Revenue Mobilisation in Ethiopia

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South Africa

Outline

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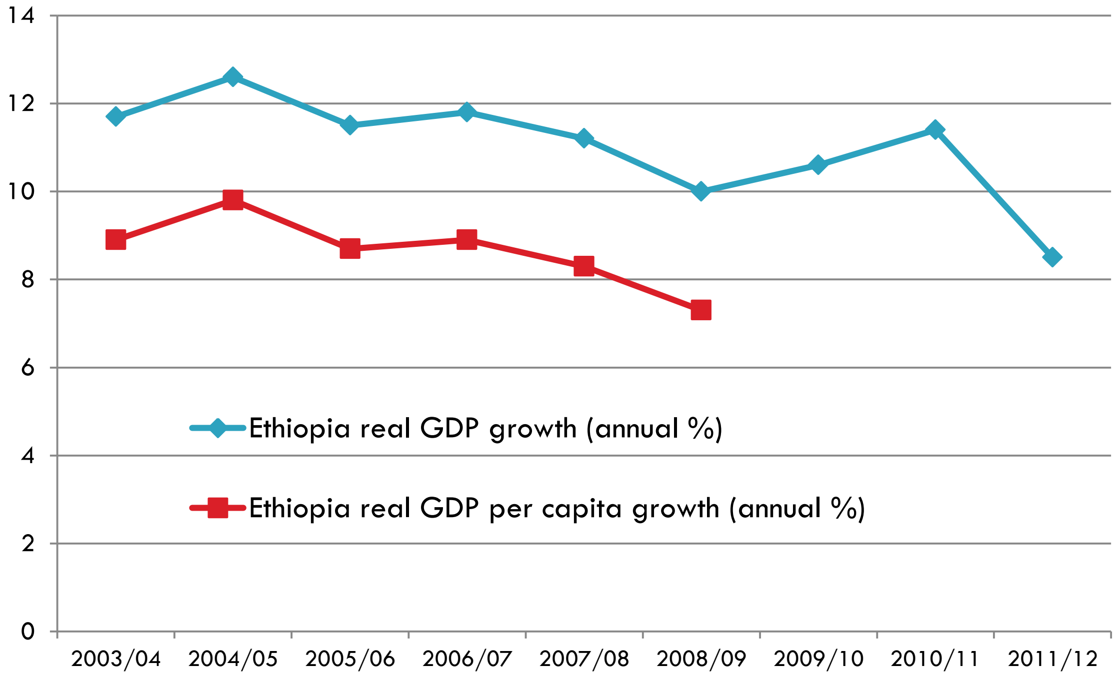
2. Tax regime
3. Revenue performances
4. Challenges

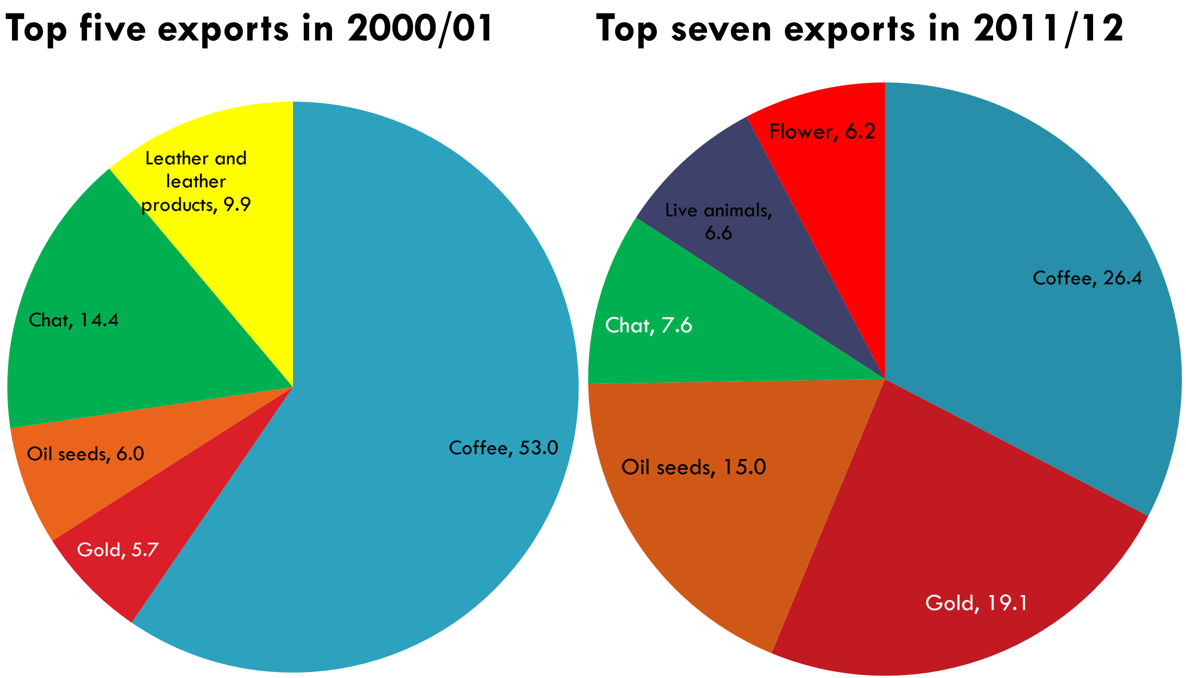
1. Background info on economic performances

