

ETHIOPIA

FEDERAL COUNTRY

AFRICA

BASIC SOCIO-ECONOMIC INDICATORS

Income group - **LOW-INCOME** Local currency - **Ethiopian Birr (ETB)**

POPULATION AND GEOGRAPHY

AREA: **1 104 300** km²

POPULATION: **96.958** million inhabitants (2014),
an increase of 2.6% per year (2010-14)

DENSITY: **88** inhabitants/km²

URBAN POPULATION: **19.5%** of national population

CAPITAL CITY: **Addis Abeba** (3.3% of national population)

Sources: World Bank database, UNDP-HDR, ILO

ECONOMIC DATA

GDP: **145.4** billion (current PPP international dollars)
i.e. 1 500 dollars per inhabitant (2014)

REAL GDP GROWTH: **10.3%** (2014 vs 2013)

UNEMPLOYMENT RATE: **5.3%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **1 200** (BoP, current
USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **38%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.442**(low), rank **173**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|---|--------------------|---|----------------------|
| 770 DISTRICTS (WOREDAS) AVERAGE MUNICIPAL SIZE: 125 919 INHABITANTS | - | 11 9 AUTONOMOUS REGIONAL STATES (KILILLOCH) AND 2 CHARTERED CITIES (ADDIS ABABA AND DIRE DAWA) (ASTEDADER AKABABIWOCH) | 781 |

MAIN FEATURES OF TERRITORIAL ORGANISATION. Ethiopia is a federal country with a two-tiers structure of decentralized governance. The country's current Constitution from 1995, establishes the federal structure based on nine ethnic regional states and two special status cities. Each region has its own autonomous and elected government. They are assigned with extensive powers by the Constitution. As the decentralization process progressed asymmetrically, it is hence difficult to know the exact number of local governments in Ethiopia. For these highly decentralized regional states, the decentralization is structured into zones, districts (*woredas*) and wards (*kebele*). As the decentralisation of governance to the regional states level started in 1995, a second phase of decentralisation took place in 2002, with the bulk provision of public services being devolved to the sub-regional governments. The second level is composed of the districts (*woredas*), which can be rural or urban. Below the *woredas*, the next level of decentralisation is made of small demographic units (around 5000 inhabitants), the wards (*kebele*), which can be divided into sub-level entities. In parallel to *woredas* decentralization, municipalities have been assigned with the governance of urban centers of importance. Their executives are appointed by a higher level of government. However their role still unclear.

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. Division of responsibilities between the different levels of governments is driven by a subsidiarity principle enshrined in the 1995 constitution. Each sub-federal government is responsible for the provision of public services at its level, whereas the federal state is responsible for all powers that have not been delegated to the regional level, or for shared competences. Regions and *woredas* competences are dictated by the constitution. The regional governments are responsible for the implementation of economic and social development policies, and for maintaining public order. The zones serve as an intermediary level between *woredas* and region and are also headed by elected executives and councils. The *woredas* are in charge of water provision and distribution, local roads building and maintaining, primary school and primary health care services, as well as veterinary services, agricultural activities management and natural resources protection. As for the *kebele*, their powers are not formally stated for in the constitution. As the lowest level of subnational government, and thus act in all proximity matters. They form users communities in charge of proximity services implementation and regulation, e.g. water users, parents-teachers associations, etc.

SUBNATIONAL GOVERNMENT FINANCE

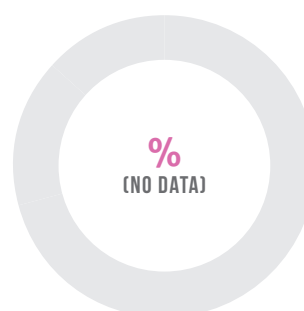
| EXPENDITURE | % GDP | % GENERAL GOVERNMENT (same expenditure category) | % SUBNATIONAL GOVERNMENT |
|--------------------------|-------|---|-----------------------------|
| TOTAL EXPENDITURE (2013) | - | - | - |
| CURRENT EXPENDITURE | - | - | - |
| STAFF EXPENDITURE | - | - | - |
| INVESTMENT | - | - | - |

Expenditure distribution has not been clearly dictated by the constitution, and their assignment emanates from the competences and powers devolution. This lack of specification or of a single law aiming to clarify the situation creates an ambiguity in the relation between regional states and *woredas*. However the size of sub-national governments expenditure has grown extensively over the last decade.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE

