

# History of the Post-War Ethiopian Fiscal System

*Wogene Yirko*

## I. Introduction

The history of raising government revenue during the post-1941 period goes back to March 1942, to the promulgation of Proclamation 8 of 1942<sup>1</sup>. In the first paragraph of the preamble of that proclamation, the Emperor stated that "in order to accomplish the establishment of Our Government, the prosperity of the country and the well-being of Our People, land taxes shall be levied" (*Negarit Gazeta*, 1<sup>st</sup> Year, No.1: 17).

That statement, though specifically related to the levying of land tax, expressed the objective behind raising revenue as being the restoration of the government. The necessity of modernizing the country entailed a need to exploit available and additional sources of revenue. That need has been expressed and realized by the issuance of subsequent laws that required citizens to pay their share of the cost of the modernization process. And the laws changed over time with changes in the development of the economy and the political system of the country. Both have determined the sources of revenue available to the government and the revenue structure.

Though the laws changed over time, they applied uniformly to all regions of the country and were largely implemented by branch offices of the Ministry of Finance. However, both the magnitude and the composition of revenue collected from the various regions of the country have varied depending on their respective resource bases, economic development, accessibility, and the administrative capacity of the central government itself.

In Ethiopia, the allocation of public resources to the various functions of government and to the different regions of the country has so far been decided at the centre. This paper attempts to trace the inter-temporal and regional developments of the Ethiopian fiscal system, to analyze the possible effects of the operation of the public sector on the economy and to present a statistical base for future work along these lines. However, the limited available data have constrained us from presenting a historical review of centre-region fiscal relations during the last five decades. Our analysis of that aspect of the fiscal system is therefore based on ten-year data, spanning 1978/79-1987/88.

---

<sup>1</sup> It seems that there had been various laws in operation pertaining to the payment of taxes prior to the establishment of the *Negarit Gazeta* in 1942.

## II. A Historical Review of Central Government Revenue and Expenditure

An exhaustive treatment of the history of the post-war Ethiopian fiscal system should go back to 1941. However, according to Perham,

during the first two years [1941-43], it is not surprising that it proved impossible to draw up a proper budget. The task has proved difficult even for some modern states emancipated from enemy occupation. The newly appointed ministers were quite unaccustomed to the process of drawing-up estimates, of budgeting forward, of submitting all their plans and payments to the public scrutiny and acting under the rigid discipline of modern centralized finance ( Margery Perham 1969: 200).

She has, however, provided information on revenue collected and the expenditures made by the central government between 1942/43 and 1944/45. While itemized revenue and expenditure figures were provided for 1943/44 and 1944/45, those for 1942/43 were aggregates. All figures were given in Maria Theresa dollars.

Shiferaw Jamo, on the other hand, provides average figures of central government revenue and expenditure between 1943 and 1949. According to him, between those two years, while "revenue averaged about 51 million birr, rising from 28 million birr to 62 million birr..., expenditures averaged 49 million birr, increasing from 26.8 million birr to 69 million birr" (Shiferaw 1992). However, he has neither cited his source of data, nor indicated the method he applied to convert the revenue and expenditure figures from the various currencies that were in operation in different periods to the birr, which had not existed prior to July 23, 1945. And we were unable to obtain data for 1946-50 from the Ministry of Finance. Thus, our treatment of this section begins from 1950.

The data used in this section have their sources in forty annual reports of the Ministry of Finance titled "Central Government Revenue and Expenditure" and were reorganized in accordance with the classification system of the International Monetary Fund's *Government Finance Statistics*.

### *A. Level and Composition of Ethiopian Government Revenue*

As shown in Appendix Table 1, the overall level of Ethiopian government revenue rose substantially from about 67 million birr in 1950, to about 3.9 billion birr in 1989. However, the level and growth of revenue must be seen in relation to that of the GDP and not in absolute terms (Musgrave and Musgrave 1984), even if taking that ratio would mean losing 11 observations (1950-1960) because GDP figures date back to only 1961<sup>2</sup>. Appendix Table 2 provides information on the level and growth of revenue. Between 1961 and 1989 government revenue as a ratio of GDP rose from about 7 percent to around 31

---

<sup>2</sup> Data on GDP for the 1950's are available for only three years and these were estimated for the purpose of planning. Official GDP estimates for the country date to 1961, after the establishment of the Central Statistics Office.

percent. Between 1961 and 1969 this ratio averaged 8.7 percent, increasing by about 0.25 percentage points annually (Table 1). During the seventies the ratio increased from about 9.5 percent to slightly more than 17 percent, recording an average annual increase of 0.77 percentage points. By 1980 the level had risen to 18.2 percent and stood at 31.2 percent, by the end of the decade.

A comparison of revenue-GDP ratios during the pre-and post-1974 periods indicates that while the ratio during the pre-1974 period rose from about 7 to 11 percent, it increased from 12.8 percent to 31.2 percent during the post-1974 period. Thus, while the ratio was increasing annually by about 0.27 percentage points during the imperial era, the comparative figure for the period of the *Derg* was 1.23 percentage points.

The rise in the revenue-GDP ratio is explained by a number of factors, including the change in the composition of GDP and the gradual rise in money per capita income. The contribution of agriculture to GDP declined between 1960/61 and 1989/90, from about 70 percent to about 40 percent. The share of industry and services, on the other hand, showed a gradual increase in those thirty years. While industry's share in GDP increased from about 11 percent to about 16 percent, the contribution of the services sector rose from about 20 percent to more than 40 percent. This change in the structure of the economy (which is indicative of the transformation process) implies a movement away from a primitive agrarian economy with a limited revenue base to a more monetized one. Growth in population, urbanisation and changes in the political system have also had an impact on the rise in the revenue-GDP ratio.

The overall growth of the revenue-GDP ratio was accompanied by changes in the composition of revenue. Between 1950 and 1989 taxes contributed between 91 percent and 61 percent of total government revenue. The non-tax revenue share, on the other hand, varied between 8 percent and 38 percent. During the fifties, the share of tax revenue in total government revenue averaged 88.8 percent, while the corresponding figure for non-tax revenue was 10.8 percent. During the sixties, however, the contribution of taxation to total revenue varied between 86 and 91 percent. As in the fifties, the average of the decade rose by about 1.1 percentage points over the average of the preceding decade, whereas the average share of non-tax revenue declined by about 0.9 percentage points. During the seventies and eighties, in contrast, while the share of taxes in total revenue was declining, that of non-tax revenue was rising. Thus, while in the seventies the average tax contribution to total revenue had been 85.6 percent, its share in the eighties declined to about 77.6 percent. Corresponding to the decline in the share of tax revenue, the non-tax revenue share increased from about 14.1 percent to about 25.9 percent, on the average, between the two decades.

*Wogene: History of the Post-War Fiscal System*

**Table 1: Summary of the Levels and Composition of Government Revenue 1950-1989**

	1950- 1959	1960- 1969	1970- 1979	1980- 1989	1950- 1974	1975- 1989	1950- 1989
1.Total Revenue (% of GDP)	-	8.71	12.54	23.56	9.29	20.62	15.15
1.1. Tax Revenue	-	7.81	10.68	17.14	8.29	15.49	12.02
1.2. Non-Tax Revenue	-	0.88	1.84	6.30	0.98	5.04	3.08
2.Tax Revenue (% of Total Revenue)	88.75	89.86	85.59	77.63	89.14	76.66	84.46
2.1. Taxes on Income	8.05	12.04	20.90	26.64	12.38	24.46	16.91
2.2. Taxes on Property	18.10	10.01	3.04	2.08	12.04	2.08	8.31
2.3. Taxes on Good & Services	61.80	66.67	60.67	44.24	63.69	49.43	58.35
2.3.1. Domestic	15.59	25.31	25.77	22.15	22.24	22.15	22.21
2.3.2. International	46.21	41.36	34.90	22.09	41.45	27.28	36.14
3.Non-Tax Revenue (% of Total Revenue)	10.83	9.96	14.14	25.85	10.59	22.89	15.20
3.1. Enterprise and Profit Income	4.92	5.15	5.89	18.56	4.95	13.43	8.13

Source: Computed from Appendix Table 2

Thus, during the pre-1974 period, the contribution of taxes to total revenue ranged between 91.5 percent and 84.4 percent, the average of the period being 89 percent, whereas during the post-1974 period this share declined from 86 percent (reached in 1977) to about 61 percent.

As one may clearly see from Appendix Table 2 and Table 1, the share of non-tax revenue, which in general was declining during the fifties and sixties, started to record a marked rise during the post-1974 period. This rise was basically the result of the inclusion of new sources of revenue from state-owned enterprises in the form of capital charge and residual surplus. However, the occasional flows of resources to the state treasury in the form of "contributions to safeguard the unity of the country" have also some share in explaining the rise.

Though the contribution of taxes to total revenue has been declining, they have remained the main source of government revenue in Ethiopia. Throughout the first three decades (1950-1979), the larger part of Ethiopian government revenue was drawn from taxes on international trade transactions. However, their share in total revenue was also declining in those three decades. Their average contribution, which during the fifties had been 46 percent, declined to 41 percent during the sixties and to about 35 percent during the seventies. During the eighties, while the contribution of taxes on international trade was significantly surpassed by that of taxes on income, their percentage contribution was equal to that of taxes on domestic goods and services.

During the fifties, taxes on property (including land tax, education tax, health tax, tithe, taxes on transfer of property and taxes on construction work) came second in revenue importance to taxes on international trade transactions. But their share during the decade experienced a marked decline from about 25 percent to 13 percent. Since then, however, their contribution declined consistently until 1978, when rates of the land use fee paid by members of cooperatives and individual farmers were raised from 3 and 4 birr to 5 and 10 birr, respectively. Although their decline was halted in that year, it continued in subsequent years, reaching its minimum level of 1.2 percent in 1989.