Ethiopia has experienced strong, sustainable and generally broad-based real economic growth since 2003/04



- Induced through a mix of factors:
  - Strong export performance owing to strong global commodity demand and development of new export sectors;
  - Expansion of SMEs;
  - Huge infrastructure and social development investments by the Government.
- Initial double digits growth rates have now manifested slightly lower but at high single-digit levels.

Goods exports in the past three years (2009/10-2011/12) showed strong growth (on the average 30.1 percent)



- **Export** growth is driven by **volume growth** across a variety of product groups (diversification)
- **Agriculture-based light manufacturing** is among the strongest performers:
  - Meat & meat products, and leather & leather products show growth rates of close to 50 percent in the first seven months of 2011/12.

➢**A strategy based on increasing exports seems fully appropriate given the size of the domestic market.**

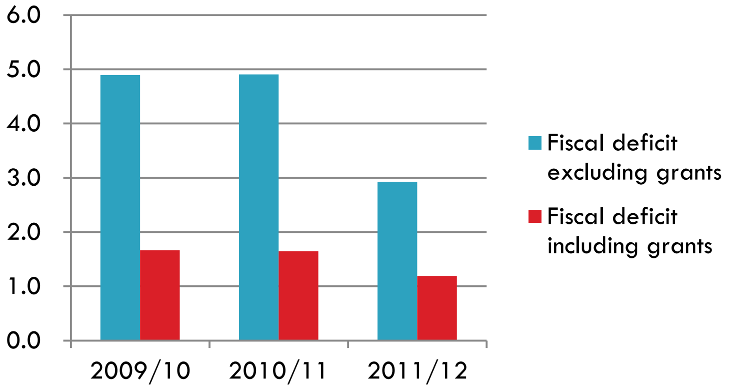
- ❑It is also consistent with the strategy followed by countries that have been very successful on the growth front.

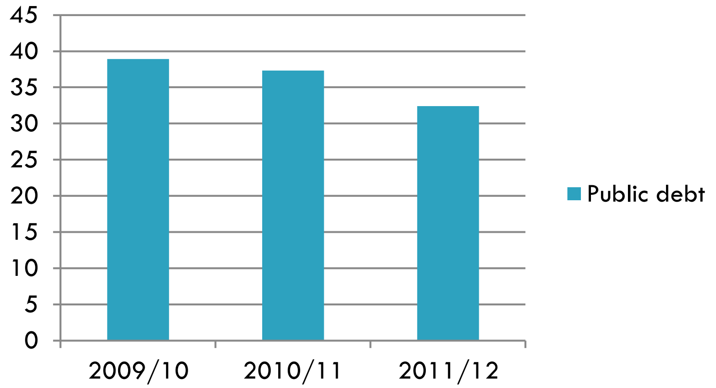
➢**However, due to the evolution of imports driven by huge investment demand, it comes out that the trade deficit has deteriorated, and that the current account balance is also under pressure.**

- ❑Which represents the excess of investment over savings and implying that we need to devote to raise the level of domestic saving;

