroeconomic management in other federation, this is an option that should be pursued with caution.

### **Tax Assignment**

6.3 Table 6.1 shows the assignment of tax and non-tax revenues between the federal and regional governments as well as concurrent powers of taxation as mandated by the Constitution (Articles 96-98).

6.4 There are some noteworthy points in the arrangement of tax assignment. First, the federal government has exclusive jurisdiction over international taxes, as is the case with all federations, as also over a lion's share of the domestic indirect tax base. The share of the regions is concentrated mostly in direct taxes and land use fees. Second, in the case of public enterprises, by far the largest contributors to domestic taxes, jurisdiction is determined by the type of tax payer rather than the type of tax. For example, the federal government taxes the income and sales of federal public enterprises and the regions of the regional public enterprises. Third, the formula for sharing joint revenues is not yet settled. So far the federal government has been levying and collecting these taxes and sharing them with the regions on an ad hoc basis. As of now, these are relatively small in value, but their sharing could become potentially important as the volume of revenues grows. Finally, the residuary powers of taxation are not pre-assigned to the federal or regional governments, but are to be assigned by a joint decision of both houses of the federal parliament.

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<sup>35</sup> The rationale for the offset, the problems it creates in practice and the way forward to reform are also discussed in Appendix 6.

**Table 6.1: Federal-Regional Revenue Assignment**

Article 96: Sources of Revenue – Federal	Article 97: Sources of Revenue - Region	Article 98: Sources of Revenue – Concurrent
1. Customs duties, taxes, and other payments levied on imports and exports.	1. Tax on incomes of regional and private sector employees.	1. Taxes on jointly-owned enterprises.
2. Taxes on the incomes of federal government employees, and Ethiopian employees of international organizations.	2. Fees for usufructory land rights.	2. Taxes on corporation profits and shareholder dividends.
3. Taxes on federal government enterprises.	3. Taxes on the incomes of private and incorporated farmers.	3. Taxes on large scale mining, petroleum and gas operations.
4. Tax on the proceeds of national lotteries and related ventures.	4. Taxes on the profits of resident merchants.	
5. Taxes on the proceeds of road, air, rail, water, and sea transport services.	5. Sales tax.	
6. Rental incomes from federal government houses and properties.	6. Water transport fees within the Region.	
7. Federal license fees.	7. Rental incomes from regional government houses and properties.	
8. Income from federal monopolies.	8. Taxes on regional government enterprises.	
9. Stamp duties.	9. Taxes on small-scale mining operations.	
	10. Regional license fees.	
	11. Royalties on the use of forest resources.	

### Federal-Regional Tax Shares

6.5 The heavy tilt in tax revenue in favor of the federal government can be seen from Table 6.2 which shows the relative federal and regional shares in the aggregate revenues. The share of the regions has been stagnant in the range of 18-20 percent. The main reason for the large federal share is self-evidently its predominance in the total indirect tax base which is far larger than the direct tax base. For instance, the federal government collects 100 percent of import duties and over 80 percent of domestic indirect taxes which together have a share of over 60 percent in the aggregate tax base. The revenues of the regions are concentrated in direct taxes, which have a share of less than 40 percent in the total tax base and which have been less buoyant than indirect taxes.

**Table 6.2: Shares of Federal and Regional Governments in Revenues 1997 - 2001**

Category	1996/97 <sup>[1]</sup>			1997/98			1998/99			1999/00			2000/01 (Program)			2000/01 (Prel. Actual)		
	Federal share	Regional share	Total (Birr m.)	Federal share	Regional share	Total (Birr m.)	Federal share	Regional share	Total (Birr m.)	Federal share	Regional share	Total (Birr m.)	Federal share	Regional share	Total (Birr m.)	Federal share	Regional share	Total (Birr m.)
<b>Tax Revenue</b>	<b>81.9</b>	<b>18.1</b>	<b>5359.3</b>	<b>79.5</b>	<b>20.5</b>	<b>5268.5</b>	<b>80.7</b>	<b>19.3</b>	<b>5591.4</b>	<b>80.5</b>	<b>19.5</b>	<b>6482.2</b>	<b>82.4</b>	<b>17.6</b>	<b>8061.3</b>	<b>81.3</b>	<b>18.7</b>	<b>7446.2</b>
<i>Direct taxes</i>	61.2	38.8	1906.4	54.4	45.6	1869.3	56.4	43.6	2008.5	58.2	41.8	2367.0	56.9	43.1	2730.0	58.2	41.8	2737.3
Income and profit tax	66.7	33.3	1748.8	61.4	38.6	1655.9	61.8	38.2	1833.3	63.5	36.5	2168.8	65.2	34.8	2383.9	63.7	36.3	2500.1
Indirect tax	82.1	17.9	1289.4	80.6	19.4	1180.9	83.0	17.0	1204.3	81.0	19.0	1439.4	85.0	15.0	1663.9	82.0	18.0	1384.9
Foreign trade taxes	100.0	0.0	2163.5	100.0	0.0	2218.4	100.0	0.0	2378.5	100.0	0.0	2675.8	100.0	0.0	3220.9	100.0	0.0	3324.0
<b>Non-Tax Revenue</b>	<b>82.2</b>	<b>17.8</b>	<b>2176.2</b>	<b>81.9</b>	<b>18.1</b>	<b>2831.8</b>	<b>84.5</b>	<b>15.5</b>	<b>3061.6</b>	<b>84.2</b>	<b>15.8</b>	<b>3016.0</b>	<b>81.1</b>	<b>18.9</b>	<b>2766.6</b>	<b>83.9</b>	<b>16.1</b>	<b>2744.7</b>
<b>Total Revenue</b>	<b>82.0</b>	<b>18.0</b>	<b>7535.5</b>	<b>80.3</b>	<b>19.7</b>	<b>8100.4</b>	<b>82.0</b>	<b>18.0</b>	<b>8653.1</b>	<b>81.7</b>	<b>18.3</b>	<b>9498.2</b>	<b>82.0</b>	<b>18.0</b>	<b>10827.9</b>	<b>82.0</b>	<b>18.00</b>	<b>10190.9</b>

[1] Figures for 1996/97 through 1999/00 are preliminary actual expenditures.

6.6 Another noteworthy feature about regional revenues is their skewed distribution across the regions. As Table 6.3 shows, over 88 percent of the revenues are concentrated in the largest four regions while the smallest four regions account for less than 6 percent of the total own revenues of the regions. There is wide dispersion in per capita revenue as well, with a high of Birr 71.7 in Dire Dawa to a low of Birr 8.2 in the Somali Region as per FY01 figures.

**Table 6.3: Regional Revenue Variations**

Regions 1/	Per capita own revenue		Revenue share	
	(Birr)		Percentage	
	1999/00	2000/01	1999/00	2000/01
Tigray	21.4	20.8	8.7	9.1
Afar	12.4	12.7	1.0	1.8
Amhara	11.7	11.3	19.1	21.8
Oromiya	15.3	15.2	44.1	40.4
Somali	8.0	8.2	3.8	3.6
Benishangul-Gumuz	21.1	24.2	1.6	1.5
SNNP	11.6	11.5	16.5	17.1
Gambella	30.2	35.6	0.8	0.9
Hareri	54.2	54.0	0.9	1.0
Dire Dawa	77.8	71.7	3.4	2.7
Total	14.0	13.8	100.0	100.0

[1] Addis Ababa, with a per capita own revenue of Birr 580.1 in FY00 and Birr 397.8 in FY01, has not been included in the above table as its disproportionately high values distort the relative shares of other regions.

### Relative Distribution of Taxes

6.7 The federal government's reform agenda, supported, among others by the IMF's Poverty Reduction and Growth Facility (FY01) and the World Bank's Structural Adjustment Credits, is likely to impact on the relative distribution of taxes in three important ways. First, as the private sector develops, new firms, both incorporated and unincorporated, will expand the tax base of the regions. Second, as the existing federal public enterprises are privatized, both direct and indirect taxes payable by them will shift from the federal to the regional governments. Third, the federal government is contemplating introduction of a value added tax (VAT) over the next two years. As the details have yet to be worked out, it is not clear whether VAT would replace only the federal excise and sales taxes or would also encompass the regional sales tax. The relative shift in the tax base will depend on the overall VAT arrangement and the tax rates. In any case it may be worthwhile considering giving the regions a share in the VAT proceeds not only to enhance their tax base and give them a share in the overall tax buoyancy, but also to enlist their cooperation in what will be a difficult tax to administer.

### Expenditure Assignment

6.8 The Constitution is not as explicit on the expenditure responsibilities of the regions as it is on the resource side. Article 52 defines the powers and functions of the regions, but this is done in very generic terms. The federal government's powers and functions are more clearly defined and they encompass all national public goods such as defense, foreign policy, money, banking and currency as well as trunk infrastructure such as air, rail, waterways, shipping, major roads

and postal and telecommunication services. Furthermore, the federal government is asked to formulate the country's policies in respect of 'overall economic and social development, and draw up and implement plans and strategies for development'. The Constitution also calls on the federal government to set national policies in, inter alia, public health and education. As per Article 52, however, all powers not given separately to the regions, or powers not given expressly to the regions and the federal state, are reserved for the regions. This residuary clause thereby places substantial expenditure responsibilities on the regions, including significantly, much of the anti-poverty expenditure.

6.9 In practice, the precise demarcation of responsibilities between federal and regional bodies emerges from national policies as well as from various statutes and regulations that define the responsibilities of federal and regional agencies. Thus, for example, there are various instruments that describe the current understanding of the respective responsibilities of federal and regional health and education agencies,<sup>36</sup> but the importance of regional expenditures in these sectors is strongly driven by national policies which prioritizes the expansion of the primary services which regions deliver.

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<sup>36</sup> These are described in detail in *Implementing Sector Development Programmes in Ethiopia*, Stephen Lister, December 1998.



## FEDERAL BUDGET GRANT FORMULA AND BUDGET OFFSET SYSTEM

### The Federal Grant Formula

7.1 As noted in the main text, resource transfers from federal government to regions are dominated by a block grant commonly referred to as the federal subsidy. This is unearmarked, which means that the grant is not used to try to influence regional expenditure allocations in detail. The grant is intended not only to shift resources from federal to regional level but also to redress imbalances across the regions, and to do so in a way that does not undermine their incentive to draw on their own revenue sources. The formula thus aims to strike a balance between equitable distribution of resources and promotion of efficiency.

7.2 The World Bank's Regionalization Study included a detailed description and analysis of the grant formula as it had operated up to 1998. At that point its main components were population, a composite 'level-of-development' index (known as the I-distance factor), and an element intended to reward revenue effort. The study made some technical criticisms of the I-distance part of the formula, and pointed out that, in spite of the incentive for revenue mobilization under the revenue variable, regions might still be penalized for additional revenue collection.