The share of domestic taxes on goods and services<sup>3</sup> in total revenue, which had hitherto occupied third place, experienced a sharp rise during the sixties and took over the second place from property taxes, excelled only by taxes on international trade. In fact, the share of these taxes, with slight ups and downs, was consistently rising from the mid-fifties to the mid-seventies, reaching its maximum level of 30 percent in 1974. As a result of this rise in their contribution, while the share of taxes on goods and services rose in the sixties, the differential between the contribution of the two categories of the taxes on goods and services (taxes on international trade and domestic taxes on goods and services) narrowed down substantially. During the eighties, the contribution of domestic taxes on goods and services hovered around 22 percent. Compared to the averages of the sixties and seventies, this was a decline, though not as sharp as that experienced by taxes on foreign trade.

---

<sup>3</sup> Domestic taxes on goods and services include transaction taxes, turnover taxes, excise taxes on domestic and imported goods, as well as salt tax.

In the Ethiopian revenue structure, it is only the share of taxes on income whose average contribution has been consistently rising over the four decades. As a result, their share, which had been occupying the tail end during the fifties, was able to take the leading position during the eighties.

Our attempt so far has been one of exploring how the level and composition of central government revenue changed and developed historically with the development of the economy. The development of the Ethiopian government revenue structure up to the early seventies tallies with the experiences of other countries. According to Hinrichs (Bird and Oldman 1964)

- (i) foreign trade taxes combined with other non-tax revenue as a share of total revenue decline and direct and internal indirect taxes as a share of total revenue increase;
- (ii) indirect taxes still predominate in the economy, the decline in the external indirect taxes being balanced by the rapidly rising internal indirect taxes; and
- (iii) the non-tax share of government revenue decreases in the process of development.

However, the Ethiopian case during the post-1974 period indicates two important diversions: the decline in the share of domestic taxes on goods and services and the rise in the share of non-tax revenue. It was the change in the political system that caused the latter, while the slow rate of growth of the industrial sector accounted for the former.

Finally, one may also need to consider changes that have taken place in the revenue composition of other countries during the seventies and eighties with a view to observing similarities with and differences from the Ethiopian experience. Data provided by the World Bank in its *World Development Reports* of various years are used here to present the comparative picture. Of the 41 low income countries, information on the level and composition of revenue of 19 countries for which complete set of data for 1972 and 1989 are available is provided in Appendix Table 3.

The ratio of current revenue to GNP (10.5 percent) of Ethiopia in 1972 was smaller than the ratios of most of the 19 countries. In fact, it was one of the six smallest ratios. By 1989, however, Ethiopia's current revenue to GNP ratio had exceeded the ratios of all 19 countries. Moreover, of the thirteen countries whose revenue to GNP ratio rose in 1989, the Ethiopian ratio recorded the largest percentage rise. During the 18-year period it rose by 20.6 percentage points followed by that of Lesotho, which increased by about 10 percentage points.

Except in Ethiopia, Nigeria and Indonesia, commodity taxes accounted for 50-80 percent of the current revenues of the low income economies. As in Nigeria, the tendency of the development of the composition of revenue of Ethiopia was one of increasing dependence on non-tax revenue sources. For Indonesia income tax was the main source of revenue. With the exception of this similarity, the path of development of the revenue composition of these countries differed not only from each other but also from the pattern

identified for low income countries during the sixties. For seven out of the 19 countries, the non-tax revenue share had risen in 1989. A fall in the share of domestic taxes on goods and services was also noted in nine of them. For some, the share of taxes on international trade and transactions has moved up while for others the share of taxes on income have moved down. Thus, the departure from the conclusions reached by earlier studies was not a phenomenon specific to Ethiopia but one which was shared by others as well.

### *B. Objectives of the Revenue System and their Achievements*

The revenue system of a country is used to achieve a number of objectives, raising revenue being one of them. The revenue system, in as much as possible, also attempts to spread its burdens equitably. Still more, the revenue system aims at improving the pattern of the allocation of resources. All the objectives, however, can hardly be achieved simultaneously; rather, their achievement usually involves trade-offs. In this section, we will attempt to present a brief evaluation of the revenue system in terms of the objectives specified above. The evaluation, however, is far from being satisfactory both in terms of methodology and coverage.

#### **1. The Objective of Revenue Generation**

Traditionally, the performance of a revenue system in terms of revenue generation has been evaluated by looking at two different but interrelated magnitudes: the revenue-GDP ratio and the income elasticity of revenue. While the former measures the percentage of total output extracted by the revenue system and transferred to the government treasury, the latter measures the percentage change in government revenue which accompanies a one percent change in income. A high revenue-GDP ratio and an income-elastic revenue system are considered desirable.

Information on the revenue-GDP ratio is given in Appendix Table 2 and Table 1, and a comparison with other countries is provided in Appendix Table 3. As depicted in those tables, this ratio has increased consistently over the three decades that began in 1961 and ended in 1989; still more, it has been rising over the decades, with the 1989 ratio being the highest of the ratios of the low income countries. Measured in terms of this ratio, the revenue system has recorded "a respectable performance relative to other developing countries" (Eshetu and Makonnen 1992).

The growth of the revenue-GDP ratio is attributed to discretionary actions of the government (such as tax rate and base changes), improvement in tax collection, introduction of new bases, and growth in economic activities.

In the history of the development of the Ethiopian revenue system, discretionary changes have played a considerable role in shaping the existing level and structure of revenue. Of significance in this respect have been the changes that were introduced in the rate structures. In the post-war fiscal history of Ethiopia, the first generation of taxes were set between 1942 and 1944, before the birr was issued as legal tender currency in 1945. The years between the mid-forties and early fifties (1947-1952) probably form the second epoch, and the late fifties and early sixties form yet another period during which changes were introduced in rate structures, specially with respect to taxes on income. The mid-

sixties have also introduced still other changes. During the post-1974 period, the years between 1976 and 1979 were the most important in this respect. While important changes in the rate structure were made in all periods, the most important developments took place during the post-1974 period, when nearly all items in the tax system underwent changes in their rate structures.

With respect to the base, the discretionary changes introduced have been rather spotty. During the late forties and early fifties, taxes related to property (land and cattle) were introduced. Also, following the development of the industrial sector and subsequent expansion of trade, a broad-based transaction tax on goods and services was introduced during the mid-fifties. During the post-1974 period, two basic changes in the revenue base occurred following the changes in the ownership pattern of land and other productive resources. The land tax base was expanded. And the nationalization of industrial, agricultural, commercial and financial enterprises and their subsequent expansion under government ownership created two additional and important sources of revenue for the government: capital charge and residual surplus.

Changes in economic activities also made a contribution to the rise in the revenue-GDP ratio, especially during the sixties, when their contribution must have been significant in view of the fast rate of growth of the industry and service sectors of the country. The two sectors were growing at average annual rates of 8.6 and 8.3 percent, respectively, during that decade.

Thus, both discretionary changes and the growth of the economy have their own shares to claim in the expansion of the revenue-GDP ratio. Methodologically, the separation of their relative impacts requires estimating the built-in income elasticity of revenue and buoyancy coefficients. While the built-in income elasticity of revenue measures the automatic increase in revenue that comes about as a result of changes in economic activities, buoyancy measures the ability of the revenue system to generate proportionately higher revenues through both discretionary actions and growth in economic activities.

To separate their relative effects on revenue, one requires data on the discretionary changes. Such data, though available for the post-1974 period, are not available for earlier periods. Moreover, the accuracy of the available data is highly questionable. However, two studies (Wogene 1983; Teame 1985) indicated that the revenue system was highly buoyant, the estimated coefficients being 1.89 for 1967/68 - 1981/82, and 1.80 for 1967/68 - 1982/83, respectively.

Even though the performance of the revenue system has been impressive with respect to its share in GDP, the revenue collected was unable to finance expenditure, which was growing at a faster rate. In this respect, it is argued that:

unless public spending is expected to grow at the same rate as national income, the government should ideally choose tax bases that will expand in tandem with spending, not GDP. Since spending plans can change, tax revenue should be generated by a few broadly based instruments. Changes in a few tax rates will then be all that is required to adjust the revenue



totals... It makes little sense to seek a norm for tax-GDP ratios (World Bank 1988).

The availability of such bases, however, is very much a function of the economic development of a country, which sets a limit on the composition of the revenue system and its performance. Where the available bases are believed to be well-exploited, the solution to the problem of a widening gap between revenue and expenditure must not be sought in the former but in the latter, since growth in the former presupposes the development of the economy as a whole.

## **2. The Equity Objective**

It is desirable that the revenue system spread its burden equitably. The ability to pay principle calls for people with equal capacity to pay the same amount while people with greater ability should pay more. The former is referred to as horizontal equity and the latter as vertical equity. While horizontal equity asks how those with similar incomes are treated and hence is concerned with fairness, vertical equity refers to the scope for reducing income inequality by taxing the rich more heavily than the poor (World Bank 1988).

As far as horizontal equity is concerned, taxes imposed during the pre-1967 period were inequitable, basically because agricultural income was not covered. The statutory tax rates imposed on incomes derived from various other activities were similar in the 1961 and 1967 laws (*Negarit Gazeta*, 20th Year No. 13; 27th Year, No.4), indicating an intention of maintaining horizontal equity. However, in view of the limited administrative capacity of the government in enforcing the law, the objectives inherent in the rate structure must have been difficult to realize.

The statutory rate structure of the 1978 law, however, favours employment income over income earned from agriculture, and it favours the latter over business income. However, contrary to the intention of the law, it was the salary and wage earning group that was over-burdened, because for incomes are assessed more readily for it and because it finds tax evasion impossible. Further, this group which is, "best placed to deal in cash and to participate in the monetized sector of the economy, pays most of the indirect taxes" (Eshetu 1968).

The pre-1974 tax laws also failed badly in terms of achieving the objective of vertical equity, because their rate structure had always involved regressivity. Even though the post-1974 laws have been progressive in their rate structures, they too have failed in terms of reducing income inequalities because of the difficulties involved in enforcing them (for a detailed treatment see Eshetu 1983, 1984).