➢**Fiscal performance appears adequate;**

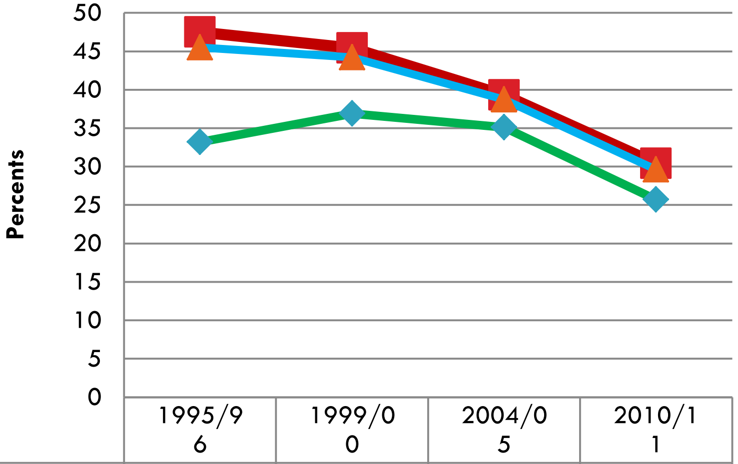
Defici & debt (in % GDP)





➢More importantly growth has contributed to lower poverty, in both urban and rural areas;

Population below the national poverty line (less than USD 0.6 per day)



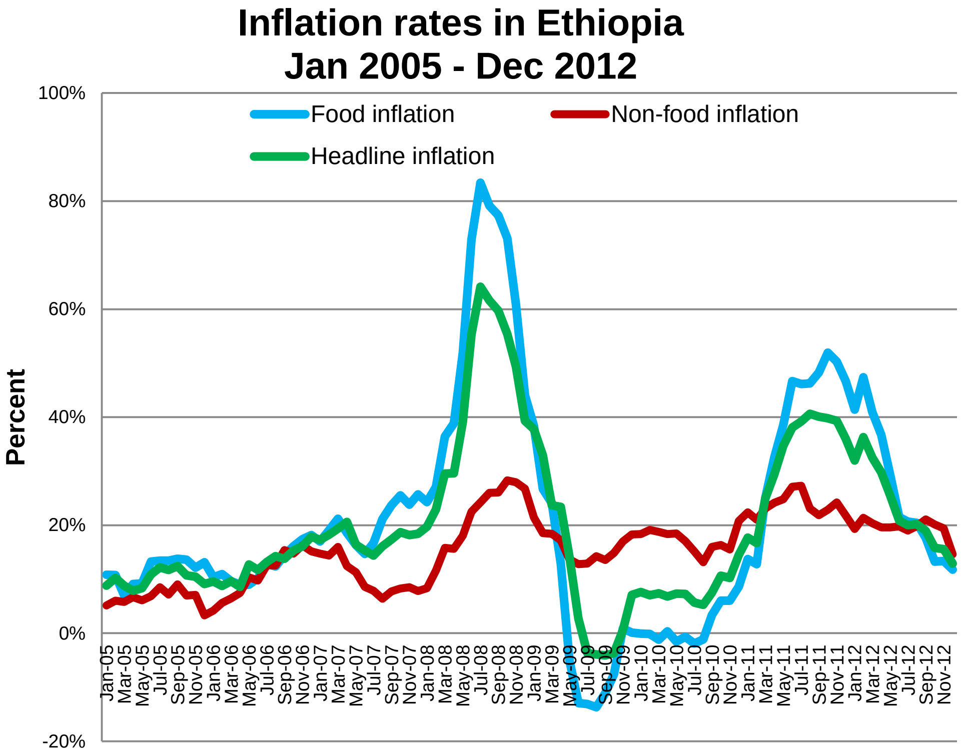
	1995/96	1999/00	2004/05	2010/11
Urban (%)	33.2	36.9	35.1	25.7
Rural (%)	47.5	45.4	39.3	30.4
Total (%)	45.5	44.2	38.7	29.6

❑38.7 percent of Ethiopians lived in extreme poverty in 2004/05, five years later this was 29.6 percent (decrease of 9.1 percentage points).

❑Social indicators have also improved significantly over the past few years.

Source: HICES (several issues).

