

ETHIOPIA

FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOW INCOME

LOCAL CURRENCY: ETHIOPIAN BIRR (ETB)

POPULATION AND GEOGRAPHY

Area: 1 104 300 km²
Population: 105 million inhabitants (2017), an increase of 2.6 % per year (2010-2015)
Density: 95 inhabitants / km²
Urban population: 20.3% of national population
Urban population growth: 4.7% (2017 vs 2016)
Capital city: Addis Ababa (4.2% of national population)

ECONOMIC DATA

GDP: 199.3 billion (current PPP international dollars), i.e. 1 899 dollars per inhabitant (2017)
Real GDP growth: 10.2% (2017 vs 2016)
Unemployment rate: 5.2% (2017)
Foreign direct investment, net inflows (FDI): 4 017 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 39.0% of GDP (2017)
HDI: 0.463 (low), rank 173 (2017)
Poverty rate: 27.3% (2015)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Until 1991, Ethiopia had a centralist government led by a military junta – the Derg government. In 1991, the Derg was overthrown by the Ethiopian People's Revolutionary Democratic Front (EPRDF) which departed from its unitary past and instituted a legal framework that reconstituted the state into a Federal Democratic Republic. The EPRDF further devolved power along nationality and ethnic lines to regional states first, and then to the *woreda* (district) and *kebele* (village) levels. The Constitution ratified in 1994 and in force since 1995 states that "every Nation, Nationality and People in Ethiopia has an unconditional right to self-determination, including the right to secession" (article 39 of the Constitution).

Decentralization in Ethiopia has occurred in two distinct phases: the first started in 1992 and lasted until 2001. During this phase, powers, functions and resources were transferred from the centre to the regional governments. The EPRDF reorganized the state into new administrative divisions consisting of 9 Regional States, the federal capital city of Addis Ababa, and the special administrative region of Dire Dawa. This process opened the way for increased political development across Ethiopia. The 1995 Constitution of Ethiopia is neutral on the subject of local government. However, article 39 of the Constitution provides for the right to a full self-government including the right to establish institutions of government in the territory. This provision has been used by the regional states to establish local governments. Each region has developed specific proclamations that specify the powers, duties and responsibilities of local governments.

The second phase of decentralization started in 2001. This period marked the beginning of a process of deepening decentralization in Ethiopia by transferring powers, resources and functions beyond the regional states to the local governments (*woreda*/district).

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	Districts (800 <i>Woredas</i> and 116 city administrations)		11 Regional States (of which 2 are chartered cities – Addis Ababa and Dire Dawa) Singular <i>Kilil</i> , plural <i>Kililoch</i>	
	Average municipal size: 114 630 inhabitants			
	916		11	927

OVERALL DESCRIPTION. Since 1991, the current government has adopted a system of devolution to local government, within a federal system, as a strategy to advance and to manage the ethnic diversity of Ethiopia. The 1995 Constitution established the country as a federation of multi-ethnic nations and identified nine regional states as the subnational entities that constitute the Ethiopian federation. In addition to the regional states are the federal capital city of Addis Ababa, and the special administrative region of Dire Dawa. Until 2001, Ethiopia was composed of four levels of government – federal, regional, *woredas* (municipal/city) and *kebele* (neighbourhood level). In 2001, a revision in the 1995 Constitution resulted in the recognition of an additional layer of local government, the zonal government. Zonal governments are intermediary between regional states and *woredas*.

REGIONAL LEVEL. The regional states all have their own individual constitutions. In each regional state, there is a regional council that is the decision-making organ. The council members are directly elected and represent the various *woredas*. Zonal governments are de-concentrated bodies of regional states. However, in some regions (Amhara and Southern Nations, Nationalities, and Peoples' Region (SNNP) state), the zonal level have an elected council and is more relevant than in other regional states.

MUNICIPALITIES. The *woredas* are created by regional constitutions. They are the most important institutions established to exercise autonomous power next to the regional states. Although *woredas* are not formally established by the federal Constitution, the regional constitutions have made provisions concerning their existence, power and functions. *Woredas* consist of a council and an executive. The *woreda* councils are made up of directly elected representatives from each *kebele* in the *woredas*. In addition to *woredas*, there are city administrations, which are considered at the same level as the *woredas*. A city administration has a mayor who is elected by members of the city council.