### *C. The Size of the Public Sector and the Structure of Expenditure*

We now turn to the structure of public expenditure. To set the stage, we will start by examining the size of the public sector in the economy and by surveying its growth pattern. Though various ratios may be used to measure the size of governments, "the most

comprehensive measure is given by the ratio of total government expenditure to GNP" (Musgrave and Musgrave 1984).

Ethiopian government expenditure, which in 1961 was about 8.5 percent of GDP, rose to about 13 percent in 1971 and reached 40 percent in 1988, thus indicating its steady expansion. The ratio rose by about 5.2 percentage points between the sixties and the seventies (from 11.9 percent to 17.1 percent); between the seventies and eighties, however, it nearly doubled (Table 2). During the pre-1974 period it varied between a minimum of 8.5 percent in 1961 and a maximum of 16.8 percent in 1967, the average for the period being 12.4 percent. On the other hand, the ratio during the post-1974 period, which started with a minimum of 18.6 percent, rose to 40 percent in 1988, thus recording an average of 28.8 percent for the period.

As a result of these developments, the central government, which had been one of the smallest in the world in the early seventies (as measured the government expenditure to GNP ratio), soon grew to the intermediate level around the close of the decade and the early eighties, and became one of the largest after 1983 (Table 3). The country's ratio of total government expenditure to GNP in 1989 (35.2 percent) was the second highest of 18 low income economies for which data were available, excelled only by that of Bhutan. It was the eleventh highest of 56 low and middle income economies and the twenty second highest of 77 countries of the world for which data were provided.

The growth of the public sector was also accompanied by changes in the composition of expenditure, to which we now turn. For government budgeting purposes, expenditure is classified in two ways, by economic type (into current and capital expenditure) and by "function" or "sector". It is the former type of classification that is used in the fiscal accounts of the Ethiopian government. However, "as with fiscal accounts of many countries, the split between current and capital expenditure is misleading. Specifically, there are substantial quantities of current spending as opposed to capital formation reported in the latter category" (Bevan 1992).

In this respect, a comparison of capital expenditure reported by the Ministry of Finance (MOF) in its annual accounts and by the IMF in *Government Financial Statistics*, (IMF, 1989 and 1992) indicates over reporting of an average of 36% by the MOF between 1972 and 1987. Thus, the use of that classification requires one to reallocate current components out of the capital expenditure category. That task has not been simple, for it requires data available outside the fiscal accounts provided by the MOF.

The functional classification derives from what may be thought of as broad objectives of the government and falls under four broad headings: general government services, community and social services, economic services and other functions. While the first "heading includes those activities required for the government of the country that cannot be associated with services to persons or to business", the second and third headings include "the services supplied to the community and to households and persons directly" and "expenditures associated with the regulation, and more efficient operation of the business, respectively". The last heading "contains interest charges and underwriting costs of the public debt and transfers of a general nature to other organs of the government"

*Fiscal Decentralization in Ethiopia*

**Table 2: Summary of Size of Public Sector and Structure of Government Expenditure**

	1950- 1959	1960- 1969	1970- 1974	1975- 1979	1970- 1979	1980- 1988	1950- 1974	1975- 1989	1950- 1988
1. Expenditure (% of GDP)	-	11.91	13.38	20.77	17.08	33.18	12.43	28.75	20.59
1.1. Civilian Expenditure	-	9.75	11.48	14.44	12.96	23.67	10.37	20.50	15.44
1.2. Defense	-	2.16	1.90	6.33	4.12	9.31	2.06	8.25	5.15
2. Structure of Expenditure (Percent of Expenditure)									
2.1. General Services	57.57	43.88	34.24	43.31	38.78	36.66	47.44	39.04	44.42
Defense	22.77	18.75	14.21	29.83	28.02	28.43	19.45	28.93	22.85
2.2. Community & Social Services	14.90	18.45	26.48	22.41	24.45	21.67	18.64	21.94	19.83
Education	10.63	10.46	14.90	11.53	12.88	9.66	11.42	10.33	11.02
Health	3.31	4.57	5.68	4.30	4.99	3.24	4.29	3.62	4.05
2.3. Economic Services	19.51	23.01	21.61	23.35	22.48	25.51	21.32	24.74	22.53
Roads	9.09	9.28	9.54	8.40	8.97	4.95	9.25	6.18	8.11
2.4. Other Purposes	8.02	14.66	17.66	10.93	14.30	16.16	12.60	14.29	13.22

Source: Computed from Appendix Table 2

(IMF, 1986). It is this classification system that has been used in this paper. Appendix Tables 4,5 and Table 2 have been used to trace the historical development of the structure.

**Table 3: Total Central Government Expenditure  
as a ratio of GNP**

Country Group	1972	1985
Developing Countries	18.7	26.4
Low Income	-	20.8
Middle Income	21.7	27.5
Industrial Countries	22.2	28.6
Ethiopia	13.7	38.1

Source: World Bank, *World Development Report 1988*; for Ethiopia: Appendix Table 2.

One advantage of the functional classification lies in the possibilities that it provides for analyzing the trends of government expenditure on defense and civilian activities. Compared with the averages of the pre-1974, period the average shares of both civilian and defense expenditures in GDP rose during the post-1974 period. However, the percentage rise differed substantially in magnitude. While the ratio of civilian expenditure to GDP increased by 80 percent during the post-1974 period, the comparative figure for defense was a little more than 300 percent. The corollary of this rapid rate of growth of defense expenditure and the slow rate of growth of expenditures on civilian activities was a decline in the share of the latter and a corresponding rise in the share of the former in total expenditure. The average ratio of defense expenditure to total expenditure increased from 19.5 percent in the imperial era to 28.9 percent during the period of the *Derg*.

The trend of military expenditure during the pre-1974 period had been one of decline. Its average share in total GDP of 1.9 for the first half of the seventies, which was less than the average of the sixties (2.2 percent), is indicative of that trend. The declining trend, however, can more vividly be seen with reference to total government expenditure. The share of defense expenditure in the total declined from its average level of 23 percent during the fifties to about 19 percent during the sixties, and to its minimum level of 14.2 percent during the first half of the seventies.

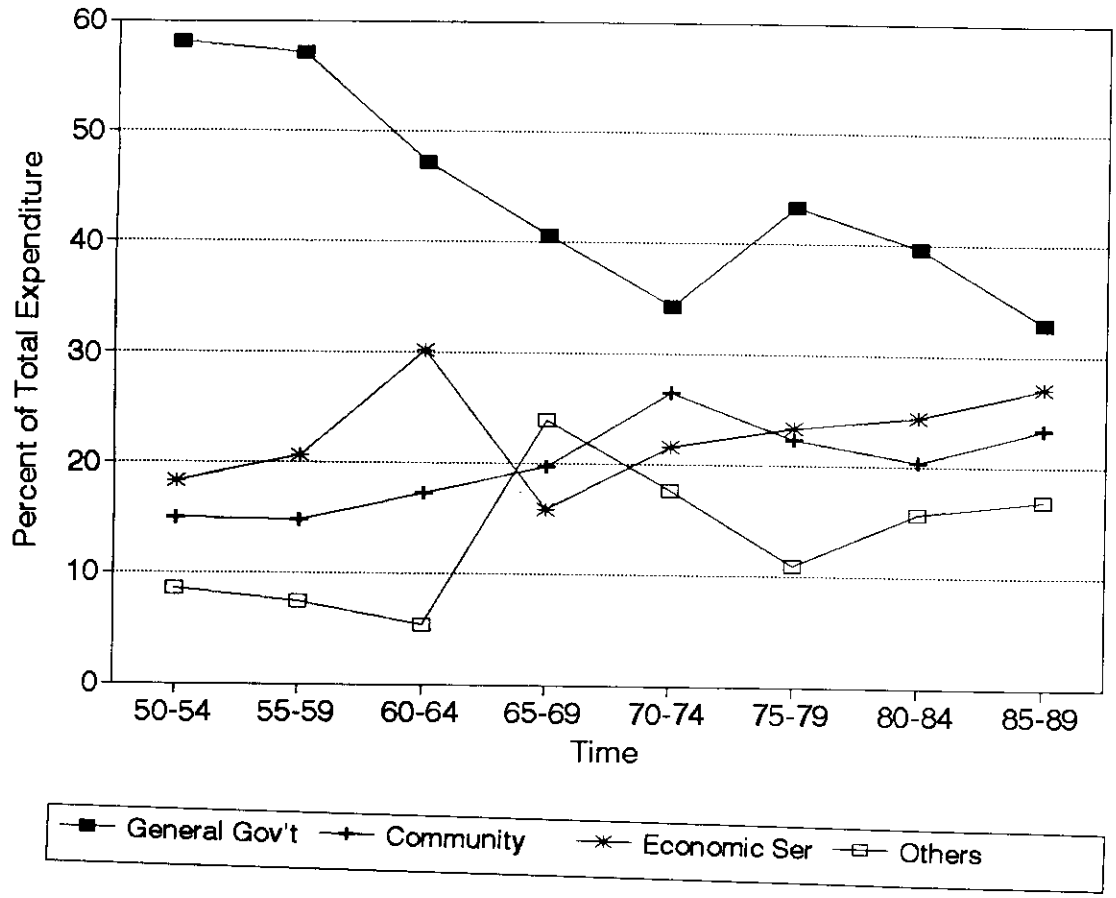
With the exception of the first half of the eighties, the course followed by the ratio of expenditure on general government services in the total was similar. Thus, between 1955 and the first half of the seventies, both ratios declined and reached their minima (Figure 1). The swift upturn in the share of military expenditure during the second half of the seventies was also cause for the rise in the share of general government services. The percentage increase of the latter, however, was less than the that of the former. The further rise of the ratio of defense expenditure during the first half of the eighties was accompanied by a fall in the ratio of general government services.

The trend of the share of defense expenditure seems to have had a significant inverse influence on the ratio of expenditure on community and social services to total expenditure. Beginning in the second half of the fifties, the percentage share of expenditure on community and social services increased, reached its maximum during the last five years of the imperial era, and declined thereafter until the decline in defense expenditure allowed it to rise again after the mid-eighties. The trend of expenditure on community and social services was largely determined by spending on education and health.