➢Headline inflation rates in Ethiopia largely driven by developments in food price inflation – two spikes since 2005



Source: CSA

- ❑Headline inflation largely driven by food prices.
- ❑Also non-food inflation stayed high during these periods,
- ❑Some argue that some high growth East Asian countries also experienced high inflation in a particular moment; but these economies also were successful reducing inflation;
- ❑Indicating it may be good to learn a lesson from these countries;

Inflation should get much focus because:

- **Inflation has a negative impact on poverty**
  - Recently WB published a WP (WP3378, Pro growth, pro poor, Is there a trade off?) which estimated that a sustained increase in the inflation rate by 1 percent, could lead to an increase in poverty that depending on country circumstances could range between .1% and 2%, and with typical values around .5%;
  - Moreover, since the inflation is driven by food prices the situation can be more complex;
- **Inflation negatively affects investment rate;**

Generally on the economic performance;

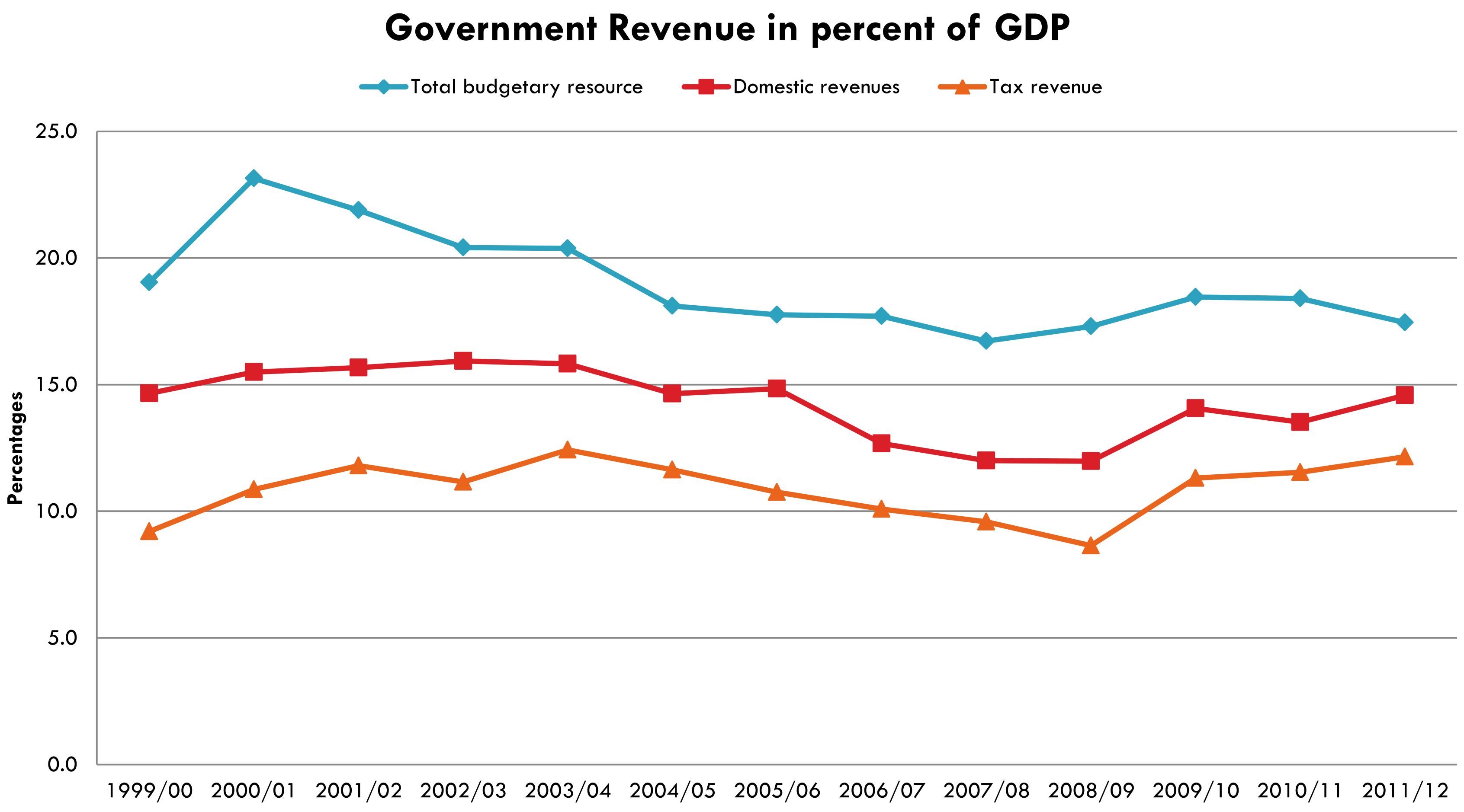
- **The country has an outstanding performance on the growth front;**
- **The external sector is growing and this is a positive development;**
  - But it is important to keep an eye on the domestic saving;
- **Fiscal management (CG) is adequate;**
- **Inflation, however, still needs serious attention;**
- **As domestic savings is on the low side needs to work aggressively to raise adequate financing for the five year's plan implementation;**