7.3 Based on evaluation of international experience and keeping in view the Ethiopian reality, the federal budget grant formula in operation since FY98 was modified with effect from FY01. The prime objective of the proposed revision is to “cover the portion of each regional government’s expenditure requirements that cannot be covered with its own revenue sources. In doing so, the formula distributes the pool of regional grant resources among the regional governments in a way that narrows the horizontal fiscal imbalance. Moreover, the formula recognizes also that efficiency in allocation must also be taken into consideration – i.e. regional governments must have incentives to raise their own revenues.<sup>37</sup>” The formula is thus clearly an effort to strike a balance between equitable distribution of resources and promotion of efficiency.

7.4 The following is an analysis of the variables and the main changes effected in the 2001 formula:

**Population index:** The weight for population, which increased from one-third prior to 1998 to 60 percent in the 1998 formula, has been marginally reduced to 55 percent. Also the index peg has been shifted from the 1998 population estimate to the 2001 estimate. It should be noted that population has a high weight in most federal transfer formulae and a weight of 55 percent seems reasonable.

**Composite index of development:** This index comprises two sets of variables. The first is a set of sectoral indicators to reflect the level of development, and the second a set of unit expenditure variables to reflect the differing expenditure needs. The revision has effected three main changes. First, from among the six sectoral variables in the 1998 formula (education, health, water, roads, electricity consumption and telephone lines), two, electricity consumption and telephone lines, have been removed in response to the grievance of the regions that these are federal provisions beyond the ambit of the regions. Second, the expenditure needs

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<sup>37</sup> The Federal Budget Grant Formula in Ethiopia, Ministry of Economic Development and Cooperation, March 2000.

variables have been expanded to better reflect unit costs, especially in the education, health and rural roads sectors. Third a new variable, administrative cost indicator (based on area and number of woredas) has been introduced. While this is a commendable effort at striking a balance between level of development and expenditure needs, it is also complex and non-transparent. Perhaps a better alternative that subsumes all these variables will be regional per capita income, but this would have to await more accurate and statistically robust regional income estimates.

**Poverty index:** The poverty index, intended to reflect 'variations in food consumption and food insecurity and hence the expenditure requirements for the agriculture sector', is a new variable in the formula. The index is derived from the 1995/96 Household Income, Consumption and Expenditure Survey and the 1996 Welfare Monitoring Survey. It is worth noting that these surveys excluded non-sedentary populations in the predominantly pastoralist Afar and Somali Regions. Given that settled population in these regions is better off than the non-sedentary population, the index underestimates the poverty level in these areas.

**Revenue raising effort and sectoral output performance index:** This index is a composite of two variables in a 73:27 proportion. The first, ratio of the region's revenue to its income, multiplied by the share of population to adjust for differences in revenue base, is aimed at rewarding regions which maximize their own revenue effort. The second, sectoral output performance indicator, derived from three sub-variables (changes in the primary school participation rate, number of health centers and the length of rural roads), is aimed at encouraging budgetary output performance.

7.5 Table 7.1 shows a comparative picture of the 1998 and 2001 formulae for federal grant distribution, Table 7.2 shows the value of indices for each region and Table 7.3 shows the resulting changes in the relative entitlements of the regions.

**Table 7.1: Changes in the Federal Grant Formula**

Variable	Weight in	
	FY98 formula	FY01 formula
Index of population	0.60	0.55
Composite inverted index of development	0.25	0.20
Index of revenue raising effort	0.15	0.15
Poverty index	0.00	0.10
Total	1.00	1.00

7.6 It is intended to retain the formula in its present form for three years before further adjustments. Thereafter increased availability of relevant data may support further refinements. The changes have been carefully thought out, but perhaps what is most striking is that the net changes in most regions' share of the pool (see Table 7.3) are very marginal. Clearly, the level of funds available to a particular region is much more affected by the decision on the total size of the pool, and by the 'offset' adjustment which takes account of aid flows to each region.

### **The Budget Offset**

7.7 Although it has been discussed in previous PERs, the budget offset mechanism remains a recurrent theme and a relevant concern. Essentially, the mechanism consists of the federal government combining its contribution from its own resources with external aid flowing to the regions (whether directly or via the federal government) to determine the overall divisible pool. The federal grant formula for horizontal distribution of resources across the regions is then

applied to this pool. In other words, external aid flowing to the regions is subsumed in the divisible pool rather than flowing as an additionally to the formula driven federal subsidy. The objective for the offset is to ensure inter-regional equity as mandated by Article 94 (2) of the Constitution.

7.8 The logic of the offset system is not disputed, but there have been two main practical concerns:

- Aid is perceived as an inferior substitute for treasury funds, reducing the incentive for regions to utilize aid, and thereby running the risk that the country as a whole will draw down less aid than it could.
- Regions perceived a lack of transparency in how the offset was calculated (e.g. certain types of aid are not counted towards the offset) and could also lose out if their grant was reduced on account of anticipated aid which did not in fact materialize.

**Table 7.2: Value of Indices in the Federal Grant Formula 2001<sup>1</sup>**

Regions 2/	Population		Poverty		Level of Development		Revenue raising effort and sectoral performance		Aggregate index	Regional share of entitlement
	Index	Weighted index	Index	Weighted index	Index	Weighted index	Index	Weighted index		
Weights (percentage)		55		10		20		15	100	
Tigray	0.0604	0.0332	0.1330	0.0133	0.0972	0.0194	0.1130	0.0169	0.0829	8.2902
Afar	0.0197	0.0108	0.1190	0.0119	0.1501	0.0300	0.0128	0.0019	0.0547	5.4660
Amhara	0.2665	0.1466	0.1303	0.0130	0.1344	0.0269	0.1833	0.0275	0.2140	21.3997
Oromia	0.3670	0.2019	0.0797	0.0080	0.1202	0.0240	0.3050	0.0457	0.2796	27.9640
Somali	0.0604	0.0332	0.0795	0.0079	0.1771	0.0354	0.0310	0.0046	0.0812	8.1235
Benishangul-Gumuz	0.0088	0.0049	0.1093	0.0109	0.0897	0.0179	0.0498	0.0075	0.0412	4.1199
SNNP	0.2058	0.1132	0.1298	0.0130	0.1211	0.0242	0.1951	0.0293	0.1797	17.9682
Gambella	0.0034	0.0019	0.0960	0.0096	0.0690	0.0138	0.0422	0.0063	0.0316	3.1605
Hareri	0.0026	0.0014	0.0669	0.0067	0.0103	0.0021	0.0349	0.0052	0.0154	1.5439
Dire Dawa	0.0053	0.0029	0.0565	0.0057	0.0307	0.0061	0.0330	0.0049	0.0196	1.9640
Reg. Ave./Total	1.0000	0.5500	1.0000	0.1000	1.0000	0.2000	1.0000	0.1500	1.0000	100.0000

1/ Source: The Federal Budget Grant Formula in Ethiopia, March 2000, MEDAC

2/ Addis Ababa is not included as it doesn't receive any federal subsidy.

**Table 7.3: Changes in the Regional Shares of the Federal Grant**

Region	Percentage share	
	FY98 formula	FY01 formula
Tigray	8.2680	8.2902
Afar	5.4367	5.4660
Amhara	20.7164	21.3997
Oromiya	27.2924	27.9640
Somali	8.1709	8.1235
Benishangul	3.9222	4.1199
SNNP	17.1650	17.9682
Gambela	3.0212	3.1605
Harari	1.9241	1.5439
Dire Dawa	4.0383	1.9640
Total	100.0000	100.0000

7.9 The RPERs reveal that these concerns are still present. For example, the Tigray RPER (§5.3.1) reported persistent confusion over what is and is not included in the offset calculation, as well as frustration that "the Regional Government, being only an indirect recipient of funds and

not the main negotiator, has little or no leverage over the discussions held and decisions made with the donors, especially under the SDPs, [while] the realization of donor pledges has been particularly unreliable in the past".

7.10 Beginning in FY00 there was an important change to the offset. It is now applied on only 30 percent of external grants and 70 percent of external loans thus reducing the bias of the regions against external resources. The higher percentage of offset for loans than for grants is to create a positive bias in favor of grants which carry no repayment obligation. The offset will diminish in importance if donors shift from project to sector and budget support as envisaged under the PRSP. Since that shift will take some years yet to materialize, the following suggestions for reform, as proposed in PER 2000, remain relevant:

- Maintain the principle that offset should be substantially less than 100 percent of the funds received (in other words, regions which go to the extra trouble of utilizing donor funds, and thereby expanding the total resource envelope for Ethiopia, should get some reward for doing so – this is the same principle as the revenue raising effort variable of the basic subsidy formula).
- Base the offset on actual recorded aid flows in the preceding year. This would be transparent, and would also be seen as fairer: regions are particularly upset when the offset reduces their funds on account of aid funds which were expected but did not, in the end, arrive.
- Determine, and publish, clear guidelines on what is and is not included in the offset calculation, and avoid continual changes. (Although, MEDAC informs each region of the amount of its offset by donor and sector, it should make additional efforts to provide complete information to the regions – and the donors – on how the offset is exactly calculated).
- Publish comprehensive annual figures on actual aid flows by region (and if possible by zone), showing sectoral breakdowns as well as levels of aid.<sup>38</sup> This would enable the equity of resource distribution to be monitored in a transparent way.

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<sup>38</sup> This is especially relevant for regions which devolve budgeting to the zonal level and divide their federal subsidy among the zones accordingly.