Expenditure on economic services during the first half of the sixties increased substantially because of the rise in the share of expenditure on infrastructure, specially roads. Its rise after the second half of the sixties, however, was accompanied by a fall in the share of expenditure on road construction, indicating a shift of emphasis to the directly productive sectors of the economy.

The expenditure structure that emerged between the mid-fifties and the first half of the seventies is explained by the priorities and objectives set in the three five-year plans of the imperial regime and the attempts that were made to allocate resources accordingly. The First Five Year Plan (FFYP), according to the evaluation that appears in the document of the Second Five Year Plan (SFYP), set the highest priority "to the development of infrastructure which represents a prerequisite for accelerated economic growth" and "to raise the level of education with particular attention being paid to the training of technical personnel" (Imperial Ethiopian Government [IEG] 1962). The Second and Third Five Year Plans (TFYP), on the other hand, emphasized the development of the directly productive sectors of the economy (agriculture and industry) and "the building of a far stronger foundation for sustained and rapid growth and development of the economy," which, according to the document of the TFYP, would be achieved, among others, "by enlarging the educational base of the population (IEG. 1968).

Figure 1: The Structure of Public Sector Expenditure



## D. Fiscal Balance of the Central Government

**Table 4: Summary of Central Government Fiscal Deficit and Its Financing (Percent of GDP)**

	1961- 1969	1970- 1979	1980- 1988	1961- 1974	1975- 1988
1. Revenue	8.71	12.54	22.71	9.29	19.87
2. Expenditure	11.91	17.08	33.18	12.43	28.75
Deficit	-3.20	-4.54	-10.47	-3.14	-8.88
3. Grants	2.45	1.71	3.43	2.19	2.75
Overall Deficit	-0.75	-2.83	-7.04	-0.95	-6.13
4. Financing	0.91	2.68	7.01	0.94	6.07
4.1. Borrowing Abroad	0.73	1.18	3.29	0.74	2.68
4.2. Internal Borrowing	0.18	1.50	3.72	0.20	3.39

Except for 1953, 1954 and 1967 the fiscal balance of the Ethiopian government over the last four decades has been consistently negative. Indeed, budgetary deficit as a ratio of GDP has been increasing across the decades, reaching its maximum level of 13.5 percent in 1983. The average of this ratio rose from about 3.2 percent during the sixties, to 4.5 percent in the seventies and to 10.5 percent in the eighties (Table 4). Moreover, the deficit-GDP ratio has been rising at an increasing rate. Between the sixties and the seventies it rose by 1.3 percentage points; between the seventies and eighties, however, it rose by about 5.9 percentage points, giving rise to a substantially higher ratio for the post-1974 period in comparison with the pre-1974 years.

The explanation for the deterioration in the fiscal balance must be sought in its components - revenue and expenditure. In view of the "respectable performance" of the former, however, by far the more important cause resides in the latter. Essentially, it has been the sharp rise in defense expenditure that has accounted for the bulk of the rising deficit, though expenditures on economic services have also played a part.

About 80 percent of government deficit during the sixties had been financed by borrowing from external sources. During the seventies and eighties, however, foreign sources covered less than half of the deficit, 44 and 47 percent, respectively. As a result, the deficit financed by borrowing from foreign sources declined from about 79 percent during the pre-1974 period to 44 percent during the post-1974 period, the share of internal sources rising from 21 percent to 56 percent.

In low-saving and highly distorted economies, budgetary deficits cause instability. In such economies, the World Bank argues, "deficits may retard domestic investment, create an inflationary situation, increase balance of payments deficits and dwindle foreign exchange reserves," depending on the way they are financed.

A deficit must be funded by the private sector lending the government some of the excess of its saving over its own investment, by foreigners lending part of their savings, by printing money, or by some mixture of the three. Too great a strain on any of these sources of finance can create macroeconomic imbalances. Over-reliance on domestic borrowing may mean high real interest rates and falling private investment. Overreliance on foreign borrowing can cause appreciating real exchange rates, widening current account deficits, unsustainable external indebtedness and dwindling foreign exchange reserves. Overreliance on money creation may prompt higher inflation - viewed from the alternative perspective of production and expenditure, an increased fiscal deficit is an additional claim on the supply of goods. The only ways to meet this extra claim are by importing additional goods from the rest of the world (that is increasing the current account deficit), by driving up domestic inflation and interest rates to make the private sector buy fewer goods, or by increasing domestic production (World Bank 1988).

As far as the Ethiopian situation is concerned, one can hardly verify the effects that the deficit might have had on private investment and interest rates, because, particularly during the post-1974 period, private investment had been deliberately discouraged and interest rates had been administratively controlled.

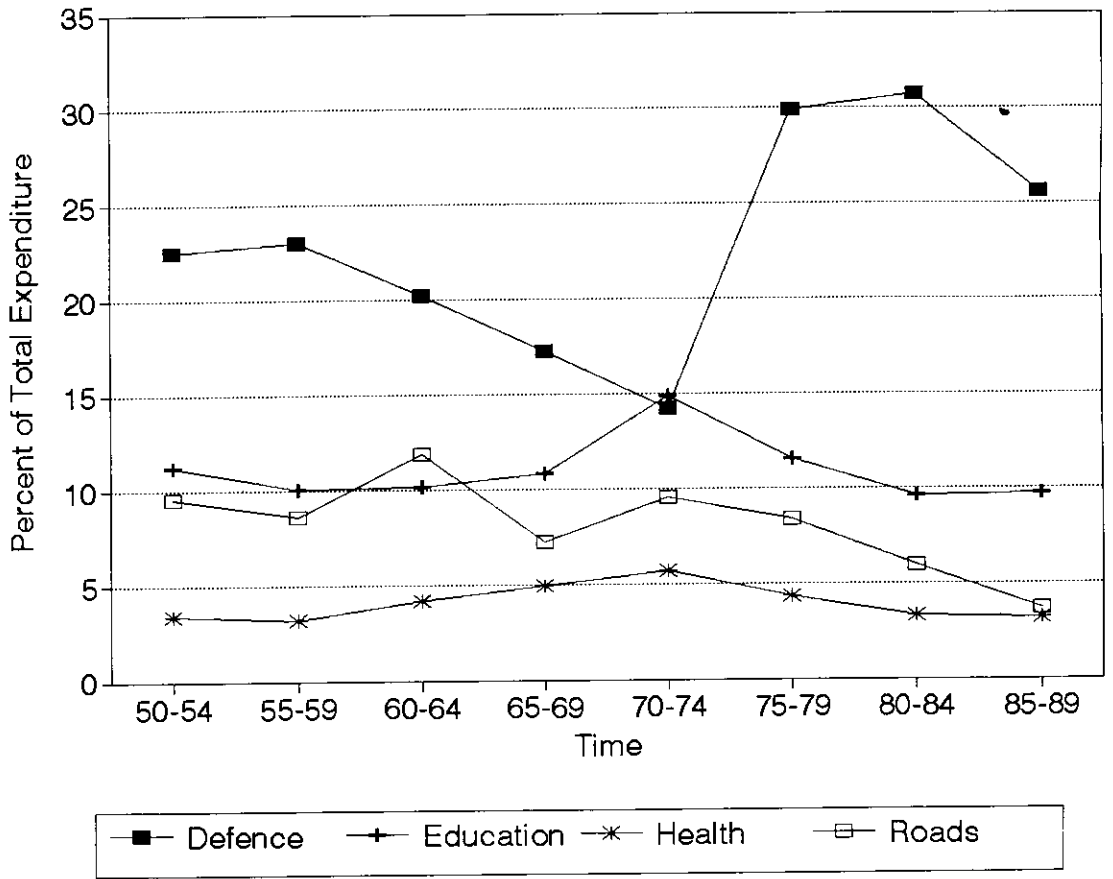
The link between the public sector deficit and the current account deficit is illustrated in Figure 2. Except for a few years, the current account deficit and government deficit have tended to move together. Fiscal deficits may also impair the creditworthiness of a country because they result in greater public borrowing and an accumulation of debt. External creditworthiness is "sometimes defined as maintaining an acceptable ratio of gross external debt to export" and requires "debt to grow at the same rate as exports" (World Bank 1988). However, the debt service to export ratio has also been used to assess the ability to service debts.

The gross external debt of Ethiopia, which in 1964 had been about 200 million birr, rose to 6 billion in 1985 and 7.2 billion in 1991. As a ratio of exports, it rose from about 58 percent in 1964 to 494 percent in 1985, and 667 percent in 1989. In 1991 the ratio declined to 480 percent. Between 1964 and 1974 the debt export ratio averaged 122 percent. During the post-1974 period it averaged 360 percent up to 1989, reaching its maximum of 707 percent in 1988. The average debt service to export ratio, on the other hand, rose from about 8.7 percent during the pre-1974 period to 16 percent during the post-1974 period up to 1986, rising to 70 percent in 1991. Thus, both indicators testify to the deterioration of the country's creditworthiness. As a result, the country began to accumulate external payment arrears in 1989/90. The total outstanding arrears for that year were 358.5 million birr (National Bank of Ethiopia [NBE] 1989/90).

Deficits may also be financed by drawing down on foreign exchange reserves to the extent by which imports of the public sector exceed its exports and foreign borrowing.



Figure 2: The Structure of Public Sector Expenditure



Drawing down on foreign reserves had not been customary in Ethiopia before 1976. It occurred during only six years between 1958 and 1974 (1959, 1960, 1967, 1968, 1971 and 1972). During the post-1974 period, however, it had been a recurrent phenomenon except between 1974 and 1977. Up to 1991, there were only four years (1981, 84, 85 and 89) during which foreign exchange reserves showed an increase relative to their position in preceding years. During all the other years, the foreign exchange reserves of the country have been declining, reaching their minimum level of 55 million dollars (0.6 months of import coverage) in 1990. It was also during this period that the government financed more than 50 percent of its deficits from domestic sources.