- GENERAL PUBLIC SERVICES
- DEFENCE
- SECURITY AND PUBLIC ORDER
- ECONOMIC AFFAIRS
- ENVIRONMENTAL PROTECTION
- HOUSING AND COMMUNITY AMENITIES
- HEALTH
- RECREATION, CULTURE AND RELIGION
- EDUCATION
- SOCIAL PROTECTION



In 2011/12 fiscal year, the regional investment rate represented 20% of public sector investment, or 2.8% of GDP. Regarding the woredas, their share in roads investment was of 26% (7% for Regions) with a net growth of 44,5% since 2010, this increasing trend being a result of the federal government will, and the increasing means dedicated to it through intergovernmental transfers over the last years. Primary education enrollment also grew (+3%) during 2012 year, which both reveals the importance of woredas level for basic infrastructures investments, and their dependence to national priorities and funding.

| REVENUE BY TYPE | % GDP | % GENERAL GOVERNMENT (same revenue category) | % SUBNATIONAL GOVERNMENT |
|----------------------|-------|---|-----------------------------|
| TOTAL REVENUE (2012) | - | - | - |
| TAX REVENUE | - | - | - |
| GRANTS AND SUBSIDIES | - | - | - |
| OTHER REVENUES | - | - | - |

Unlike expenditures assignment, revenue sources are clearly assigned to the federal and regional states. However, local governments fiscal revenues are undermined by weak fiscal bases and collection problems, making the local governments highly relying on intergovernmental transfers, and thus limiting their autonomy.

TAX REVENUE. According to the constitution, regional states can levy income tax on employees of the state government ; agricultural tax from farmers ; tax on individual traders, houses and other property owned by private persons or regional government ; sales tax from public enterprises owned by the state government ; forest products. They also receive income from shared taxes levied by the federal government on profit, sales, exercise, and personal taxes on enterprises (the list of whom is jointly established); taxes on the profits of shareholders (companies and individuals) ; taxes on the incomes of derived from large-scale mining, petroleum and gas operations. This regional system of taxation creates important inequalities of resources between regions. Vertical imbalances are generated by the limited tax bases in the country. Also, there is a disproportion between federal and regional state, and between the regional states themselves, in the distribution or shared taxes. For instance the chartered city of Addis Ababa, estimated to generate a quarter of national GDP, has the power to create new taxes and levies.

GRANTS AND SUBSIDIES. Regional states receive both block grants and conditional special grants from the federal government. These grants allocation is based on population weight, expenditure needs assessment and revenue potential of each region. In 2009, intergovernmental transfers represented from 45% to 80% of regional expenditures, creating a high dependency of regional governments and thus reducing their autonomy. Woredas are facing a similar situation as they are mostly relying on regional transfers to fund their spendings.

OTHER REVENUES. Regional states and chartered cities also benefit, to the margin, from other sources of revenues such as administrative fees and charges, such as 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. The city of Addis Ababa is also rising revenues through urban land lease, yet the share of this source of revenues in its local revenues is decreasing.

| OUTSTANDING DEBT | % GDP | % GENERAL GOVERNMENT |
|-------------------------|-------|----------------------|
| OUTSTANDING DEBT (2013) | - | - |

Regional states are legally allowed to borrow, with a set of limitations: they are only able to borrow on domestic market, with the supervision and approval of the federal state which holds the decision in terms of amount that is to be borrowed according to the region's financial capacity. However, borrowing seems to be very limited at the local level in Ethiopia.

A joint- study of:



Source of Statistics: • S.Yilmaz, V.Venugopal, (2008), *Local government discretion and accountability in Ethiopia*, International studies program working paper 08-38, Andrew Young school of policy studies • Alefe Abeje Belay (2014), System of division of revenue in Ethiopia, European Scientific Journal • D.Assefa, *Fiscal (2015) Decentralization in Ethiopia: Achievements and Challenges*, "Public Policy and Administration Research", Vol.5, No.8 • National Bank of Ethiopia, Annual report 2012/13 available on <http://www.nbe.gov.et/pdf/annualbulletin/Annual%20Report%202012-2013/Annual%20Report%202012-2013.pdf>