## STATISTICAL TABLES

**Table 1: Ethiopia - Fiscal trends, 1996/97-2001/02**  
million birr

	1996/97	1997/98	1998/99	1999/00	2000/01	2000/01	2001/02
		Pre. Act.			Program 1/	Pre. Act.	Budget 2/
GDP (current prices)	41,465.1	44,840.3	48,687.5	52,074.2	57,746.0	52,871.7	59,108.6
Total revenue and grants	9036.8	9373.7	10415.2	11222.3	14273.9	12818.8	14628.6
Total revenue	7535.5	8100.4	8653.1	9498.2	10827.9	10190.9	11506.5
Tax revenue	5359.3	5268.5	5591.4	6482.2	8061.3	7446.2	8646.52
Non-tax revenue	2176.2	2831.8	3061.6	3016.0	2766.6	2744.7	2860
External grants	1501.3	1273.3	1762.1	1724.1	3446.0	2627.9	3122.1
Total expend. (including net lending)	9906.3	11327.2	14916.4	17183.7	17994.2	15370.1	17417.7
Of which:							
Recurrent expenditure	5737.9	7080.6	10126.3	13741.7	12438.9	10352.0	11390
o/w Defense	834.8	2189.5	4232.9	6842.2	4204.4	3307.0	3000
Capital expenditure	4168.4	4146.6	4790.1	3442.0	5555.3	5018.1	6027.6
Net lending	0.0	100.0	0.0	0.0	0.0	0.0	
Emergency program					1115.0	404.0	1715
Fiscal balance (cash basis)		<u>No emergency program</u>					
Before grants (excl. emergency program)					-7166.4	-5179.2	-5911.2
After grants (excl. emergency program)					-3720.4	-2551.3	-2789.1
Fiscal balance (cash basis)							
Before grants	-2370.8	-3226.8	-6263.3	-7685.5	-8281.4	-5583.2	-7626.2
After grants	-869.5	-1953.5	-4501.2	-5961.4	-4835.4	-2955.3	-4504.1
Financing	869.5	1953.5	4501.2	5961.4	4835.4	2955.3	4504.1
External net	627.4	780.2	1708.4	868.0	4089.0	2051.0	4105.0
Gross borrowing	911.5	1121.6	2142.8	1366.0	4858.0	2667.0	4755.0
Capital budget	780.6	1037.2	1773.1	1120.0	1965.0	1744.0	1899.0
CPF generations/loans	130.9	84.4	369.7	246.0	1776.0	171.0	1141.0
Special program					1117.0	752.0	1715
Amortization paid	284.1	341.4	434.4	498.0	769.0	616.0	650.0
Domestic	-420.8	592.0	1514.7	4975.0	246.0	54.0	0.0
Banking system	-824.0	575.0	885.3	5499.0	-195.0	-213.0	-422.0
Non-bank sources	403.2	17.0	629.4	-524.0	441.0	267.0	422.0
Privatization	347.0	313.0	800.0	650.0	500.0	400.0	400.0
Other and residual	315.9	268.3	478.1	-531.6	0.4	450.3	-0.9
<i>Memo items:</i>							
Capital Expenditure by sources of Financing	4168.4	4146.6	4790.1	3442.0	5555.3	5018.1	6027.6
Domestic treasury	3246.5	2614.4	2486.0	1917.3	2647.3	2601.1	2818.5
External assistance	141.3	495.0	531.0	404.7	943.0	673.0	1310.1
External loan	780.6	1037.2	1773.1	1120.0	1965.0	1744.0	1899.0
Reserves in months of imports	4.4	3.0	2.8	2.1	2.6	2.0	3.6

Source: Ministry of Finance, MEDAC, National Bank of Ethiopia, WB & IMF Missions.

1/ Program under the three-year IMF PRGF arrangement.

2/ Consistent with program under PRGF arrangement, with lower defense expenditure, and excluding Enhanced HIPC assistance.

**Table 2: Ethiopia - Fiscal trends, 1996/97-2001/02**  
as a percentage of GDP

	1996/97	1997/98	1998/99	1999/00	2000/01	2000/01	2001/02
		Pre. Act.			Program 1/	Pre. Act.	Budget 2/
Total revenue and grants	21.8	20.9	21.4	21.6	24.7	24.2	24.7
Total revenue	18.2	18.1	17.8	18.2	18.8	19.3	19.5
Tax revenue	12.9	11.7	11.5	12.4	14.0	14.1	14.6
Non-tax revenue	5.2	6.3	6.3	5.8	4.8	5.2	4.8
External grants	3.6	2.8	3.6	3.3	6.0	5.0	5.3
Total expend. (including net lending excluding emergency programs)	23.9	25.3	30.6	33.0	31.2	29.1	29.5
Of which:							
Recurrent expenditure	13.8	15.8	20.8	26.4	21.5	19.6	19.3
o/w Defense	2.0	4.9	8.7	13.1	7.3	6.3	5.1
Capital expenditure	10.1	9.2	9.8	6.6	9.6	9.5	10.2
Net lending		0.2					
Special program					1.9	0.8	2.9
Fiscal balance (cash basis)		<u>No emergency program</u>					
Before grants (excl. emergency program)					-12.4	-9.8	-10.0
After grants (excl. emergency program)					-6.4	-4.8	-4.7
Fiscal balance (cash basis)							
Before grants	-5.7	-7.2	-12.9	-14.8	-14.3	-10.6	-12.9
After grants	-2.1	-4.4	-9.2	-11.4	-8.4	-5.6	-7.6
Financing	2.1	4.4	9.2	11.4	8.4	5.6	7.6
External (net)	1.5	1.7	3.5	1.7	7.1	3.9	6.9
Domestic	-1.0	1.3	3.1	9.6	0.4	0.1	0.0
Banking system	-2.0	1.3	1.8	10.6	-0.3	-0.4	-0.7
Privatization	0.8	0.7	1.6	1.2	0.9	0.8	0.7
Other and residual	0.8	0.6	1.0	-1.0	0.0	0.9	0.0
<i>Memo items:</i>							
Capital expend. by sources of financing	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Domestic treasury	77.9	63.0	51.9	55.7	47.7	51.8	46.8
External assistance	3.4	11.9	11.1	11.8	17.0	13.4	21.7
External loan	18.7	25.0	37.0	32.5	35.4	34.8	31.5
Domestic borrowing /fiscal deficit (including grants)	48.4	-30.3	-33.7	-83.5	-5.1	-1.8	0.0
Reserves in months of imports	4.4	3.0	2.8	2.1	2.6	2.0	3.6

Source: Ministry of Finance, MEDAC, National Bank of Ethiopia, WB & IMF Missions.

1/ Program under the three-year IMF PRGF arrangement.

2/ Consistent with program under PRGF arrangement, with lower defense expenditure, and excluding Enhanced HIPC assistance.

**Table 3: Functional Classification of General Government Recurrent Expenditures, 1996/97-2001/02**

In million birr

	1996/97			1997/98			1998/99			1999/00			2000/01 (Program)			2000/01 (Pre Act)			2001/02 (Budget)		
	Federal	Regional	National	Federal	Regional	National	Federal	Regional	National	Federal	Regional	National	Federal	Regional	National	Federal	Regional	National	Federal	Regional	National
General administration	1245	636	1881	2577	747	3324	4699	905	5604	7444	878	8322	4953	912	5865	3989	1037	5026	3785	1083	4867
o/w Defense	835	0	835	2190	0	2190	4233	0	4233	6842	0	6842	4204	0	4204	3307	0	3307	3000	0	3000
Economic infrastructure	131	49	180	26	79	105	84	61	146	90	75	165	117	76	193	112	73	185	96	101	196
o/w Road construction 1/	130	40	170	23	68	91	22	54	76	25	69	94	34	63	97	33	66	99	33	86	120
Economic services	96	387	483	124	429	553	148	484	632	183	460	643	250	518	768	195	558	753	396	632	1028
o/w Agricult. & nat. res.	58	357	414	82	391	473	90	440	530	112	419	531	130	466	596	115	515	630	197	584	781
Social services	286	1216	1502	379	1327	1707	394	1504	1897	622	1480	2102	470	1933	2404	503	1754	2258	531	2036	2567
o/w Education	148	886	1034	166	949	1115	176	1065	1240	218	1087	1305	327	1407	1734	244	1289	1533	395	1473	1868
Health	61	274	334	79	316	394	88	368	456	69	326	395	56	450	506	90	385	475	62	472	534
Others	1481	212	1693	1162	230	1392	1785	62	1847	2435	74	2509	3129	80	3209	2080	51	2131	2596	136	2732
o/w interest & charges	919	0	919	836	0	836	957	0	957	1122	0	1122	1416	0	1416	1080	0	1080	1183	0	1183
external assistance	257	0	257	160	0	160	813	0	813	1289	0	1289	1349	0	1349	978	0	978	1027	0	1027
<b>Total Recurrent expenditure</b>	<b>3239</b>	<b>2499</b>	<b>5738</b>	<b>4268</b>	<b>2812</b>	<b>7081</b>	<b>7110</b>	<b>3016</b>	<b>10126</b>	<b>10774</b>	<b>2968</b>	<b>13742</b>	<b>8919</b>	<b>3520</b>	<b>12439</b>	<b>6879</b>	<b>3473</b>	<b>10352</b>	<b>7403</b>	<b>3987</b>	<b>11390</b>
	as a percentage of recurrent expenditure																				
General administration	38.4	25.4	32.8	60.4	26.6	46.9	66.1	30.0	55.3	69.1	29.6	60.6	55.5	25.9	47.2	58.0	29.8	48.5	51.1	27.2	42.7
o/w Defense	25.8	0.0	14.5	51.3	0.0	30.9	59.5	0.0	41.8	63.5	0.0	49.8	47.1	0.0	33.8	48.1	0.0	31.9	40.5	0.0	26.3
Economic infrastructure	4.0	2.0	3.1	0.6	2.8	1.5	1.2	2.0	1.4	0.8	2.5	1.2	1.3	2.2	1.6	1.6	2.1	1.8	1.3	2.5	1.7
o/w Road construction 1/	4.0	1.6	3.0	0.5	2.4	1.3	0.3	1.8	0.7	0.2	2.3	0.7	0.4	1.8	0.8	0.5	1.9	1.0	0.5	2.2	1.1
Economic services	3.0	15.5	8.4	2.9	15.3	7.8	2.1	16.0	6.2	1.7	15.5	4.7	2.8	14.7	6.2	2.8	16.1	7.3	5.3	15.8	9.0
o/w Agricult. & nat. res.	1.8	14.3	7.2	1.9	13.9	6.7	1.3	14.6	5.2	1.0	14.1	3.9	1.5	13.2	4.8	1.7	14.8	6.1	2.7	14.6	6.9
Social services	8.8	48.7	26.2	8.9	47.2	24.1	5.5	49.9	18.7	5.8	49.9	15.3	5.3	54.9	19.3	7.3	50.5	21.8	7.2	51.1	22.5
o/w Education	4.6	35.5	18.0	3.9	33.8	15.7	2.5	35.3	12.2	2.0	36.6	9.5	3.7	40.0	13.9	3.6	37.1	14.8	5.3	36.9	16.4
Health	1.9	11.0	5.8	1.8	11.2	5.6	1.2	12.2	4.5	0.6	11.0	2.9	0.6	12.8	4.1	1.3	11.1	4.6	0.8	11.8	4.7
Others	45.7	8.5	29.5	27.2	8.2	19.7	25.1	2.1	18.2	22.6	2.5	18.3	35.1	2.3	25.8	30.2	1.5	20.6	35.1	3.4	24.0
o/w interest & charges	28.4	0.0	16.0	19.6	0.0	11.8	13.5	0.0	9.4	10.4	0.0	8.2	15.9	0.0	11.4	15.7	0.0	10.4	16.0	0.0	10.4
external assistance	7.9	0.0	4.5	3.7	0.0	2.3	11.4	0.0	8.0	12.0	0.0	9.4	15.1	0.0	10.8	14.2	0.0	9.4	13.9	0.0	9.0
<b>Total Recurrent expenditure</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

1/ Includes urban development.