Figure 3 illustrates the link between the inflation rate and the fiscal balance between 1976 and 1988. The percentage increase in the Addis Ababa general retail price index from its base year has been used to measure the rate of inflation. As one can see from the figure, the trend of inflation was highly linked to that of the government deficit. Between 1966 and 1969, prices were nearly stable (around 27 percent above their 1963 level) while the fiscal balance oscillated between -1 percent and 0.1 percent of GDP. Between 1969 and 1974, the inflation rate moved gently upward when the government widened its deficit slightly to more than one percent of GDP. The large and rapidly widening fiscal deficits that occurred during the post-1974 period (until 1982) were also accompanied by a fast rate of growth of inflation. However, the sharp rise in government deficits in 1983, incurred as a result of the cancellation owed by the debt of state farms, did not transform itself into a corresponding rise in inflation. Between 1983 and 1987 the inflation rate moved in step with the budget deficit, rising upward when the deficit widened and moving down when it narrowed.

### **III. Regional Aspects of the Fiscal System**

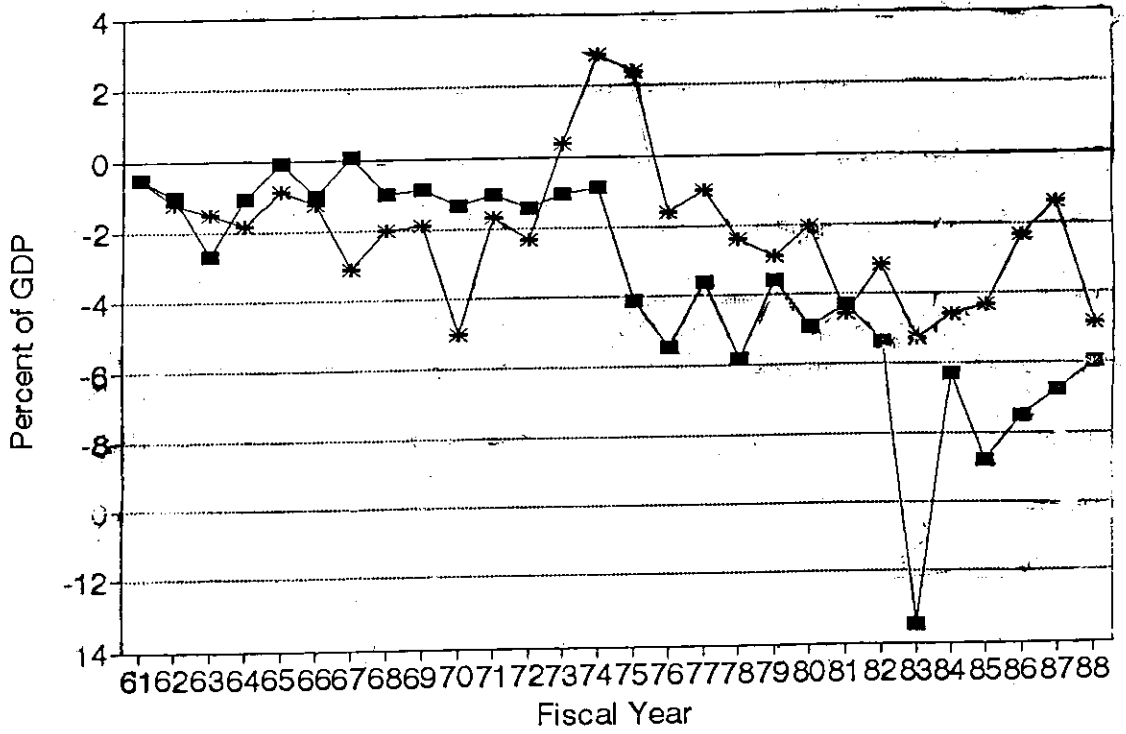
Our attempt so far has been one of outlining the history of the post-war fiscal system of the central government. In this section, we will try to look at the regional dimensions of the fiscal system, that is, the magnitude and structure of revenue collected from the various regions of the country and the magnitude and pattern of expenditure spent in each of the regions of the country. We will then wind up our discussion of this part by looking into regional fiscal balances.

The scarcity of regional data, however, has forced us to limit our discussion to a period of ten years, 1979 to 1988. The data used were obtained from a single official document titled "Regional Distribution of Budgetary Revenue and Expenditure," issued by the Research and Planning Service of the Ministry of Finance in April 1993.

#### *A. The Level and Structure of Revenue Collection By the Centre and Regions*

Of the total revenue collected by the Ethiopian government between 1979 and 1989, about 70.6 percent was collected by the Ministry of Finance in Addis Ababa. About half of the remaining, 29.4 percent, originated from Eritrea and Assab, with the revenue collected from all the other regions accounting for about 14.6 percent of the total. Shoa and Harar collected 3.9 and 3.7 percent of the total revenue, respectively, followed by Sidamo. Wello and Gojjam, whose revenue share of the total was a little more than one percent each.

### Fiscal Balance & Current Account



The share of Keffa, Wellega, Gondar and Arsi ranged between 0.7 and 0.5 percent. The share of the others was Illubabor(0.33), Tigray and Gamo Gofa(0.31), and Bale (0.26).

Taxes were the main source of government revenue, accounting on the average for about 74.5 percent of the total revenue collected during this period. Of this total, 63.6 percent was paid directly to the Ministry. Collections from Eritrea and Assab totalled slightly more than 19 percent, the remaining 20 percent being distributed, in different ratios, among the other regions of the country (Table 5).

The tax share collected by these other regions, however, was greater than their respective share in the total revenue, Bale and Tigray forming exceptions. This fact indicates the importance of non-tax revenue in total revenue.

Of the total non-tax revenue collected by the government during the period under consideration (about 24.4 percent of the total), about 92 percent was paid directly to the Ministry. The Ministry's share was significant because capital charge and residual surplus from state enterprises were payable to it, irrespective of the location of the enterprises. About a quarter of the remaining 8 percent was collected in Shoa, basically through administration fees, charges and non-industrial sales.

A little less than 70 percent of the revenue from taxes on income, including employment income tax, business income tax and agricultural income tax, was collected by the Ministry of Finance. However, the share of agricultural income tax in this category has been very small, about 1.5 percent on the average, during the period under consideration. Harrar and Eritrea accounted for 5.09 percent each of revenue from the agricultural income tax, while the contribution of Shoa was 6.59 percent. The importance of the various types of income tax has not been the same in the three regions. For Shoa, the agricultural income tax was the major one, whereas for Harrar and Eritrea, the tax on business profit held the leading position.

In contrast to the other sources, the share of property tax collected by the Ministry of Finance has been insignificant. Except for 1979, 1980, 1983, and 1984, no revenue collection from this source was reported. Even in those four years, revenue never exceeded 200,000 birr.

About 30 percent of revenue from the land use fee collected during the period had its origin in Shoa, followed by Wello, Sidamo, and Gojjam, whose contribution revolved around 10 percent each. Of the remaining 40 percent, Keffa, Wellega, Harrar, Arssi and Gondar together claimed 30 percent by collecting between 5 and 7 percent each. Gamo Gofa and Illubabor, whose share in total revenue has been among the lowest, contributed 2.6 and 2.6 percent, respectively, to that source. The contribution of all the other regions was less than two percent each.

More than 70 percent of taxes on domestic goods were collected directly by the Ministry of Finance, followed by Eritrea whose share, together with that of Assab, amounted to 16.3 percent, while the share of Harrar and Shoa was 4.26 and 3.94 percent, respectively. The contribution of the other regions was insignificant.

*Fiscal Decentralization in Ethiopia*

Table 5 : Government Revenue by Source and Region (percent of total revenue) 1979-1989

	Addis Ababa	Shoa	Harrar	Eritrea	Keffa	Illubabor	Arssi	Gondar	Bale	Tigray	Sidamo	Gojjam	Gamo Goffa	Wellega	Wello	Assab
1. Total Revenue	70.6	3.90	3.72	9.00	0.69	0.33	0.54	0.55	0.26	0.31	1.13	1.02	0.31	0.70	1.13	5.81
2. Current Revenue	70.9	3.84	3.51	9.03	0.69	0.33	0.54	0.55	0.26	0.31	1.13	1.02	0.31	0.70	1.11	5.82
3. Tax Revenue	63.6	4.68	4.64	11.0	0.78	0.35	0.63	0.61	0.26	0.28	1.39	1.22	0.34	0.79	1.32	8.09
3.1. Taxes on Income	69.4	6.59	5.09	5.09	1.38	0.65	1.13	1.03	0.50	0.61	1.97	1.62	0.59	1.42	2.22	0.73
3.2. Taxes on Property	0.05	29.5	6.18	1.21	6.88	2.58	5.26	5.11	0.80	1.17	9.87	9.49	3.61	6.71	10.44	0.13
3.3. Domestic Taxes on Good & Services	70.7	3.94	4.26	13.4	0.35	0.14	0.24	0.33	0.12	0.28	0.83	1.30	0.10	0.32	0.77	2.90
3.4. Taxes on International Trade	54.7	0.78	4.70	13.8	0.04	0.03	0.01	0.03	0.00	0.00	0.63	0.00	0.00	0.01	0.05	25.2
3.5. Other Taxes	81.7	2.57	3.91	4.95	0.81	0.20	0.43	0.51	0.22	0.51	1.38	0.67	0.11	0.33	0.88	0.83
4. Non-Tax Revenue	91.8	2.03	0.77	1.01	0.46	0.31	0.32	0.36	0.26	0.27	0.62	0.45	0.23	0.48	0.54	0.12
5. Capital Revenue	25.3	15.6	33.8	6.01	0.35	0.10	0.60	1.58	0.34	0.70	1.68	0.85	0.04	0.66	11.46	0.97

Source: Computed from Ministry of Finance, 1993.

The share of taxes on international trade transactions collected in Addis Ababa accounted for about 55 percent of the total. The collection from Eritrea and Assab was close to 40 percent. However, the shares of export and import duties differ. About 30 percent of the total collected in Addis Ababa had its origin in export goods. For Eritrea, on the other hand, import duties accounted for about 33 percent. Except for Harrar, Shoa and Sidamo, whose share in the total amounted to 4.7 percent, 0.78 and 0.63 percent, respectively, the contribution of all other regions was insignificant.