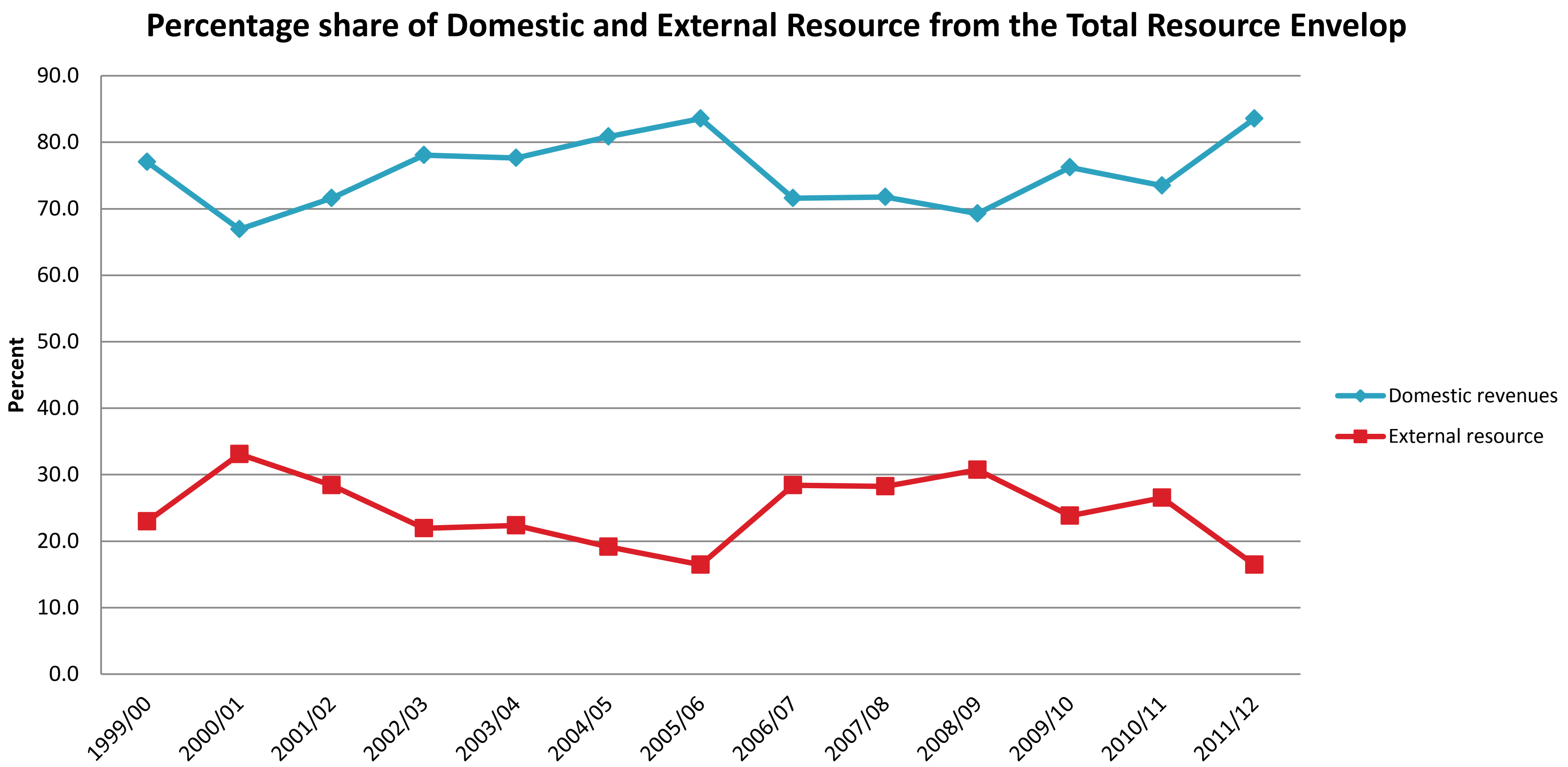
2. Tax regime

- **Ethiopia has undertaken very rigorous and comprehensive tax policy and administration reform over the past two decades;**
- **Scattered tax codes well integrated into one law;**
- **Income tax rates as high as 85 percent on higher income brackets were reduced to 35 percent;**
- **Corporate taxes reduced to 30 percent from 50 percent;**
- **Import duty rates as high as 230 percent could be reduced to 35 percent;**
- **New taxes introduced (VAT, TOT);**
- **Tax base broadened;**