2/ Figures for 1996/97 through 1999/00 are preliminary actual expenditures.

**Table 4: Functional Classification of General Government Capital Expenditures, 1996/97-2001/02**

In million birr

	1996/97			1997/98			1998/99			1999/00			2000/01 (Program)			2000/01 (Pre. Act)			2001/02 (Budget)		
	Federal	Regional	National	Federal	Regional	National	Federal	Regional	National	Federal	Regional	National	Federal	Regional	National	Federal	Regional	National	Federal	Regional	National
Economic infrastructure	838	330	1168	648	445	1093	1020	376	1396	697	296	993	1744	499	2243	1067	494	1561	1822	547	2369
o/w Road construction	452	324	776	463	436	898	747	371	1117	505	292	797	1241	489	1730	790	490	1280	1445	539	1984
Economic development	1287	704	1990	827	413	1240	1030	484	1514	764	308	1072	1021	412	1433	786	446	1232	990	433	1422
o/w Agricult. & nat. res	212	654	866	313	409	723	564	481	1044	447	305	752	861	408	1269	410	442	852	851	427	1278
Social development	184	510	694	417	597	1013	536	473	1009	429	284	714	1137	393	1530	640	553	1193	1309	531	1840
o/w Education	154	238	393	194	242	437	287	182	469	265	76	341	517	133	650	276	321	597	837	259	1096
Health	19	202	221	58	219	277	57	166	223	30	110	140	600	133	733	210	109	319	417	129	546
Others	143	172	316	620	181	801	667	205	871	518	146	664	154	196	350	866	167	1033	292	105	397
o/w External assistance	0	0	0	495	0	495	531	0	531	405	0	405	0	0	673	0	673	0	0	0	0
<b>Total capital expenditure</b>	<b>2452</b>	<b>1716</b>	<b>4168</b>	<b>2512</b>	<b>1635</b>	<b>4147</b>	<b>3252</b>	<b>1538</b>	<b>4790</b>	<b>2407</b>	<b>1035</b>	<b>3442</b>	<b>4055</b>	<b>1500</b>	<b>5555</b>	<b>3358</b>	<b>1660</b>	<b>5018</b>	<b>4413</b>	<b>1615</b>	<b>6028</b>
	as a percentage of capital expenditure																				
Economic infrastructure	34.2	19.2	28.0	25.8	27.2	26.4	31.4	24.5	29.1	29.0	28.6	28.8	43.0	33.3	40.4	31.8	29.8	31.1	41.3	33.9	39.3
o/w Road construction	18.4	18.9	18.6	18.4	26.7	21.7	23.0	24.1	23.3	21.0	28.2	23.2	30.6	32.6	31.1	23.5	29.5	25.5	32.7	33.4	32.9
Economic development	52.5	41.0	47.8	32.9	25.2	29.9	31.7	31.5	31.6	31.7	29.8	31.1	25.2	27.5	25.8	23.4	26.9	24.5	22.4	26.8	23.6
o/w Agricult. & nat. res	8.6	38.1	20.8	12.5	25.0	17.4	17.3	31.2	21.8	18.6	29.5	21.9	21.2	27.2	22.8	12.2	26.6	17.0	19.3	26.4	21.2
Social development	7.5	29.7	16.7	16.6	36.5	24.4	16.5	30.8	21.1	17.8	27.5	20.7	28.0	26.2	27.5	19.0	33.3	23.8	29.7	32.9	30.5
o/w Education	6.3	13.9	9.4	7.7	14.8	10.5	8.8	11.8	9.8	11.0	7.4	9.9	12.7	8.9	11.7	8.2	19.3	11.9	19.0	16.0	18.2
Health	0.8	11.8	5.3	2.3	13.4	6.7	1.7	10.8	4.6	1.2	10.7	4.1	14.8	8.9	13.2	6.3	6.6	6.4	9.4	8.0	9.1
Others	5.8	10.0	7.6	24.7	11.0	19.3	20.5	13.3	18.2	21.5	14.1	19.3	3.8	13.1	6.3	25.8	10.1	20.6	6.6	6.5	6.6
o/w External assistance	0.0	0.0	0.0	19.7	0.0	11.9	16.3	0.0	11.1	16.8	0.0	11.8	0.0	0.0	0.0	20.0	0.0	13.4	0.0	0.0	0.0
<b>Total capital expenditure</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

1/ Regions' capital expenditures do not include external loan and assistance for FY98, FY99, FY00 and FY01 disaggregated figures are not available.

2/ Figures for 1996/97 through 1999/00 are preliminary actual expenditures.

**Table 5: Functional Classification of General Government Total Expenditures, 1996/97-2001/02**

In million birr

	1996/97			1997/98			1998/99			1999/00			2000/01 (Program)			2000/01 (Pre Act.)			2001/02 (Budget)		
	Federal	Regional	National	Federal	Regional	National	Federal	Regional	National	Federal	Regional	National	Federal	Regional	National	Federal	Regional	National	Federal	Regional	National
General Administration	1245	636	1881	2577	747	3324	4699	905	5604	7444	878	8322	4953	912	5865	3989	1037	5026	3785	1083	4867
o/w Defense	835	0	835	2190	0	2190	4233	0	4233	6842	0	6842	4204	0	4204	3307	0	3307	3000	0	3000
Economic Infrastructure	969	379	1348	674	523	1197	1104	437	1542	787	371	1158	1861	575	2436	1179	567	1746	1918	647	2565
o/w Road Construction 1/	582	364	946	486	504	990	768	425	1193	530	361	891	1275	552	1826	823	556	1379	1478	625	2104
Economic Services & Dev	1383	1091	2474	951	842	1793	1178	968	2146	946	769	1715	1270	930	2201	981	1004	1984	1385	1064	2450
o/w Agricult. & Nat. Res	269	1011	1280	396	800	1196	654	920	1574	559	724	1283	991	874	1866	526	957	1483	1048	1011	2059
Social Services & Dev	470	1726	2196	796	1924	2720	930	1977	2907	1051	1765	2816	1607	2326	3934	1143	2307	3450	1840	2566	4406
o/w Education	302	1124	1427	360	1192	1552	463	1246	1709	482	1164	1646	844	1540	2383	521	1610	2131	1232	1732	2965
Health	80	476	556	137	534	671	145	534	678	99	437	535	655	583	1239	300	494	794	479	601	1080
Others	1624	384	2008	1782	411	2193	2451	267	2718	2953	220	3173	3283	276	3559	2945	218	3164	2888	241	3129
o/w interest & charges	919	0	919	836	0	836	957	0	957	1122	0	1122	1416	0	1416	1080	0	1080	1183	0	1183
external assistance	257	0	257	655	0	655	1344	0	1344	1694	0	1694	1349	0	1349	1651	0	1651	1027	0	1027
<b>Total Expenditure</b>	<b>5691</b>	<b>4215</b>	<b>9906</b>	<b>6780</b>	<b>4447</b>	<b>11227</b>	<b>10363</b>	<b>4554</b>	<b>14916</b>	<b>13181</b>	<b>4002</b>	<b>17184</b>	<b>12975</b>	<b>5020</b>	<b>17994</b>	<b>10237</b>	<b>5133</b>	<b>15370</b>	<b>11816</b>	<b>5602</b>	<b>17418</b>
	as a percentage of total expenditure																				
General Administration	21.9	15.1	19.0	38.0	16.8	29.6	45.3	19.9	37.6	56.5	21.9	48.4	38.2	18.2	32.6	39.0	20.2	32.7	32.0	19.3	27.9
o/w Defense	14.7	0.0	8.4	32.3	0.0	19.5	40.8	0.0	28.4	51.9	0.0	39.8	32.4	0.0	23.4	32.3	0.0	21.5	25.4	0.0	17.2
Economic Infrastructure	17.0	9.0	13.6	9.9	11.8	10.7	10.7	9.6	10.3	6.0	9.3	6.7	14.3	11.5	13.5	11.5	11.1	11.4	16.2	11.6	14.7
o/w Road Construction 1/	10.2	8.6	9.6	7.2	11.3	8.8	7.4	9.3	8.0	4.0	9.0	5.2	9.8	11.0	10.2	8.0	10.8	9.0	12.5	11.2	12.1
Economic Services & Dev.	24.3	25.9	25.0	14.0	18.9	16.0	11.4	21.2	14.4	7.2	19.2	10.0	9.8	18.5	12.2	9.6	19.6	12.9	11.7	19.0	14.1
o/w Agricult. & Nat. Res	4.7	24.0	12.9	5.8	18.0	10.7	6.3	20.2	10.6	4.2	18.1	7.5	7.6	17.4	10.4	5.1	18.6	9.6	8.9	18.0	11.8
Social Services & Dev.	8.3	40.9	22.2	11.7	43.3	24.2	9.0	43.4	19.5	8.0	44.1	16.4	12.4	46.3	21.9	11.2	44.9	22.4	15.6	45.8	25.3
o/w Education	5.3	26.7	14.4	5.3	26.8	13.8	4.5	27.4	11.5	3.7	29.1	9.6	6.5	30.7	13.2	5.1	31.4	13.9	10.4	30.9	17.0
Health	1.4	11.3	5.6	2.0	12.0	6.0	1.4	11.7	4.5	0.7	10.9	3.1	5.0	11.6	6.9	2.9	9.6	5.2	4.1	10.7	6.2
Others	28.5	9.1	20.3	26.3	9.2	19.5	23.7	5.9	18.2	22.4	5.5	18.5	25.3	5.5	19.8	28.8	4.3	20.6	24.4	4.3	18.0
o/w interest & charges	16.1	0.0	9.3	12.3	0.0	7.4	9.2	0.0	6.4	8.5	0.0	6.5	10.9	0.0	7.9	10.5	0.0	7.0	10.0	0.0	6.8
external assistance	4.5	0.0	2.6	9.7	0.0	5.8	13.0	0.0	9.0	12.9	0.0	9.9	10.4	0.0	7.5	16.1	0.0	10.7	8.7	0.0	5.9
<b>Total Expenditure</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

1/ Regions' capital expenditures do not include external loan and assistance for FY98, FY99, FY00 and FY01 as disaggregated figures are not available.