The lowest level of local government is the *kebele*. The *kebele* is at the neighbourhood level and is the primary contact for the majority of citizens living in Ethiopia. A *kebele* administrative unit consists of an elected council, a cabinet (executive committee), a social court and the development and security staff posted to each. *Kebeles* are accountable to their *woreda* councils and are typically responsible for providing basic services such as education, primary health care, agriculture, water, and rural roads.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

According to the Ethiopian constitution (Article 52), regional states are granted, among others, the power/liberty to “enact” their constitution, to administer land and other natural resources, to levy taxes and duties on revenue sources reserved for the states, to enact and enforce state civil service laws, and to establish state police force and to administer it.

The state constitutions aim to allocate power among state organs and power centres, to limit powers of government and to guarantee protection for citizens.

State constitutions are a symbol of sub-national sovereignty. They typically establish a clear division of powers between state and local governments. Most state constitutions deal with the legislative, executive and judicial powers and organizational structure of local governments (zones, *woredas* and city governments).

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	STATE LEVEL	MUNICIPAL LEVEL
1. General public services	Administrative services (marriage, birth, etc.); Public buildings and facilities (town houses, etc.); Administration and operation of general services (non-assigned to specific functions); Basic research activities (non-assigned to specific areas)	Administrative services (marriage, birth, etc.); Public buildings and facilities (town houses, etc.); Administration and operation of general services (non-assigned to specific functions); Basic research activities (non-assigned to specific areas)
2. Public order and safety	Police; Firefighting; Civil protection & emergency services; Road traffic control and traffic signs and lights; Defence (military and civil)	Civil protection; Emergency services
3. Economic affairs / transports	Road networks and facilities (highways, national, regional); Railway networks and facilities (national, regional, local); Airports (international, national, local); Ports (sea and fishing, inland waterways); Public transport (road, railways, tramway); Support to local enterprises and entrepreneurship; Agriculture, rural development, irrigation; Telecommunications and IT; Manufacturing and construction; Mining; Tourism; Commerce; Energy (electricity)	Road networks and facilities (local); Agriculture; Rural development; Irrigation; Support to local enterprises and entrepreneurship; Energy (electricity); Transport facilities (bus terminals and market places); Slaughterhouses
4. Environmental protection	Parks and green areas; Nature preservation	Waste management (collection, treatment and disposal of waste); Sewerage (waste water management); Street cleaning; Environmental protection; Air pollution; Soil and groundwater protection
5. Housing and community amenities	Housing (subsidies); Housing (Construction/renovation); Housing (Management); Urban and land use planning	Housing supply; Drinking water distribution; Urban and land use planning
6. Health	Primary healthcare (medical centres); Hospital services (general and specialist); Preventative healthcare	Primary healthcare (medical centres); Public health services
7. Recreation, culture & religion	Sports and recreation; Libraries; Museums; Cultural heritage and monuments; Media and Broadcasting and publishing services; Religious affairs	Cultural activities (language)
8. Education	Pre-primary education; Primary education; Secondary education; Higher education; Vocational education and training; Special education; Research & Development	Primary education; Secondary education
9. Social protection	Social care for children and youth; Support services for families; Elderly; Disabled people; Social exclusion and poverty (benefits and policies); Social welfare centres; Housing subsidies and benefits; Unemployment subsidies and benefits	Social welfare centres; Unemployment subsidies and benefits

SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

Scope of fiscal data: regional states and local governments (<i>woredas</i> and city administrations). No distinction is made across subnational levels.	Other: Ministry of Finance and Economic Cooperation	Availability of fiscal data: Medium	Quality/reliability of fiscal data : Low
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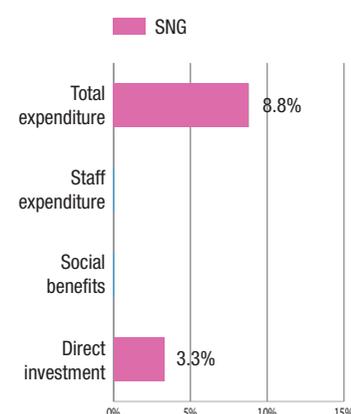
GENERAL INTRODUCTION. Although Ethiopia has adopted a strong legal framework for fiscal decentralization and the management of resources, there is still room for improvement in the federal government’s overall fiscal transparency. The budget is not available to the public at the time it is submitted to Parliament, nor are budget execution reports during the year. In addition, the Constitution of Ethiopia does not provide for the auditing of local government accounts – the Article 101 on the Auditor General limits this office’s field of action to ministries and other agencies of the federal government.