When we synthesize the level and regional structure of government revenue and rank the regions in terms of their contribution to total revenue and to each category of revenue, the pattern shown in Tables 6 and 7 emerges.

In one group we have those regions whose contribution to total government revenue exceeded 3 percent. In a second group are those regions whose revenue collection was around one percent. Regions whose revenue collection exceeded 0.5 percent formed the third group, and those whose share was around 0.3 percent constituted a fourth group.

A number of factors seem to have influenced the level of revenue collection by regions, including location, resource base, level of industrialization, population, urbanization, accessibility and type of agricultural production. Although it is difficult to develop indices for all these factors, the influence of some of them can be seen from Table 7.

Regions in Group I, (Shoa and Harrar) represent some of the most industrialized and urbanized parts of the country. Locationally, while Harrar enjoys the advantage of external influences, Shoa enjoys the spill-overs of the capital city, Addis Ababa. Moreover, the latter is the most populous, and one of the most accessible regions, of the country as well as being agriculturally advantaged.

On the other hand, regions in Group IV (except Tigray) are sparsely populated, least accessible, and least urbanized. In terms of these indicators, Tigray is more favoured than the rest. Hence, the explanation for its poor performance must lie in its limited economic activities and the war during the period under consideration.

Sidamo, Wello and Gojjam have relatively developed industrial bases. Though the level of industrialization of the former is lower than that of other the two, it is a coffee-producing region and an outlet to Kenya, factors which influence its business activities. Gojjam and Wello are the third and fourth most populous regions and are relatively accessible.

All regions in Group III have a population density that exceeds the average for the country. In fact, Arsi is the second most densely populated region of the country. With fewer kilometres of road per thousand square kilometres and a relatively smaller urban population, it is the industrial base that it has developed together with its population density that explains this level of performance. Wellega and Keffa, with smaller urban populations than the other two and without any industrial bases, seem to have achieved this level of performance in revenue collection because of the importance of coffee production.

*Fiscal Decentralization in Ethiopia*

**Table 6: Composition of Government Revenue Collected from Regions  
(1979-1989) percent of total revenue**

	Addis Ababa	Shoa	Harrar	Eritrea	Keffa	Illubabor	Arssi	Gondar	Bale	Tigray	Sigamo	Gejjari	Gamo Goffa	Wellega	Wello	Assab
1.Total Revenue	100	99.9	100.	100	100.	99.9	99.9	100	99.9	100	100	100	100	100	100	100
2.Current Revenue	99.8	97.9	95.4	99.53	99.8	99.9	99.4	98.7	99.2	98.5	99.3	99.6	99.95	99.5	95.2	99.9
3.Tax Revenue	67.4	85.9	90.48	96.03	84.3	78.53	85.4	83.08	75.6	78.7	87.8	89.06	82.38	84.2	84.3	99.3
3.1. Taxes on Income	25.6	42.9	36.21	20.5	50.7	50.6	53.6	48.2	50.4	49.9	43.5	41.	50.14	52.0	48.6	3.48
3.2. Taxes on Property	0.00	16.5	3.66	0.36	21.5	17.1	21.5	19.89	14.9	8.01	18.24	19.76	24.41	20.8	19.9	0.03
3.3. Domestic Taxes on Goods & Services	22.2	21.8	22.81	42.8	11.2	9.46	9.65	13.1	9.8	19.4	15.43	28.	7.5	10.3	14.9	11.1
3.4. Taxes on International Trade	18.9	4.3	27.06	32.0	0.14	0.98	0.20	1.27	0.02	0.27	9.87	0.1	0.1	0.59	0.37	84.4
3.5. Other Taxes	0.77	0.4	0.74	0.5	0.76	0.42	0.52	0.63	0.57	1.15	0.76	0.5	0.3	0.41	0.51	0.26
4.Non-Tax Revenue	32.4	11.9	4.93	3.5	15.4	21.4	14.0	15.6	23.5	19.8	11.47	11.	17.	15.3	10.9	0.58
5.Capital Revenue	0.18	2.1	4.60	0.5	0.30	0.10	0.56	1.34	0.84	1.5	0.7	0.4	0.1	0.5	4.8	0.1

Source: Computed from Ministry of Finance,1993.

**Table 7: Socio-Economic Indicators of Regions**

Region	Population per km <sup>2</sup> (1983)	Km of road <sup>2</sup> per 1000km <sup>2</sup> (1983)	Urban population <sup>1</sup> as % of total (1983)	Percentage of industrial production (1987) <sup>3</sup>
Arssi	68.3	8.22	6.6	1.00
Bale	7.7	1.77	6.7	-
Eritrea	27.2	9.59	14.4	10.04
Gamo Gofa	30.1	5.58	4.2	-
Gojjam	51.6	14.68	6.7	1.45
Gondar	35.7	11.07	7.0	0.38
Harar	14.9	6.44	6.6	4.16
Illubabor	20.2	10.67	5.3	0.008
Keffa	42.1	17.20	5.1	-
Shoa	92.6	29.76	7.4	14.30
Sidamo	30.8	8.48	6.0	0.35
Tigray	36.1	9.24	9.3	0.06
Wellega	34.2	11.70	4.9	-
Wello	43.1	12.46	6.2	1.50
Average	32.8	10.04	6.88	-

Sources: 1. Central Statistics Office, *Statistical Abstract 1984*

2. Computed from CSO, *Transport & Communication Statistics 1985; Statistical Abstract 1984*

3. Central Statistics Authority, *Results of the Survey of Manufacturing and Electricity Industries, 1986/87.*



**Table 8: Grouping and Ranking of Regions In Terms of Contribution to Government Revenue**

Region	Total Revenue	Tax Revenue	Income Tax	Property Tax	Tax on Domestic Goods	Tax on International Trade	Non-Tax Revenue
<b>Group I.</b>							
Eritrea	1	1	2	13	1	2	2
Assab	2	2	10	15	4	1	15
Shoa	3	3	1	1	3	4	1
Harrar	4	4	2	7	2	3	3
Total Contribution to: (percent)	14.81	14.85	17.50	37.03	24.53	44.53	3.93
<b>Group II.</b>							
Sidamo	5	5	4	3	6	5	4
Wello	5	6	3	2	7	-	5
Gojjam	6	7	5	4	5	-	8
Total Contribution to: (percent)	3.28	3.93	5.81	29.80	2.90	0.68	1.61
<b>Group III.</b>							
Wellega	7	8	6	6	10	-	6
Keffa	8	9	7	5	8	-	7
Gondar	9	11	9	9	9	-	9
Arsi	10	10	8	8	12	-	8
Total Contribution to: (percent)	2.48	2.81	4.96	23.96	1.24	0.09	1.62
<b>Group IV.</b>							
Illubabor	11	12	11	11	13	-	11
Gamo gofa	12	13	13	10	15	-	14
Tigray	12	14	12	14	11	-	12
Bale	13	15	14	12	14	-	13
Total Contribution to: (percent)	1.21	1.23	2.35	9.16	9.89	-	1.07

Source: Computed from Ministry of Finance, 1993

Table 8 provides information on the internal revenue structure of each of the regions. It shows the importance of each category of revenue in total regional revenue collections. As the table indicates, income tax has been the main source of revenue for all regions, having contributed between 36 and 54 percent of their total revenue collection.

In Shoa and Harrar, collection from domestic taxes on goods and services was almost similar. However, the greater importance of the land use fee and non-tax sources in Shoa was compensated for by a larger revenue collection from taxes on international trade transactions in Harar.

Among those categorized in Group II, Sidamo and Wello had similar revenue structures. In their case, income tax ranked first, followed by taxes on property, domestic taxes on goods and services and non-tax revenue, in that order. Gojjam differed in one respect from the two in that the percentage share of taxes on domestic goods exceeded collection from land use fee.

All regions in Group III had similar revenue structures. Unlike those in Group II, the third major source of revenue was non-tax revenue, the fourth being domestic taxes on goods and services.

Among the four regions in Group IV, Bale and Illubabor had similar revenue structures. Income tax in their case was followed by non-tax revenue, property tax and taxes on domestic goods and services, in that order. For Tigray, tax on property was the least important, excelled significantly by domestic taxes on goods and services. Gamo Gofa had an internal revenue structure similar to the regions in Group III.

#### *B. The Level and Pattern of Public Expenditure at the Regional Level*

In analyzing regional expenditure structures and patterns, we need to note that defense expenditure and other general government services expenditures, as well as capital expenditures, were directly paid out from the central treasury and were not allocated to the regions. They were all shown under Addis Ababa in our source document. Therefore, the expenditure figures allocated to the regions were those that entered the current expenditures category of the Ministry of Finance.

A relatively large proportion of public sector spending found its way to Eritrea, Shoa and Harar. They received an average of more than 1.5 percent of total government expenditure made between 1979 and 1988 (Table 9). Sidamo and Wello received 1.1 percent each, while Gojjam received 1 percent of the total. All the rest received less than 1 percent.

If we were to group these regions in terms of the magnitude of the ratio of public sector spending each of them received, rather than the corresponding revenue share each contributed to the total, Tigray will drop out of Group IV and join Group III, with Arsi substituting it. Otherwise, our earlier grouping fits well in this case as well.