2/ Figures for 1996/97 through 1999/00 are preliminary actual expenditures.

3/ Road constructions under recurrent includes urban development.

4/ The declining share of the regions in health and education sectors is an accounting anomaly as all capital expenditures out of external loans and assistance have been attributed to the federal government as disaggregated accounts have yet to be finalized.

Note: Regions capital expenditures do not include external loan and assistance for FY98, FY99, FY00 and FY01 (expenditure).

However, the total government expenditures include external assistance and loan for the mentioned years above.

**Table 6 : Selected Expenditures as a Share of Total Government Expenditure, 1996/97-2001/02**

	1996/97	1997/98	1998/99 Pre. Act.	1999/00	2000/01 Program	2000/01 Pre. Act.	2001/02 Budget
	In million birr						
<b>Total Government Expenditure</b>	<b>9906.3</b>	<b>11227.2</b>	<b>14916.4</b>	<b>17183.7</b>	<b>17994.2</b>	<b>15370.1</b>	<b>17418</b>
O/w Defense	834.8	2189.5	4232.9	6842.2	4204.4	3307.0	3000
Education	1426.5	1551.7	1709.1	1646.0	2383.3	2130.8	2965
Health	555.6	671.1	678.3	535.4	1238.5	794.2	1080
Agriculture & Natural Resources	1280.3	1195.8	1573.9	1283.0	1865.5	1482.8	2059
Road constructions	946.2	989.6	1192.9	890.8	1826.4	1379.3	2104
	as a share of government expenditure						
<b>Total Government Expenditure</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
O/w Defense	8.4	19.5	28.4	39.8	23.4	21.5	17.2
Education	9.6	8.8	8.0	5.2	10.2	9.0	12.1
Health	12.9	10.7	10.6	7.5	10.4	9.6	11.8
Agriculture & Natural Resources	14.4	13.8	11.5	9.6	13.2	13.9	17.0
Road constructions	5.6	6.0	4.5	3.1	6.9	5.2	6.2

Source: Ministry of Finance

**Table 7: Real Per Capita Expenditure, 1996/97-2001/02**

Birr	1996/97	1997/98	1998/99 Pre. Act.	1999/00	2000/01 Program	2000/01 Pre. Act.	2001/02 Budget
	<b>Total expenditure</b>						
Current prices	170.21	187.43	241.76	270.61	275.14	235.02	258.42
Constant prices: GDP deflator	60.40	60.79	76.77	84.71	82.85	78.15	82.25
	<b>Total capital expenditure</b>						
Current prices	71.62	69.23	77.64	54.20	84.94	76.73	89.43
Constant prices: GDP deflator	25.41	22.45	24.65	16.97	25.58	25.52	28.46
	<b>Total education expenditure</b>						
Current prices	24.51	25.90	27.70	25.92	36.44	32.58	43.98
Constant prices: GDP deflator	8.70	8.40	8.80	8.11	10.97	10.83	14.00
	<b>Capital expenditure in education sector</b>						
Current prices	6.74	7.29	7.60	5.37	9.94	9.13	16.27
Constant prices: GDP deflator	2.39	2.36	2.41	1.68	2.99	3.04	5.18
	<b>Total health expenditure</b>						
Current prices	9.55	11.20	10.99	8.43	18.94	12.14	16.02
Constant prices: GDP deflator	3.39	3.63	3.49	2.64	5.70	4.04	5.10
	<b>Capital expenditure in health sector</b>						
Current prices	3.80	4.62	3.61	2.21	11.20	4.88	8.09
Constant prices: GDP deflator	1.35	1.50	1.15	0.69	3.37	1.62	2.58
	<b>Total road expenditure</b>						
Current prices	16.26	16.52	19.33	14.03	27.93	21.09	31.21
Constant prices: GDP deflator	5.77	5.36	6.14	4.39	8.41	7.01	9.93
	<b>Capital expenditure in road sector</b>						
Current prices	13.34	15.00	18.11	12.55	26.45	19.58	29.44
Constant prices: GDP deflator	4.73	4.86	5.75	3.93	7.96	6.51	9.37
<i>Memo items:</i>							
Population (in million)	58.20	59.90	61.70	63.50	65.40	65.40	67.40
GDP Deflator (1980/81=100)	2.82	3.08	3.15	3.19	3.32	3.01	3.14

Source: MEDAC and WB &amp; IMF Missions.

1/ Recurrent expenditure for road construction from 1994/95 onwards includes urban development.

Note: 1999/00 PER projection figures are used to calculate the average for years of 1998/99-1999/00.

Projections for 1999/00 are as of end of January, 2000.

**Table 8: General Government Revenue and External Grants, 1996/97-2001/02**

Descriptions	In million birr						
	1996/97	1997/98	1998/99	1999/00	2000/01 Program	2000/01 Pre. Act.	2001/02 Budget
<b>Tax revenue</b>	<b>5359.3</b>	<b>5268.5</b>	<b>5591.4</b>	<b>6482.2</b>	<b>8061.3</b>	<b>7446.2</b>	<b>8646.5</b>
<b>Direct Taxes</b>	<b>1906.4</b>	<b>1869.3</b>	<b>2008.5</b>	<b>2366.9</b>	<b>2730.0</b>	<b>2737.3</b>	<b>3512.3</b>
<b>Income and Profit Tax</b>	<b>1748.8</b>	<b>1655.9</b>	<b>1833.3</b>	<b>2168.7</b>	<b>2383.9</b>	<b>2500.1</b>	<b>3183.9</b>
Personal income Tax	372.4	433.6	505.2	594.0	632.2	689.6	794.1
Rental Income Tax	8.6	15.1	16.0	51.0	55.7	48.6	72.9
Business profit Tax	1264.3	1089.4	1175.2	1358.3	1544.6	1461.8	1842.2
Agricultural Income Tax	99.8	102.0	113.1	118.0	112.5	116.9	136.1
Other income tax	2.3	4.3	4.0	6.0	6.6	7.6	6.8
Interest income tax	0.0	0.0	0.0	0.0	0.0	1.1	27.1
Capital gain tax	1.3	11.5	19.8	41.5	32.2	49.8	42.1
Withholding income tax on imports	0.0	0.0	0.0	0.0	0.0	124.7	262.5
<b>Rural land use fee</b>	<b>94.8</b>	<b>97.8</b>	<b>108.4</b>	<b>111.4</b>	<b>109.6</b>	<b>114.2</b>	<b>127.4</b>
<b>Urban land lease fee</b>	<b>62.8</b>	<b>115.6</b>	<b>66.9</b>	<b>86.8</b>	<b>236.5</b>	<b>123.0</b>	<b>201.0</b>
<b>Domestic Indirect Taxes</b>	<b>1289.4</b>	<b>1180.9</b>	<b>1204.3</b>	<b>1439.4</b>	<b>1663.9</b>	<b>1384.9</b>	<b>1829.7</b>
Sales/excise taxes	1067.1	942.1	923.8	1086.6	1249.0	978.1	1297.2
Service sales taxes	97.2	124.0	174.3	233.0	281.2	281.7	389.0
Stamp Sales & Duty	125.2	114.7	106.2	119.8	129.8	125.1	143.5
<b>Foreign Trade Taxes</b>	<b>2163.5</b>	<b>2218.4</b>	<b>2378.5</b>	<b>2675.8</b>	<b>3220.9</b>	<b>3220.9</b>	<b>3304.5</b>
<b>Customs Duty &amp; T.on Im.G.</b>	<b>2025.1</b>	<b>2037.2</b>	<b>2223.2</b>	<b>2527.6</b>	<b>3044.9</b>	<b>3044.9</b>	<b>3252.4</b>
Customs Duty on Im.Goods	1066.9	1012.4	1131.0	1125.9	1325.0	1325.0	1518.7
Sales and excise Tax on Im.Goods	958.2	1024.8	1092.2	1401.7	1719.9	1719.9	1733.7
<b>Duty &amp; Tax on Cof.Export</b>	<b>138.4</b>	<b>181.2</b>	<b>155.3</b>	<b>148.2</b>	<b>176.0</b>	<b>176.0</b>	<b>52.1</b>
<b>Additional measures</b>						450.0	
<b>Non-tax revenue</b>	<b>2176.2</b>	<b>2831.8</b>	<b>3061.6</b>	<b>3016.0</b>	<b>2766.6</b>	<b>2744.7</b>	<b>2860.0</b>
Charges & fees	112.7	130.7	176.6	200.0	176.4	180.5	297.9
Sale of goods & Services	155.8	164.0	282.4	356.8	438.7	340.0	426.6
Residual surplus, capital charge, interest payments and state dividend	1148.6	1400.2	1423.0	1183.5	1246.4	1353.5	1249.4
Pension contribution	87.7	96.5	0.0				
Reimbursement & property sales	116.4	92.2	91.8	474.7	167.4	202.5	216.7
Miscellaneous Revenue	331.0	594.7	667.2	524.0	653.2	598.2	583.1
Extraordinary Revenue	224.0	353.5	420.6	277.0	85.0	70.0	86.3
<b>Total revenue</b>	<b>7535.5</b>	<b>8100.4</b>	<b>8653.1</b>	<b>9498.2</b>	<b>10827.9</b>	<b>10190.9</b>	<b>11506.5</b>
<b>External grants</b>	<b>1501.3</b>	<b>1273.3</b>	<b>1762.1</b>	<b>1724.1</b>	<b>3446.0</b>	<b>2627.9</b>	<b>3122.1</b>
<b>Total revenue and grants</b>	<b>9036.8</b>	<b>9373.7</b>	<b>10415.2</b>	<b>11222.3</b>	<b>14273.9</b>	<b>12818.8</b>	<b>14628.6</b>

Source: Ministry of Finance

Note: General Government is Federal + Regional Governments.