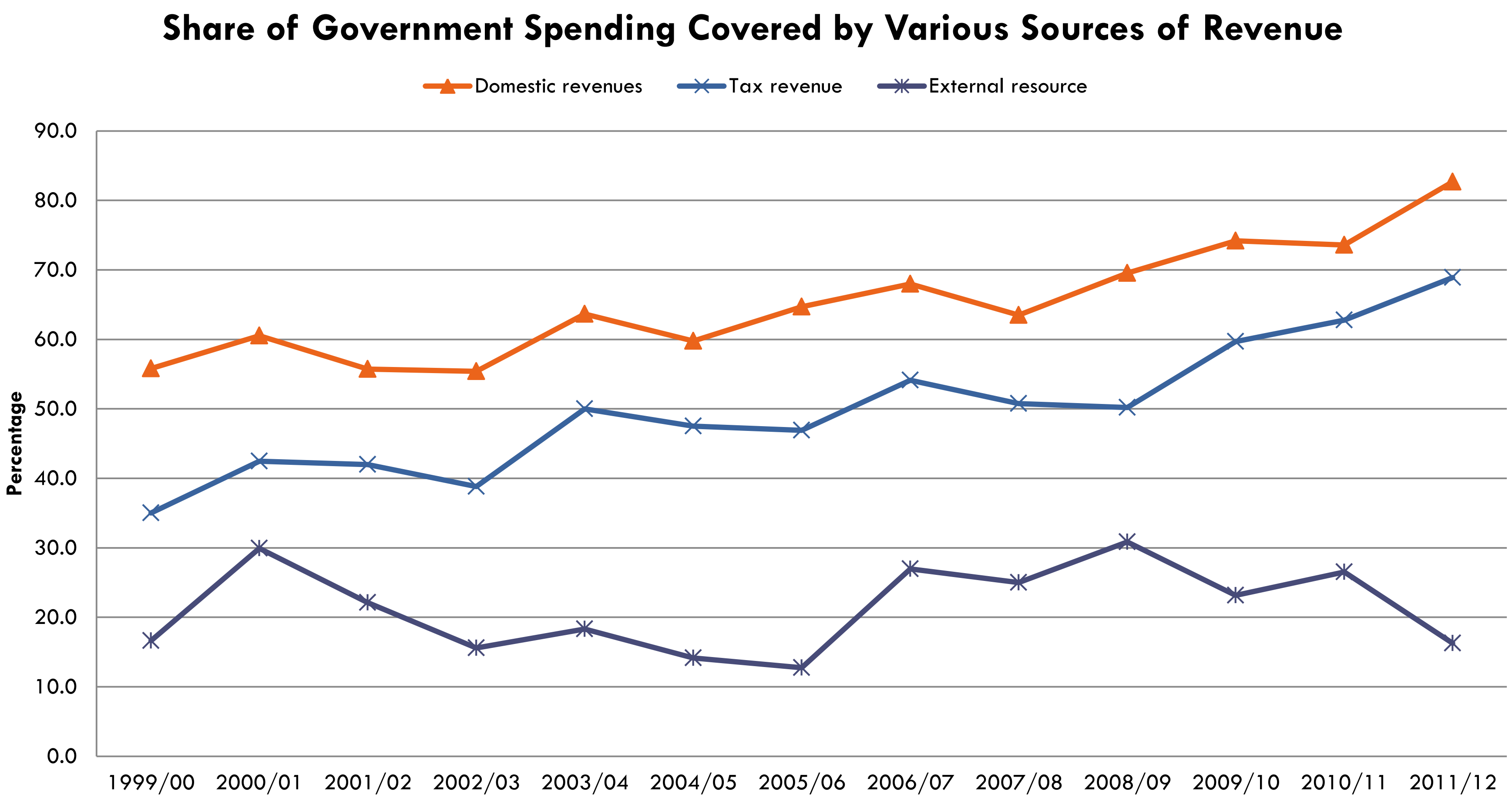
3. Revenue performances

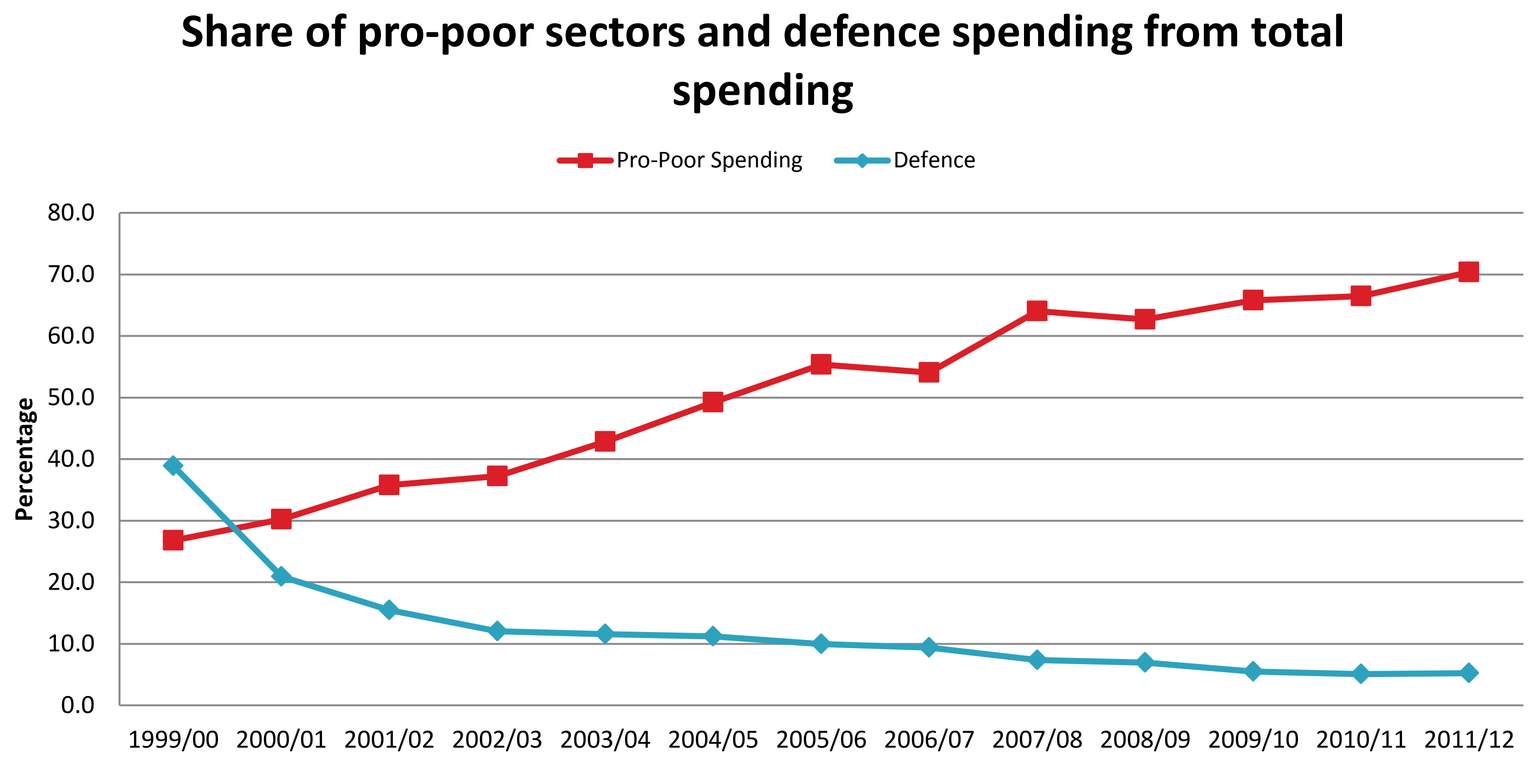
In percent of total resource													
Domestic revenues	77.0	66.9	71.6	78.1	77.6	80.9	83.6	71.6	71.8	69.3	76.2	73.5	83.6
Tax revenue	48.3	46.9	53.9	54.7	61.0	64.3	60.6	57.0	57.3	50.0	61.3	62.7	69.6
Direct Taxes	18.6	17.1	20.7	19.2	20.8	20.4	19.1	17.0	16.9	17.0	21.1	20.8	23.4
Indirect taxes	29.7	29.9	33.2	35.5	40.1	43.9	41.5	40.0	40.4	33.0	40.2	41.9	46.2
Domestic indirect taxes	11.4	8.8	10.6	11.3	10.4	14.1	13.3	13.1	12.3	12.6	15.2	16.7	18.9
Import duties and taxes	17.2	20.5	22.5	24.2	29.8	29.8	28.2	26.9	28.2	20.4	25.0	25.2	27.3
Export taxes 6/	1.2	0.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-tax revenue	28.7	20.0	17.7	23.4	16.7	16.6	23.0	14.6	14.4	19.3	14.9	10.8	13.9
External resource	23.0	33.1	28.4	21.9	22.4	19.1	16.4	28.4	28.2	30.7	23.8	26.5	16.4
Grants in kind/earmarked	11.7	14.1	7.3	11.5	9.9	11.6	11.9	11.5	10.7	8.4	7.9	7.3	6.6
Unearmarked grant	0.2	6.1	1.8	0.0	0.0	0.0	0.0	13.4	13.2	16.5	9.6	10.2	3.8