*Fiscal Decentralization in Ethiopia*

**Table 9. Public Sector Expenditure by Function & Region (Percent of Total Expenditure 1979-1988)**

	Addis Ababa	Eritrea	Assab	Shoa	Harar	Gojjam	Sidamo	Wello	Arsi	Gondar	Keffa	Wellega	Bale	Gamo Gofa	IHubabor	Tigray	Total
Total Expenditure	85.33	2.00	0.117	2.11	1.54	1.00	1.11	1.11	0.56	0.89	0.82	0.84	0.58	0.53	0.58	0.89	100.01
1.General Government Service	32.91	0.72	0.05	0.45	0.55	0.21	0.24	0.29	0.12	0.22	0.21	0.18	0.20	0.17	0.15	0.29	36.96
2.Community and Social Service	6.83	1.14	0.06	1.50	0.89	0.70	0.73	0.73	0.42	0.61	0.53	0.57	0.34	0.32	0.36	0.53	16.26
Education	2.71	0.46	0.02	0.96	0.46	0.48	0.50	0.47	0.30	0.37	0.36	0.42	0.23	0.22	0.26	0.29	8.51
Health	1.45	0.24	0.02	0.17	0.14	0.08	0.09	0.10	0.05	0.07	0.08	0.08	0.04	0.04	0.06	0.08	2.79
3. Economic Services	2.81	0.14	0.007	0.16	0.10	0.09	0.14	0.09	0.02	0.06	0.08	0.09	0.04	0.05	0.07	0.07	4.017
4.Other Functions	15.18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15.18
Regionally Unallocated Capital Expenditure	27.60	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	27.60

Source: Computed from Ministry of Finance, 1993.

In the regional expenditure structure, spending on community and social services absorbed a larger proportion than spending on general government services. In fact, except for Eritrea and Harrar, expenditure on education alone excelled or was equal to (one case) spending on government services. The share of current expenditure devoted to economic services was the smallest in all regions. Except Addis Ababa all the rest each received less than or equal to 0.16 percent of the total. In general, those factors that may have affected the level of revenue collection and the formation of its regional structure seem to have also been significant in determining the expenditure pattern.

### *C. Regional Fiscal Balances and Subsidy Ratios*

Table 9 provides information on total revenue collection as a ratio of current expenditure for the various regions of the country. As this table illustrates, Shoa and Harrar were able to cover their total current expenditures and transfer 18 and 66 percent of their collection, respectively, to the central treasury in Addis Ababa.

The collection from each of the other regions was insufficient to cover their current expenditure requirements. The percentage covered out of their own revenue sources, however, differed. For Sidamo, Wello and Gojjam, the subsidy during those ten years averaged 27, 24 and 25 percent, respectively, of their current expenditures. This, however, does not represent the total subsidy, because all capital expenditures committed to those regions required transfers from the central government. Wellega, Keffa and Arsi in Group III covered 60, 61 and 65 percent, respectively, of their current expenditures. Of the regions in that group, Gondar was an exception since its revenues covered only 43 percent of its current expenditures. Gamo Gofa, Illubabor, Bale and Tigray received the largest percentage subsidies from the central government, amounting to about or more than 60 percent each of their current expenditures. The maximum, about 74 percent, was received by Tigray.

*Fiscal Decentralization in Ethiopia*

**Table 9. Ratio of Regional Revenue Collection to Current Expenditure**

Region	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	Average
Eritrea	5.76	5.41	5.68	2.10	1.94	2.27	1.99	1.92	1.93	1.94	3.09
Assab	-	-	-	50.40	50.26	52.30	38.45	32.43	43.47	49.40	45.24
Eritrea & Assab	5.76	5.41	5.68	5.11	4.78	5.37	4.18	3.75	4.59	4.95	4.95
Shoa	0.88	1.19	1.04	1.26	1.18	1.17	1.16	1.22	1.34	1.39	1.18
Harrar	1.18	1.51	1.32	1.30	1.40	1.51	1.89	2.09	2.08	2.29	1.66
Sidamo	0.80	0.83	0.84	0.69	0.74	0.76	0.60	0.66	0.67	0.73	0.73
Wello	0.84	0.95	1.01	0.88	0.86	0.75	0.47	0.56	0.63	0.68	0.76
Gojjam	0.78	0.93	0.88	0.83	0.77	0.77	0.69	0.62	0.62	0.63	0.75
Wellega	0.78	0.81	0.73	0.65	0.57	0.59	0.50	0.47	0.44	0.46	0.60
Keffa	0.72	0.75	0.72	0.67	0.63	0.57	0.51	0.44	0.47	0.48	0.61
Gondar	0.40	0.53	0.58	0.53	0.48	0.39	0.35	0.36	0.36	0.39	0.43
Arssi	0.71	0.70	0.68	0.67	0.68	0.62	0.58	0.59	0.58	0.70	0.65
Illubabor	0.45	0.50	0.48	0.42	0.39	0.38	0.33	0.31	0.32	0.37	0.39
Gamogofa	0.39	0.41	0.45	0.44	0.46	0.39	0.35	0.40	0.32	0.38	0.41
Tigray	0.33	0.28	0.35	0.31	0.26	0.22	0.19	0.22	0.24	0.21	0.26
Bale	0.22	0.24	0.31	0.33	0.33	0.37	0.32	0.30	0.31	0.34	0.31

Source: Computed from: Ministry of Finance, *Regional Distribution of Budgetary Revenue and Expenditure*, April, 1993.

## REFERENCES

- Bevan, David 1992. *Fiscal Aspects of the Ethiopian Transition*, mimeo.
- Central Statistics Office 1985. *Transport and Communication Statistics*.
- Central Statistics Office 1986. *Statistical Abstract*.
- Central Statistics Authority 1989. *Survey of Manufacturing and Electricity Industries, 1985/86*.
- Eshetu Chole 1968. *Taxation in Ethiopia: An Analysis of Structure, Policy and Performance*, unpublished M.A. Thesis, Urbana: University of Illinois.
- Eshetu Chole 1983. "Income Taxation in Pre and Post- Revolution Ethiopia: A Comparative Review," *Ethiopian Journal of Development Research*, Vol.IX, No.1.
- Eshetu Chole 1984. "Towards a History of the Fiscal Policy of the Pre-Revolutionary Ethiopian State: 1941-1974," *Journal of Ethiopian Studies*, Vol.XVII, Addis Ababa.
- Eshetu Chole and Makonnen Manyazewal 1992. "The Macroeconomic Performance of the Ethiopian Economy, 1974-90", in Mekonnen Taddesse (ed.) *The Ethiopian Economy: Structure, Problems and Policy Issues*.
- Hinrichs, Haley H. 1964. "Tax Structure Change During Development", in Richard Bird and Oiver Oldman (eds.) 1964, *Readings on Taxation in Developing Countries* Baltimore, The Johns Hopkins Press.
- Imperial Ethiopian Government 1942. "A Proclamation to Provide for a Tax on Land", *Negarit Gazeta*, 1st Year, No.1.
- Imperial Ethiopian Government 1949. "A Proclamation to Provide for the Payment of a Tax by all Individuals and Businesses", *Negarit Gazeta*, 8th Year, No.12.
- Imperial Ethiopian Government 1962. *Second Five Year Development Plan 1955-1959 E.C.*, Addis Ababa, Berhanenna Selam Printing Press.
- Imperial Ethiopian Government 1967. "Income Tax Amendment Proclamation," *Negarit Gazeta*, 27th Year, No.4.
- Imperial Ethiopian Government 1968. *Third Five Year Development Plan, 1961-1965 E.C.*, Addis Ababa, Berhanenna Selam Printing Press.
- International Monetary Fund 1986. *A Manual on Government Finance Statistics*.
- International Monetary Fund 1988. *Government Financial Statistics*.

International Monetary Fund 1989. *Government Financial Statistics*.

Ministry of Finance (Research and Planning Service) 1993. "Regional Distribution of Budgetary Revenue and Expenditure". ( in Amharic) Addis Ababa.

Musgrave, Richard A. and Peggy B. Musgrave 1986. *Public Finance in Theory and Practice*, 4th ed., New York, McGraw-Hill.

Ministry of Finance. *Central Government Budgetary Revenue and Expenditure*, Addis Ababa, various issues, 1950-1988.

National Bank of Ethiopia. *1992 Annual Report 1991/92*.

Perham, Margery 1969. *The Government of Ethiopia*, 2nd ed., London, Faber & Faber Ltd.

Provisional Military Administrative Council 1978. "Income Tax Amendment Proclamation," *Negarit Gazeta*, 39th Year, No.3.

Shiferaw Jamo 1992. "A General Overview of the Ethiopian Economy:1941-1974" in Shiferaw Bekele (ed.) 1992. *An Economic History of Ethiopia 1941-74* , Vol. I, draft manuscript.

Teame Ghirmay 1985. *Mobilization of Resources Through Taxation in Ethiopia*, unpublished M.A. Thesis, Addis Ababa University.

Transitional Government of Ethiopia, "A Proclamation to Define the Sharing of Revenue Between the Central Government and the National/Regional Self Governments", *Negarit Gazeta*, 52nd Year, No. 7.

Wogene Yirko 1983. *The Post-1974 Structure of Ethiopian Government Domestic Revenue*, unpublished B.A. Thesis, Addis Ababa University.

World Bank 1988. *World Development Report 1988*, Oxford University Press.

World Bank 1991. *World Development Report 1991*, Oxford University Press.