**Table 8a: General Government Revenue and External Grants, 1996/97-2001/02**

Descriptions	In percent of total revenue and grants						
	1996/97	1997/98	1998/99	1999/00	2000/01 Program	2000/01 Pre. Act.	2001/02 Budget
<b>Tax revenue</b>	<b>59.3</b>	<b>56.2</b>	<b>53.7</b>	<b>57.8</b>	<b>56.5</b>	<b>58.1</b>	<b>59.1</b>
<b>Direct Taxes</b>	<b>21.1</b>	<b>19.9</b>	<b>19.3</b>	<b>21.1</b>	<b>19.1</b>	<b>21.4</b>	<b>24.0</b>
<b>Income and Profit Tax</b>	<b>19.4</b>	<b>17.7</b>	<b>17.6</b>	<b>19.3</b>	<b>16.7</b>	<b>19.5</b>	<b>21.8</b>
Personal income Tax	4.1	4.6	4.9	5.3	4.4	5.4	5.4
Rental Income Tax	0.1	0.2	0.2	0.5	0.4	0.4	0.5
Business profit Tax	14.0	11.6	11.3	12.1	10.8	11.4	12.6
Agricultural Income Tax	1.1	1.1	1.1	1.1	0.8	0.9	0.9
Other income tax	0.0	0.0	0.0	0.1	0.0	0.1	0.0
Interest income tax						0.0	0.2
Capital gain tax	0.0	0.1	0.2	0.4	0.2	0.4	0.3
Withholding income tax on imports						1.0	1.8
<b>Rural land use fee</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>0.8</b>	<b>0.9</b>	<b>0.9</b>
<b>Urban land lease fee</b>	<b>0.7</b>	<b>1.2</b>	<b>0.6</b>	<b>0.8</b>	<b>1.7</b>	<b>1.0</b>	<b>1.4</b>
<b>Domestic Indirect Taxes</b>	<b>14.3</b>	<b>12.6</b>	<b>11.6</b>	<b>12.8</b>	<b>11.7</b>	<b>10.8</b>	<b>12.5</b>
Sales/excise taxes	11.8	10.1	8.9	9.7	8.8	7.6	8.9
Service sales taxes	1.1	1.3	1.7	2.1	2.0	2.2	2.7
Stamp Sales & Duty	1.4	1.2	1.0	1.1	0.9	1.0	1.0
<b>Foreign Trade Taxes</b>	<b>23.9</b>	<b>23.7</b>	<b>22.8</b>	<b>23.8</b>	<b>22.6</b>	<b>25.1</b>	<b>22.6</b>
<b>Customs Duty &amp; T.on Im.G.</b>	<b>22.4</b>	<b>21.7</b>	<b>21.3</b>	<b>22.5</b>	<b>21.3</b>	<b>23.8</b>	<b>22.2</b>
Customs Duty on Im.Goods	11.8	10.8	10.9	10.0	9.3	10.3	10.4
Sales and excise Tax on Im.Goods			10.5	12.5	12.0	13.4	11.9
<b>Duty &amp; Tax on Cof.Export</b>	<b>1.5</b>	<b>1.9</b>	<b>1.5</b>	<b>1.3</b>	<b>1.2</b>	<b>1.4</b>	<b>0.4</b>
<b>Additional measures</b>						<b>3.5</b>	
<b>Non-tax revenue</b>	<b>24.1</b>	<b>30.2</b>	<b>29.4</b>	<b>26.9</b>	<b>19.4</b>	<b>21.4</b>	<b>19.6</b>
Charges & fees	1.2	1.4	1.7	1.8	1.2	1.4	2.0
Sale of goods & Services	1.7	1.8	2.7	3.2	3.1	2.7	2.9
Residual surplus, capital charge, interest payments and state dividend			13.7	10.5	8.7	10.6	8.5
Pension contribution	1.0	1.0	0.0	0.0	0.0	0.0	0.0
Reimbursement & property sales	1.3	1.0	0.9	4.2	1.2	1.6	1.5
Miscellaneous Revenue	3.7	6.3	6.4	4.7	4.6	4.7	4.0
Extraordinary Revenue	2.5	3.8	4.0	2.5	0.6	0.5	0.6
<b>Total revenue</b>	<b>83.4</b>	<b>86.4</b>	<b>83.1</b>	<b>84.6</b>	<b>75.9</b>	<b>79.5</b>	<b>78.7</b>
<b>External grants</b>	<b>16.6</b>	<b>13.6</b>	<b>16.9</b>	<b>15.4</b>	<b>24.1</b>	<b>20.5</b>	<b>21.3</b>
<b>Total revenue and grants</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Ministry of Finance

Note: General Government is Federal + Regional Governments.

**Table 9: Federal Government Revenue and External Grants, 1996/97-2001/02**

Descriptions	In million birr						
	1996/97	1997/98	1998/99	1999/00	2000/01 Program	2000/01 Pre. Act.	2001/02 Budget
<b>Tax revenue</b>	<b>4389.6</b>	<b>4186.5</b>	<b>4511.3</b>	<b>5219.3</b>	<b>6639.7</b>	<b>6052.2</b>	<b>6924.2</b>
<b>Direct Taxes</b>	<b>1166.9</b>	<b>1016.6</b>	<b>1132.7</b>	<b>1377.9</b>	<b>1553.9</b>	<b>1592.6</b>	<b>2121.1</b>
<b>Income and Profit Tax</b>	<b>1166.9</b>	<b>1016.6</b>	<b>1132.7</b>	<b>1377.9</b>	<b>1553.9</b>	<b>1592.6</b>	<b>2121.1</b>
Personal income tax	175.2	199.4	225.8	266.6	293.2	318.4	349.3
Rental income tax	1.0	0.9	0.0	30.4	33.4	25.8	39.1
Business profit tax	988.4	813.1	902.9	1074.9	1220.7	1115.3	1436.3
Agricultural income tax							
Other income tax	2.3	3.3	4.0	6.0	6.6	7.3	6.8
Interest income tax						1.1	27.1
Capital gain tax							
Withholding income tax on imports						124.7	262.5
<b>Rural land use fee</b>							
<b>Urban land lease fee</b>							
<b>Domestic Indirect Taxes</b>	<b>1059.2</b>	<b>951.5</b>	<b>1000.0</b>	<b>1165.6</b>	<b>1414.9</b>	<b>1135.6</b>	<b>1498.6</b>
Sales/excise taxes	920.2	799.9	795.3	904.7	1101.0	822.3	1086.4
Service sales taxes	79.5	102.1	149.9	209.0	254.9	255.3	350.0
Stamp Sales & Duty	59.5	49.5	54.8	51.9	59.0	58.0	62.2
<b>Foreign Trade Taxes</b>	<b>2163.5</b>	<b>2218.4</b>	<b>2378.5</b>	<b>2675.8</b>	<b>3220.9</b>	<b>3324.0</b>	<b>3304.5</b>
<b>Customs Duty &amp; T.on Im.G.</b>	<b>2025.1</b>	<b>2037.2</b>	<b>2223.2</b>	<b>2527.6</b>	<b>3044.9</b>	<b>3230.7</b>	<b>3252.4</b>
Customs Duty on Im.Goods	1066.9	1012.4	1131.0	1125.9	1325.0	1275.4	1518.7
Sales and excise Tax on Im.Goods	958.2	1024.8	1092.2	1401.7	1719.9	1955.3	1733.7
<b>Duty &amp; Tax on Cof.Export</b>	<b>138.4</b>	<b>181.2</b>	<b>155.3</b>	<b>148.2</b>	<b>176.0</b>	<b>93.3</b>	<b>52.1</b>
<b>Additional measures</b>					<b>450.0</b>		
<b>Non-tax revenue</b>	<b>1788.4</b>	<b>2318.6</b>	<b>2586.7</b>	<b>2538.1</b>	<b>2244.1</b>	<b>2302.7</b>	<b>2320.5</b>
Charges & fees	57.0	80.7	122.4	144.3	120.0	128.3	239.2
Sale of goods & Services	62.8	68.2	183.3	257.8	320.0	245.4	307.8
Residual surplus, capital charge, interest payments and state dividend	1144.7	1395.2	1404.6	1167.8	1240.9	1345.8	1240.0
Pension contribution	24.0	28.0					
Reimbursement & property sales	116.3	92.0	90.6	474.3	167.0	202.0	216.4
Miscellaneous Revenue	159.7	301.0	365.2	216.9	311.2	311.2	230.8
Extraordinary Revenue	224.0	353.5	420.6	277.0	85.0	70.0	86.3
<b>Total revenue</b>	<b>6178.0</b>	<b>6505.1</b>	<b>7098.0</b>	<b>7757.4</b>	<b>8883.8</b>	<b>8354.9</b>	<b>9244.7</b>
<b>External grants</b>	<b>1501.3</b>	<b>1273.3</b>	<b>1762.1</b>	<b>1724.1</b>	<b>3446.0</b>	<b>2627.9</b>	<b>3122.1</b>
<b>Total revenue and grants</b>	<b>7679.3</b>	<b>7778.4</b>	<b>8860.1</b>	<b>9481.5</b>	<b>12329.8</b>	<b>10982.8</b>	<b>12366.8</b>

Source: Ministry of Finance

**Table 9a: Federal Government Revenue and External Grants, 1996/97-2001/02**

Descriptions	In percent of total revenue and grants						
	1996/97	1997/98	1998/99	1999/00	2000/01 Program	2000/01 Pre. Act.	2001/02 Budget
<b>Tax revenue</b>	<b>57.2</b>	<b>53.8</b>	<b>50.9</b>	<b>55.0</b>	<b>53.9</b>	<b>55.1</b>	<b>56.0</b>
<b>Direct Taxes</b>	<b>15.2</b>	<b>13.1</b>	<b>12.8</b>	<b>14.5</b>	<b>12.6</b>	<b>14.5</b>	<b>17.2</b>
<b>Income and Profit Tax</b>	<b>15.2</b>	<b>13.1</b>	<b>12.8</b>	<b>14.5</b>	<b>12.6</b>	<b>14.5</b>	<b>17.2</b>
Personal income tax	2.3	2.6	2.5	2.8	2.4	2.9	2.8
Rental income tax	0.0	0.0	0.0	0.3	0.3	0.2	0.3
Business profit tax	12.9	10.5	10.2	11.3	9.9	10.2	11.6
Agricultural income tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other income tax	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Interest income tax						0.0	0.2
Capital gain tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Withholding income tax on imports						1.1	2.1
<b>Rural land use fee</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Urban land lease fee</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Domestic Indirect Taxes</b>	<b>13.8</b>	<b>12.2</b>	<b>11.3</b>	<b>12.3</b>	<b>11.5</b>	<b>10.3</b>	<b>12.1</b>
Sales/excise taxes	12.0	10.3	9.0	9.5	8.9	7.5	8.8
Service sales taxes	1.0	1.3	1.7	2.2	2.1	2.3	2.8
Stamp Sales & Duty	0.8	0.6	0.6	0.5	0.5	0.5	0.5
<b>Foreign Trade Taxes</b>	<b>28.2</b>	<b>28.5</b>	<b>26.8</b>	<b>28.2</b>	<b>26.1</b>	<b>30.3</b>	<b>26.7</b>
<b>Customs Duty &amp; T.on Im.G.</b>	<b>26.4</b>	<b>26.2</b>	<b>25.1</b>	<b>26.7</b>	<b>24.7</b>	<b>29.4</b>	<b>26.3</b>
Customs Duty on Im.Goods	13.9	13.0	12.8	11.9	10.7	11.6	12.3
Sales and excise Tax on Im.Goods	12.5	13.2	12.3	14.8	13.9	17.8	14.0
<b>Duty &amp; Tax on Cof.Export</b>	<b>1.8</b>	<b>2.3</b>	<b>1.8</b>	<b>1.6</b>	<b>1.4</b>	<b>0.8</b>	<b>0.4</b>
<b>Additional measures</b>					<b>3.6</b>		
<b>Non-tax revenue</b>	<b>23.3</b>	<b>29.8</b>	<b>29.2</b>	<b>26.8</b>	<b>18.2</b>	<b>21.0</b>	<b>18.8</b>
Charges & fees	0.7	1.0	1.4	1.5	1.0	1.2	1.9
Sale of goods & Services	0.8	0.9	2.1	2.7	2.6	2.2	2.5
Residual surplus, capital charge, interest payments and state dividend	14.9	17.9	15.9	12.3	10.1	12.3	10.0
Pension contribution	0.3	0.4	0.0	0.0	0.0	0.0	0.0
Reimbursement & property sales	1.5	1.2	1.0	5.0	1.4	1.8	1.7
Miscellaneous Revenue	2.1	3.9	4.1	2.3	2.5	2.8	1.9
Extraordinary Revenue	2.9	4.5	4.7	2.9	0.7	0.6	0.7
<b>Total revenue</b>	<b>80.5</b>	<b>83.6</b>	<b>80.1</b>	<b>81.8</b>	<b>72.1</b>	<b>76.1</b>	<b>74.8</b>
<b>External grants</b>	<b>19.5</b>	<b>16.4</b>	<b>19.9</b>	<b>18.2</b>	<b>27.9</b>	<b>23.9</b>	<b>25.2</b>
<b>Total revenue and grants</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Ministry of Finance