External loans	11.1	12.8	19.3	10.4	12.5	7.5	4.5	3.5	4.4	5.8	6.3	9.0	6.0
In percent of GDP													
Total budgetary resource	19.0	23.1	21.9	20.4	20.4	18.1	17.8	17.7	16.7	17.3	18.5	18.4	17.5
Domestic revenues	14.7	15.5	15.7	15.9	15.8	14.6	14.8	12.7	12.0	12.0	14.1	13.5	14.6
Tax revenue	9.2	10.9	11.8	11.2	12.4	11.6	10.8	10.1	9.6	8.6	11.3	11.5	12.2
Direct Taxes	3.5	4.0	4.5	3.9	4.2	3.7	3.4	3.0	2.8	2.9	3.9	3.8	4.1
Indirect taxes	5.7	6.9	7.3	7.2	8.2	8.0	7.4	7.1	6.8	5.7	7.4	7.7	8.1
Domestic indirect taxes	2.2	2.0	2.3	2.3	2.1	2.6	2.4	2.3	2.1	2.2	2.8	3.1	3.3
Import duties and taxes	3.3	4.7	4.9	4.9	6.1	5.4	5.0	4.8	4.7	3.5	4.6	4.6	4.8
Export taxes 6/	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-tax revenue	5.5	4.6	3.9	4.8	3.4	3.0	4.1	2.6	2.4	3.3	2.8	2.0	2.4
External resource	4.4	7.7	6.2	4.5	4.6	3.5	2.9	5.0	4.7	5.3	4.4	4.9	2.9
Grants in kind/earmarked	2.2	3.3	1.6	2.3	2.0	2.1	2.1	2.0	1.8	1.4	1.5	1.3	1.1
Unearmarked grant	0.0	1.4	0.4	0.0	0.0	0.0	0.0	2.4	2.2	2.9	1.8	1.9	0.7
External loans	2.1	3.0	4.2	2.1	2.5	1.4	0.8	0.6	0.7	1.0	1.2	1.7	1.1