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SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2015/2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE			% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
	SNG	State	Local	SNG	State	Local	SNG	State	Local	
Total expenditure	152			8.8%			100%			
Inc. current expenditure	95			5.5%			62.4%			
Staff expenditure										
Intermediate consumption										
Social expenditure										
Subsidies and current transfers										
Financial charges										
Others										
Incl. capital expenditure	57			3.3%			37.6%			
Capital transfers										
Direct investment (or GFCF)	57			3.3%			37.6%			



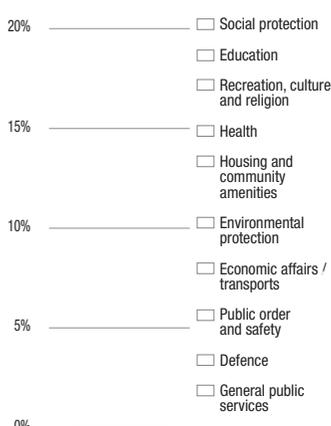
EXPENDITURE. Total national expenditure has increased significantly in Ethiopia and two major shifts in the national expenditure patterns have been observed in the last decade, which include (1) a reallocation of national expenditure from federal to regional governments, and (2) a reallocation of national expenditure from current to capital expenditure. Since 2006/07, the share of national capital expenditure has reached more than 50% of the total. While the share of the federal government spending declined from 63.4% in 2009/10 to 47.9% in 2014/15, the share of subnational government expenditure increased from 36.6% to 52.1% of the total respectively. In FY 2015/16, total SNG expenditure accounted for 48% of total GG expenditure.

As noted in a 2017 UNICEF budget analysis report, subnational governments are primarily undertaking current expenditures (62.4% of SNG total expenditure in FY2015/16), leaving more responsibility for federal government to finance large countrywide capital projects. As a result, the share of subnational governments in national current expenditure has been higher than the share of the federal government.

DIRECT INVESTMENT. No data available.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT			SNG EXPENDITURE AS A % GDP	% OF TOTAL SNG EXPENDITURE
	SNG	State	Local	SNG	State	Local		
Total expenditure								
1. General public services								
2. Defence								
3. Security and public order								
4. Economic affairs / transports								
5. Environmental protection								
6. Housing and community amenities								
7. Health								
8. Recreation, culture and religion								
9. Education								
10. Social protection								

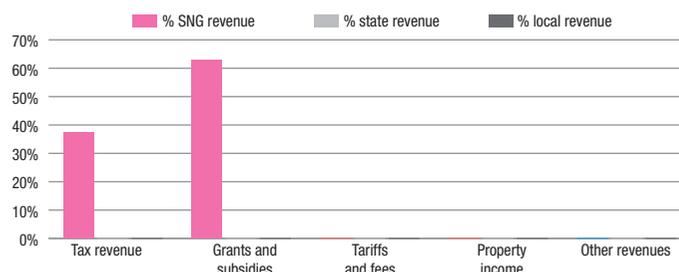


As part of Ethiopia's public sector-led development strategy, the federal government has maintained a high level of pro-poor expenditure (in the areas of education; health and nutrition; road construction; water, energy and electricity; as well as agriculture and food security), averaging over 12% of GDP over the past decade. In FY 2015/16, the distribution of pro-poor expenditure accounted for 68% of total national expenditure.

Most of the total social sector expenditure is undertaken at the sub-national level. For example, in 2015/16 about 60% of the national health and nutrition on-budget expenditure and 47% of the national education expenditure were incurred by subnational governments.

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2015/2016	% GDP			% GENERAL GOVERNMENT (SAME REVENUE CATEGORY)			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT REVENUE				
	SNG	State	Local	SNG	State	Local					
Total revenue	10.0%			57.8%							
Tax revenue	3.7%			30.1%							
Grants and subsidies	6.3%										
Tariffs and fees											
Property income											
Other revenues											



OVERALL DESCRIPTION. The regional governments are entitled to collect their own revenue in their respective regions from individual businesses, farmers, land and property. In FY2015/16, the federal government collected 75 % of all revenues. The share of domestic regional government revenue in the country's total domestic revenue is gradually increasing over time: it has grown from 19% in 2010 to 30 % in 2016. Nevertheless, nearly two thirds of regional government resources still come from grants and subsidies.