**Table 10: Regional Governments' Revenue and External Grants, 1996/97-2001/02**

Descriptions	In million birr						
	1996/97	1997/98	1998/99	1999/00	2000/01 Program	2000/01 Pre. Act.	2001/02 Budget
<b>Tax revenue</b>	<b>969.8</b>	<b>1082.0</b>	<b>1080.1</b>	<b>1262.9</b>	<b>1421.6</b>	<b>1394.0</b>	<b>1722.3</b>
<b>Direct Taxes</b>	<b>739.5</b>	<b>852.7</b>	<b>875.8</b>	<b>989.0</b>	<b>1176.1</b>	<b>1144.7</b>	<b>1391.2</b>
<b>Income and Profit Tax</b>	<b>581.9</b>	<b>639.3</b>	<b>700.6</b>	<b>790.8</b>	<b>830.0</b>	<b>907.5</b>	<b>1062.8</b>
Personal income Tax	197.2	234.2	279.4	327.4	339.0	371.2	444.8
Rental Income Tax	7.6	14.3	16.0	20.6	22.3	22.8	33.8
Business profit Tax	275.9	276.3	272.3	283.4	323.9	346.5	405.9
Agricultural Income Tax	99.8	102.0	113.1	118.0	112.5	116.9	136.1
Other income tax	0.0	1.0	0.0	0.0	0.0	0.3	0.0
Interest income tax							
Capital gain tax	1.3	11.5	19.8	41.5	32.2	49.8	42.1
Withholding income tax on imports							
<b>Rural land use fee</b>	<b>94.8</b>	<b>97.8</b>	<b>108.4</b>	<b>111.4</b>	<b>109.6</b>	<b>114.2</b>	<b>127.4</b>
<b>Urban land lease fee</b>	<b>62.8</b>	<b>115.6</b>	<b>66.9</b>	<b>86.8</b>	<b>236.5</b>	<b>123.0</b>	<b>201.0</b>
<b>Domestic Indirect Taxes</b>	<b>230.3</b>	<b>229.4</b>	<b>204.3</b>	<b>273.8</b>	<b>249.0</b>	<b>249.3</b>	<b>331.1</b>
Sales/excise taxes	146.9	142.2	128.5	181.9	148.0	155.8	210.8
Service sales taxes	17.7	21.9	24.4	24.0	26.3	26.4	39.0
Stamp Sales & Duty	65.7	65.2	51.4	67.9	70.8	67.1	81.3
<b>Non-tax revenue</b>	<b>387.8</b>	<b>513.2</b>	<b>474.9</b>	<b>477.9</b>	<b>522.6</b>	<b>442.0</b>	<b>539.5</b>
Charges & fees	55.7	50.0	54.2	55.7	56.4	52.2	58.7
Sale of goods & Services	93.0	95.8	99.1	99.0	118.7	94.6	118.8
Residual surplus, capital charge, interest payments and state dividend	3.9	5.0	18.4	15.7	5.5	7.7	9.4
Pension contribution	63.7	68.5	0.0	0.0	0.0		
Reimbursement & property sales	0.1	0.2	1.2	0.4	0.4	0.5	0.3
Miscellaneous Revenue	171.3	293.7	302.0	307.1	342.0	287.0	352.3
Extraordinary Revenue	0.0	0.0	0.0	0.0	0.0		
<b>Total revenue</b>	<b>1357.6</b>	<b>1595.3</b>	<b>1555.0</b>	<b>1740.8</b>	<b>1944.1</b>	<b>1836.0</b>	<b>2261.8</b>
<b>External grants</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total revenue and grants</b>	<b>1357.6</b>	<b>1595.3</b>	<b>1555.0</b>	<b>1740.8</b>	<b>1944.1</b>	<b>1836.0</b>	<b>2261.8</b>

Source: Ministry of Finance

**Table 10a: Regional Governments' Revenue and External Grants, 1996/97-2001/02**

In percent of total revenue and grants

Descriptions	1996/97	1997/98	1998/99	1999/00	2000/01	2000/01	2001/02
					Program	Pre. Act.	Budget
<b>Tax revenue</b>	<b>71.4</b>	<b>67.8</b>	<b>69.5</b>	<b>72.5</b>	<b>73.1</b>	<b>75.9</b>	<b>76.1</b>
<b>Direct Taxes</b>	<b>54.5</b>	<b>53.5</b>	<b>56.3</b>	<b>56.8</b>	<b>60.5</b>	<b>62.3</b>	<b>61.5</b>
<b>Income and Profit Tax</b>	<b>42.9</b>	<b>40.1</b>	<b>45.1</b>	<b>45.4</b>	<b>42.7</b>	<b>49.4</b>	<b>47.0</b>
Personal income Tax	14.5	14.7	18.0	18.8	17.4	20.2	19.7
Rental Income Tax	0.6	0.9	1.0	1.2	1.1	1.2	1.5
Business profit Tax	20.3	17.3	17.5	16.3	16.7	18.9	17.9
Agricultural Income Tax	7.4	6.4	7.3	6.8	5.8	6.4	6.0
Other income tax	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Interest income tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital gain tax	0.1	0.7	1.3	2.4	1.7	2.7	1.9
Withholding income tax on imports							
<b>Rural land use fee</b>	<b>7.0</b>	<b>6.1</b>	<b>7.0</b>	<b>6.4</b>	<b>5.6</b>	<b>6.2</b>	<b>5.6</b>
<b>Urban land lease fee</b>	<b>4.6</b>	<b>7.2</b>	<b>4.3</b>	<b>5.0</b>	<b>12.2</b>	<b>6.7</b>	<b>8.9</b>
<b>Domestic Indirect Taxes</b>	<b>17.0</b>	<b>14.4</b>	<b>13.1</b>	<b>15.7</b>	<b>12.8</b>	<b>13.6</b>	<b>14.6</b>
Sales/excise taxes	10.8	8.9	8.3	10.4	7.6	8.5	9.3
Service sales taxes	1.3	1.4	1.6	1.4	1.4	1.4	1.7
Stamp Sales & Duty	4.8	4.1	3.3	3.9	3.6	3.7	3.6
<b>Non-tax revenue</b>	<b>28.6</b>	<b>32.2</b>	<b>30.5</b>	<b>27.5</b>	<b>26.9</b>	<b>24.1</b>	<b>23.9</b>
Charges & fees	4.1	3.1	3.5	3.2	2.9	2.8	2.6
Sale of goods & Services	6.9	6.0	6.4	5.7	6.1	5.2	5.3
Residual surplus, capital charge, interest payments and state dividend							
Pension contribution	4.7	4.3	0.0	0.0	0.0	0.0	0.0
Reimbursement & property sales	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Miscellaneous Revenue	12.6	18.4	19.4	17.6	17.6	15.6	15.6
Extraordinary Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total revenue</b>	<b>100.0</b>						
<b>External grants</b>	<b>0.0</b>						
<b>Total revenue and grants</b>	<b>100.0</b>						

Source: Ministry of Finance

**Table 11. Budget Transfers from Federal Government to Regions - 1996/97 - 2001/02**

Regions	1996/97			1997/98			1998/99			1999/00			2000/01			2001/02
	Recurrent	Capital	Total	Recurrent	Capital	Total	Recurrent	Capital	Total	Recurrent	Capital	Total	Recurrent	Capital	Total	Total
Tigray	110.4	167.8	278.2	132.0	134.0	266.0	109.8	119.6	229.4	128.8	53.5	182.3	238.7	85.5	324.2	213.5
Afar	49.6	87.0	136.6	70.0	102.2	172.2	86.3	123.5	209.8	69.6	106.4	176.0	181.2	87.0	268.2	206.2
Amhara	404.7	302.0	706.7	415.5	306.9	722.4	443.9	233.7	677.6	402.1	134.4	536.5	675.2	203.0	878.2	709.8
Oromia	445.7	435.0	880.7	506.5	330.1	836.6	528.2	351.0	879.2	466.0	146.6	612.6	905.9	255.0	1,160.9	1003.95
Somali	10.4	113.6	124.0	30.8	173.1	203.9	55.2	157.9	213.1	81.6	152.8	234.4	265.1	161.6	426.7	301.3
Benshangul	35.2	71.9	107.1	59.9	102.2	162.1	68.0	75.0	143.0	67.6	52.8	120.4	135.2	57.4	192.6	147
SNNP	286.9	230.1	517.0	340.1	222.6	562.7	394.6	169.1	563.7	361.5	78.5	440.0	447.4	45.7	493.1	503.8
Gambella	41.3	47.0	88.3	54.5	11.0	65.5	57.9	72.7	130.6	60.1	37.5	97.6	107.6	43.5	151.1	121.7
Harari	22.0	15.0	37.0	37.1	39.5	76.6	35.0	6.0	41.0	34.5	24.1	58.6	50.3	13.5	63.8	57
Addis Ababa	1.2		1.2	2.2		2.2	1.0		1.0			0.0			0.0	0
Dire Dawa	4.2	10.0	14.2	14.8	17.1	31.9	13.7	19.5	33.2	8.6	8.0	16.6	24.1	5.0	29.1	75.65
<b>Total</b>	<b>1,411.4</b>	<b>1,479.4</b>	<b>2,890.8</b>	<b>1,663.4</b>	<b>1,438.7</b>	<b>3,102.1</b>	<b>1,793.6</b>	<b>1,328.0</b>	<b>3,121.6</b>	<b>1,680.4</b>	<b>794.6</b>	<b>2,475.0</b>	<b>3,030.7</b>	<b>957.2</b>	<b>3,987.9</b>	<b>3,339.9</b>

Source: Ministry of Finance

Note: The capital budget transfer doesn't include external loan and assistance.