Government Revenue in percent of GDP
Total budgetary resource
Domestic revenues
Tax revenue
Percentages
25.0
20.0
15.0
10.0
5.0
0.0
1999/00
2000/01
2001/02
2002/03
2003/04
2004/05
2005/06
2006/07
2007/08
2008/09
2009/10
2010/11
2011/12



Percentage share of Domestic and External Resource from the Total Resource Envelop
90.0
80.0
70.0
60.0
50.0
40.0
30.0
20.0
10.0
0.0
Percent
1999/00
2000/01
2001/02
2002/03
2003/04
2004/05
2005/06
2006/07
2007/08
2008/09
2009/10
2010/11
2011/12
Domestic revenues
External resource


Share of Government Spending Covered by Various Sources of Revenue
Domestic revenues
Tax revenue
External resource
Percentage
90.0
80.0
70.0
60.0
50.0
40.0
30.0
20.0
10.0
0.0
1999/00
2000/01
2001/02
2002/03
2003/04
2004/05
2005/06
2006/07
2007/08
2008/09
2009/10
2010/11
2011/12


Share of pro-poor sectors and defence spending from total spending
Pro-Poor Spending
Defence
Percentage
80.0
70.0
60.0
50.0
40.0
30.0
20.0
10.0
0.0
1999/00
2000/01
2001/02
2002/03
2003/04
2004/05
2005/06
2006/07
2007/08
2008/09
2009/10
2010/11
2011/12

3. Challenges

- **Low domestic saving;**
- **Low level of tax revenue collection; much less than sub-Saharan average;**
- **Though tremendous effort has been put in place still long way to establish modern and effective tax administration and tax compliance;**
- **Fiscal incentives in the form of tax relief & exemption to encourage investment being abused;**

Thank you