According to the 2016 World Bank Ethiopia Public Expenditure Review, aside from the two city administrations of Addis Ababa and Dire Dawa as well as Harari, Tigray region is by far the most decentralized, with 56% of expenditure made at woreda level. This is in contrast to Afar region, at the opposite end of the spectrum, where 38% of spending is carried out at the *woreda* level. To address the imbalances, 1% of the total regional subsidy budget is generally allocated unconditionally to Afar, Benishangul-Gumuz, Gambella and Somali regional states.

TAX REVENUE. The federal government in Ethiopia collects the majority of the tax revenue. The nine regional states and the two chartered cities (Addis Ababa and Dire Dawa) accounted for only 30 per cent of total tax revenue collection in FY 2015/16. Of that amount, the largest share was collected by Addis Ababa, followed by Oromia, Amhara, and Southern Nations, Nationalities and Peoples' Region (SNNP), with the remaining six regional states and Dire Dawa city administration accounting for less than 4%. With the exception of the Addis Ababa city administration, the tax revenues collected by regional states is insufficient to cover expenditure needs. As a result, regional states depend on federal government transfers to cover the majority of their spending.

The Ethiopian constitution identifies three groups of revenue sources that are assigned either exclusively to the federal government (Art. 96) or states (Art. 97), or jointly to both levels of government (Art. 98). Taxes assigned exclusively to regional states include: income taxes on employees of the state and private enterprises; taxes on the income of private farmers and farmers incorporated in cooperative associations; profit and sales taxes on sole traders carrying out business within their territory; and profit sales excise and personal income taxes on the income of enterprises owned by the states.

GRANTS AND SUBSIDIES. Federal transfers to subnational governments have more than doubled over the last three years. Regional states receive both block grants and conditional special grants from the federal government. Transfers are made to regional governments based on an equity formula that takes into account population size, level of infrastructure development (with priority given to disadvantaged regions), revenue potential and expenditure assessment for the provision of basic services, at the level of each region. In FY 2015/16, total subsidies and grants to subnational government amounted to ETB 96.85 billion, i.e. \$109 PPP per capita, (of which ETB 84.85 billion were allocated to regional block grants, i.e. \$95 PPP per capita, and ETB 12 billion for SDG/MDG support, i.e. \$14 PPP per capita). These grants and subsidies represented more than 60% of SNG total revenue.

OTHER REVENUES. Regional states and chartered cities (Addis Ababa and Dire Dawa) benefit from other sources of revenues such as administrative fees and charges, work permits, court fines and fees, forfeits, business and professional registration and license fees; sales of public goods and services; government investment income; and miscellaneous revenues. For example, the city of Addis Ababa raises revenues through urban land lease. However, the overall share of other revenues is minimal and has tended to decline in recent years.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local

Total outstanding debt

Financial debt*

* Currency and deposits, loans and bonds

FISCAL RULES. No data available.

DEBT. Regional states are legally allowed to borrow, with a set of limitations. They can only borrow on the domestic market and with the supervision and approval of the federal state which decides on the amount to borrow based on the region's financial capacity. However, borrowing appears to be very limited at the local level in Ethiopia.



Lead responsible: UCLG
Last update: 02/ 2019

www.sng-wofi.org

Socio-economic indicators: World Bank // UNDP // UN Desa // ILO.

Fiscal data: World Bank (2016) Ethiopia Public Expenditure Review // UNICEF (2017) Budget Brief, Ethiopia.

Other sources of information: UCLG Africa and Cities Alliance (2018) Assessing the Institutional Environment of Local Governments in Africa // UNDESA (2017) Ethiopia Voluntary National Review // Tilahun, M. (2014) Local Government in Ethiopia: Practices and Challenges. Journal of Management Science and Practice // Ayele, Z. A. (2014) The politics of sub-national constitutions and local government in Ethiopia. Perspectives on Federalism // Gebre-Egziabher, T., & Dickovick, J. T. (2010) Comparative assessment of decentralization in Africa: Ethiopian desk study. USAID // Yesegat, W. A., & Krever, R. (2018) Subnational Value Added Tax in Ethiopia and Implications for States' Fiscal Capacity.