**Table 12: Ethiopia - Selected Macroeconomic Indicators**

In Billion Birr FY Ending July 6	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
<b>GROSS DOMESTIC PRODUCT</b>												
GDP AT MARKET PRICES	16.8	19.1	20.8	26.7	28.3	33.9	37.9	41.5	44.8	48.7	52.1	59.1
GDP at CFC 1980/81	11.3	10.9	10.5	11.7	11.9	12.6	14.0	14.7	14.5	15.5	16.3	18.8
AGRICULTURE	5.8	6.1	5.9	6.3	6.1	6.3	7.2	7.5	6.6	6.9	7.0	..
INDUSTRY	1.3	1.0	1.0	1.2	1.3	1.4	1.5	1.6	1.6	1.8	1.9	..
SERVICES	4.3	3.7	3.6	4.2	4.5	4.9	5.3	5.7	6.3	6.7	7.4	..
DISTRIBUTION SERVICES	1.7	1.3	1.3	1.6	1.7	1.8	1.9	2.1	2.2	2.3	2.4	..
OTHER SERVICES	2.6	2.4	2.3	2.6	2.9	3.2	3.4	3.6	4.1	4.5	5.0	..
<b>GOVERNMENT FINANCE</b>												
REVENUE	3.1	2.7	2.2	3.4	3.9	5.9	7.0	7.9	8.1	8.7	9.5	11.5
EXTERNAL GRANTS	0.6	0.5	0.5	0.5	1.0	1.1	1.1	1.5	1.3	1.8	1.7	2.6
EXPENDITURE	5.3	4.8	4.2	5.2	7.1	8.4	10.2	10.0	11.3	14.9	17.2	19.2
CURRENT EXPENDITURE	3.8	3.6	3.3	3.4	4.4	5.2	5.6	5.7	7.1	10.1	13.7	10.4
CAPITAL EXPENDITURE	1.4	1.2	1.0	1.8	2.7	3.2	3.6	4.3	4.1	4.8	3.4	6.1
SPECIAL PROGRAMS											0.4	1.7
BUDGET DEFICIT												
DEFICIT (before grants)	-2.1	-2.1	-2.0	-1.8	-3.2	-2.5	-3.2	-2.1	-3.2	-6.3	-7.7	-7.7
DEFICIT (after grants)	-1.6	-1.7	-1.5	-1.3	-2.2	-1.3	-2.1	-0.6	-2.0	-4.5	-6.0	-5.0
FINANCING:	1.6	1.7	1.5	1.3	2.2	1.3	2.1	0.6	2.0	4.5	6.0	5.0
EXTERNAL ASSISTANCE	0.5	0.4	0.3	0.5	1.7	1.2	1.4	0.7	0.8	1.7	0.9	2.1
DOMESTIC BORROWING 4/	1.1	1.3	1.2	0.8	0.5	0.1	0.7	-0.1	1.2	2.8	5.1	0.9
<b>EXTERNAL ACCOUNT</b>												
EXPORTS	0.8	0.6	0.3	0.9	1.6	2.8	2.6	3.9	4.1	3.6	4.0	4.0
(OF WHICH: COFFEE)	0.4	0.3	0.2	0.5	0.9	1.8	1.7	2.3	2.9	2.1	2.1	1.5
IMPORTS	1.8	2.1	1.8	4.5	5.3	6.6	7.2	7.8	9.3	11.7	13.1	14.6
SERVICES	0.1	0.0	0.0	-0.1	0.1	0.4	0.6	0.6	1.0	0.9	1.2	1.1
PRIVATE TRANSFERS	0.4	0.4	0.7	1.1	1.4	1.9	2.0	1.7	2.2	2.2	3.3	3.6
OFFICIAL TRANSFERS	0.3	0.6	0.9	1.7	1.6	2.7	2.5	1.5	1.8	1.6	2.4	2.5
CURRENT ACCOUNT (excl off trans.)	-0.6	-1.1	-0.8	-2.6	-2.2	-1.5	-2.0	-1.6	-2.5	-5.4	-5.1	-6.2
CAPITAL ACCOUNT	0.4	0.4	-0.2	-0.5	1.4	0.1	-0.1	-0.7	-2.4	-1.1	1.2	4.5
OTHER ITEMS	-0.5	0.1	-0.3	1.0	0.1	-0.2	-0.9	-1.7	-0.4	1.4	-1.5	0.0
OVERALL BALANCE	-0.3	0.0	-0.4	-0.4	1.0	1.0	-0.6	-2.5	-3.5	-3.6	-3.0	0.8
FINANCING:	0.3	0.0	0.4	0.4	-1.0	-1.0	0.6	2.5	3.5	3.6	3.0	-0.8
CHANGE IN RESERVES	0.1	-0.3	-0.1	-0.4	-1.9	-1.9	-0.2	1.8	0.1	0.2	1.8	0.1
CHANGE IN ARREARS	0.2	0.3	0.5	-0.3	0.6	0.6	0.7	0.7	0.4	0.9	0.3	0.0
DEBT RELIEF	0.0	0.0	0.0	1.1	0.3	0.3	0.1	0.0	3.1	2.5	0.8	0.3
FINANCING GAP												1.4
RESERVES IN MONTHS OF IMPORTS		1.4	2.4	3.3	6.5	7.5	9.8	7.4	3	3	2	4
<b>MONETARY DATA</b>												
MONEY & QUASI-MONEY	6.7	7.9	9.0	10.1	11.6	14.4	16.0	16.5	18.6	19.7	22.5	24.6
CREDIT TO GOVERNMENT 2/	5.0	6.0	7.0	9.1	9.6	9.1	9.6	8.8	9.4	10.3	15.8	14.9
<b>PERCENT CHANGE OVER PREVIOUS YEAR</b>												
NOMINAL GDP	15.0	13.7	8.6	28.3	6.2	19.6	12.0	9.3	8.1	8.6	7.0	11.8
GDP at CFC 1980	4.3	-4.0	-3.6	12.0	1.6	6.2	10.6	5.2	-1.2	6.3	5.3	7.0
AGRICULTURE	4.2	5.8	-2.7	6.1	-3.6	3.4	14.7	3.4	-10.8	3.8	1.9	..
INDUSTRY	-8.3	-19.6	-7.1	28.4	7.0	8.0	5.4	7.1	2.3	11.3	3.0	..
SERVICES	9.0	-12.7	-4.2	17.4	7.9	9.4	7.0	7.1	10.5	7.6	9.4	..
EXPORTS (NOMINAL)	-17.7	-24.3	-44.2	197.5	70.3	75.4	-8.0	49.3	6.1	-11.7	8.7	9.2
IMPORTS (NOMINAL)	-13.6	16.8	-15.0	148.0	17.7	25.7	8.8	7.6	19.7	26.0	4.0	6.0
<b>IN PERCENT OF GDP AT MARKET PRICES</b>												
REVENUE	18.7	14.1	10.6	12.8	13.9	17.5	18.4	19.0	18.1	17.8	18.2	19.3
EXPENDITURE	31.4	25.3	20.2	19.6	25.0	24.7	26.9	24.2	25.3	30.6	33.0	29.8
BUDGET DEFICIT:												
EXCLUDING GRANTS	-12.7	-11.2	-9.6	-6.8	-11.1	-7.3	-8.5	-5.2	-7.2	-12.9	-14.8	-13.1
INCLUDING GRANTS	-9.4	-8.8	-7.0	-5.0	-7.7	-3.9	-5.6	-1.5	-4.4	-9.2	-11.4	-8.4
FINANCING:												
EXTERNAL ASSISTANCE	2.9	2.2	1.4	1.9	6.0	3.7	3.8	1.8	1.7	3.5	1.7	3.9
DOMESTIC BORROWING	6.5	6.6	5.6	3.2	1.7	0.2	1.8	-0.2	2.6	5.7	9.8	1.7
CURRENT ACCOUNT (Excl Off. Trans.)		-6.0	-3.9	-9.7	-7.7	-4.4	-5.4	-3.8	-5.6	-11.2	-9.8	-10.5
OVERALL BALANCE	-1.9	0.0	-2.1	-1.6	3.4	3.0	-1.5	-6.1	-7.8	-7.3	-5.7	1.4
MONEY & QUASI-MONEY	39.7	41.5	43.2	38.0	40.9	42.5	42.1	39.8	41.5	40.5	43.1	46.6
<b>MONEY SUPPLY &amp; INFLATION</b>												
BROAD MONEY GROWTH (%)	17.2	18.6	13.3	12.7	14.4	24.2	10.8	3.4	12.7	5.9	14.0	10.7
CREDIT TO GOVT /M2(%)	75.2	75.9	78.2	90.1	82.9	62.9	60.2	53.3	50.3	52.1	70.2	54.7
VELOCITY OF CIRCULATION	2.5	2.4	2.3	2.6	2.4	2.4	2.4	2.5	2.4	2.5	2.3	2.2
GDP DEFLATOR	1.5	1.8	2.0	2.3	2.4	2.7	2.7	2.8	3.1	3.1	3.2	3.1
INFLATION RATE(%) 3/	5.2	20.9	21.0	10.0	1.2	13.3	0.9	-6.4	3.6	3.9	4.2	5.0
EXCHANGE RATE (BIRR/US\$) 4/	2.07	2.07	2.07	5.00	5.80	6.25	6.32	6.50	6.86	7.53	8.15	8.60

1/ Includes privatization and unidentified financing

2/ Includes Public Enterprise Sectors.

3/ Addis Ababa Retail Price Index until FY97 and national consumer price index thereafter.

4/ Period average wholesale marginal rate.

Sources: MEDAC, MOF, NBE and CSA.