Appendix Table 1: The Composition of Ethiopian Government Budgetary Revenue 1950-1989 (in millions of Birr)

Year	Revenue & Grants	Total Revenue	Current Revenue	Tax Revenue	Taxes on Income	Taxes (on Property)	Domestic Taxes On Goods & Services	Taxes on International Trade	Other Taxes	Non-Tax Revenue	Enterprise & Profit Income	Capital Revenue	Grants
1950	66.7	66.7	65.8	56.3	6.2	17.2	7.60	24.9	0.4	9.5	5.9	0.9	-
1951	71.2	71.2	70.3	61.5	6.3	17.9	7.-	29.7	0.6	8.8	5.0	0.9	-
1952	78.4	78.4	77.9	70.3	8.9	18.2	9.-	33.4	0.8	7.6	4.1	0.5	-
1953	103.1	103.1	102.3	90.9	12.7	18.6	13.40	45.4	0.8	11.4	4.7	0.8	-
1954	126.5	126.5	126.4	112.5	13.6	18.6	19.2	60.1	1.0	13.9	6.7	0.5	-
1955	115.9	115.9	115.9	103.3	6.2	19.3	17.30	60.0	0.5	12.6	4.9	-	-
1956	120.6	120.6	120.6	108.9	6.8	19.5	20.70	60.7	1.2	11.7	3.2	-	-
1957	133.5	133.5	133.5	121.1	6.2	19.2	28.10	66.4	1.2	12.4	3.9	-	-
1958	138.8	138.8	138.8	126.5	7.5	19.1	29.70	69.1	1.1	12.3	4.5	-	-
1959	145.2	145.2	145.2	128.8	10.0	19.1	29.70	68.6	1.4	16.4	7.6	-	-
1960	132.1	132.1	132.1	121.0	9.6	20.3	32.70	57.0	1.4	11.1	3.3	-	-
1961	180.3	180.3	180.3	156.2	15.4	25.1	37.80	76.1	1.8	24.1	14.6	-	-
1962	195.0	195.0	195.0	177.9	19.9	25.9	43.70	86.5	2.0	17.1	9.4	-	-
1963	207.2	207.2	206.6	189.1	22.2	22.7	50.10	91.8	2.3	17.5	11.-	0.6	-
1964	282.3	251.8	251.8	226.1	26.0	26.5	61.40	109.6	2.6	25.7	12.8	-	30.5
1965	379.8	291.9	291.9	267.0	32.5	27.1	72.00	131.9	3.5	24.9	11.6	-	87.9
1966	425.2	320.5	319.5	292.6	35.9	28.3	85.60	138.6	4.2	26.9	13.6	1.0	104.7
1967	444.4	352.6	350.7	316.2	49.5	28.3	96.50	137.5	4.4	34.5	18.6	1.9	91.8
1968	444.9	357.4	356.3	317.1	59.6	17.6	105.40	130.0	4.5	39.2	19.5	1.1	87.5
1969	473.5	388.3	387.2	337.7	79.0	19.3	109.50	125.2	4.7	49.5	26.1	1.1	85.2



*Fiscal Decentralization in Ethiopia*

1970	512.9	424.9	423.7	379.5	82.3	20.6	122.50	149.2	4.9	44.2	18.4	1.2	88.-
1971	560.-	466.6	465.4	410.7	102.3	20.2	132.30	149.8	6.1	54.7	23.9	1.2	93.4
1972	583.4	490.5	489.7	434.9	113.6	20.8	147.10	146.6	6.8	54.8	21.7	0.8	92.9
1973	648.5	556.8	555.2	490.1	122.3	20.3	163.50	177.-	6.0	65.1	27.4	1.6	91.7
1974	713.9	616.-	614.6	543.6	134.8	18.3	187.40	196.1	7.0	71.0	26.3	1.4	97.9
1975	804.-	707.9	706.2	596.7	168.2	11.5	207.00	202.7	7.3	109.5	61.1	1.7	96.1
1976	851.8	774.6	772.7	619.1	160.6	14.7	184.40	253.0	6.4	153.6	43.0	1.9	77.2
1977	1081.6	1004.4	1001.7	863.1	191.7	17.8	197.70	449.-	6.9	138.6	76.8	2.7	82.6
1978	1254.-	1182.2	1178.9	947.3	206.5	19.5	203.90	510.9	6.5	231.6	78.1	3.3	71.8
1979	1573.8	1379.30	1374.6	1150.1	268.4	46.6	286.90	539.10	9.7	223.9	101.9	4.7	194.5
1980	1730.7	1556.60	1549.8	1305.6	332.-	48.6	383.20	531.8	10.-	244.2	129.3	6.8	174.1
1981	1936.5	1746.10	1738.5	1370.6	439.4	50.5	403.00	466.1	11.6	367.9	277.5	7.6	190.4
1982	2126.8	1865.20	1856.1	1444.7	515.2	50.3	410.60	458.2	10.4	411.4	328.6	9.1	261.6
1983	2417.5	2158.20	2143.2	1566.7	513.0	51.8	452.80	496.0	13.0	576.5	487.7	15.-	289.3
1984	2528.1	2274.40	2260.5	1731.6	604.9	45.4	507.50	559.6	14.1	528.9	428.1	13.9	253.7
1985	2897.-	2265.70	2254.2	1686.7	646.5	42.0	535.70	448.7	13.8	567.5	396.0	11.5	631.3
1986	3172.-	2728.90	2716.0	1882.4	721.0	44.6	569.30	532.0	14.6	833.6	538.4	12.9	443.1
1987	3170.6	2848.60	2833.4	2100.6	860.7	46.3	636.40	540.6	16.7	732.8	491.9	15.2	322.0
1988	4001.3	3365.40	3345.4	2326.5	964.7	48.2	726.60	554.5	32.5	1018.9	786.5	20.0	635.9
1989	4680.3	3881.30	3863.9	2383.5	1017.7	46.2	777.40	509.1	33.1	1480.4	952.5	17.4	799.0

Source: Computed from Ministry of Finance, *Central Government Budgetary Revenue and Expenditures*, various issues, 1950-1988

*Wogene: History of the Post-War Fiscal System*

**Appendix Table 2: Level And composition of Ethiopian Government Budgetary Revenue 1950-1989**

Year	Level of Budgetary Revenue (Percent of GDP)			Composition of Budgetary Revenue (Percent of Total Revenue)						
	Revenue	Tax	Non-Tax	Taxes on Income	Taxes on property	Taxes on Goods and Services		Taxes	Non-Tax	Enterprise & Profit Income
						Domestic	International			
1950	-	-	-	9.30	25.79	11.39	37.33	84.4	14.24	8.84
1951	-	-	-	8.85	25.14	9.33	41.71	86.38	12.36	7.02
1952	-	-	-	11.35	23.21	11.48	42.60	89.67	9.69	5.23
1953	-	-	-	12.32	18.04	13.00	44.03	88.17	11.05	4.56
1954	-	-	-	10.75	14.70	15.18	47.51	88.93	10.99	5.30
1955	-	-	-	5.34	16.65	14.93	51.77	89.13	10.87	4.23
1956	-	-	-	5.64	16.17	17.16	50.33	90.30	9.70	2.65
1957	-	-	-	4.64	14.38	21.05	49.74	90.71	9.29	2.91
1958	-	-	-	5.40	13.76	21.40	49.78	91.14	8.86	3.24
1959	-	-	-	6.89	13.15	20.45	47.25	88.71	11.29	5.23
1960	-	-	-	7.26	15.37	24.75	43.15	91.60	8.40	2.50
1961	7.33	6.35	0.98	8.54	13.92	20.97	42.21	86.63	13.37	2.10
1962	7.62	6.95	0.67	10.20	13.28	22.41	44.36	91.23	8.77	4.82
1963	7.75	7.10	0.65	10.71	10.96	24.18	44.31	91.26	8.45	5.31
1964	8.62	7.74	0.88	10.32	10.52	24.38	43.53	89.79	10.21	5.08

*Fiscal Decentralization in Ethiopia*

1965	9.18	8.39	0.78	11.13	9.28	24.67	45.49	91.47	8.53	3.97
1966	9.36	8.54	0.79	11.20	8.83	26.71	43.24	91.29	8.39	4.24
1967	9.73	8.72	0.95	14.04	8.08	27.37	39.00	89.68	9.78	5.28
1968	9.26	8.22	1.01	16.68	4.92	29.49	36.37	88.72	10.97	5.46
1969	9.50	8.27	1.21	20.35	4.97	28.20	32.24	68.97	12.75	6.72
1970	9.48	8.47	0.99	19.37	4.85	28.83	34.11	89.32	10.40	4.33
1971	9.86	8.68	1.16	21.92	4.33	28.35	32.10	88.02	11.72	5.12
1972	10.23	9.12	1.15	23.16	4.24	29.99	29.89	88.66	11.17	4.42
1973	11.07	9.74	1.29	22.14	3.65	29.36	31.79	88.02	11.69	4.92
1974	11.04	9.75	1.27	21.88	2.97	30.42	31.83	88.25	11.53	4.27
1975	12.75	10.75	1.97	23.76	1.62	29.24	28.63	84.29	15.47	8.63
1976	12.92	10.33	2.56	20.73	1.90	23.41	32.66	79.93	19.83	5.55
1977	14.65	12.59	2.02	19.09	1.77	19.68	44.70	85.93	13.80	7.65
1978	16.21	12.99	3.17	17.47	1.65	17.25	43.22	80.13	19.59	6.65
1979	17.20	14.35	2.79	19.46	3.38	20.80	39.09	83.38	16.23	7.39
1980	18.24	15.30	2.86	21.33	3.12	24.62	34.16	83.88	15.67	8.31
1981	19.61	15.40	4.13	25.16	2.89	23.08	26.69	78.49	21.07	15.89
1982	20.35	15.76	4.99	27.62	2.70	22.01	24.57	77.46	22.06	17.62
1983	21.52	15.62	5.75	25.62	2.38	20.98	22.98	72.59	26.71	22.60
1984	22.74	17.31	5.29	26.60	2.00	22.31	24.60	76.13	23.25	18.82
1985	22.91	17.06	5.74	28.53	1.85	23.64	19.80	74.44	25.05	17.48

*Wogene: History of the Post-War Fiscal System*

1986	25.19	17.38	7.70	26.45	1.63	20.86	19.15	68.98	30.55	19.73
1987	25.44	18.76	6.54	30.21	1.63	22.34	18.98	73.74	25.72	17.27
1988	28.40	19.63	8.60	28.67	1.43	21.59	16.48	69.13	30.28	23.37
1989	31.24	19.19	11.92	26.22	1.19	20.03	13.12	61.41	38.14	24.54

Source: Computed from Appendix Table 1

## Fiscal Decentralization in Ethiopia

Appendix Table 3: Level and Composition of Central Government Current Revenue of some Low Income Countries

	Total Current Revenue as a Percentage of GNP		Percentage of Total Current Revenue											
			Taxes on Income Profits & Capital goods		Social Security Contributions		Domestic Taxes on Goods & Services		Taxes on International Trade & Transactions		Other taxes		Non-tax Revenue	
			1972	1989	1972	1989	1972	1989	1972	1989	1972	1989	1972	1989
Ethiopia	10.0	31.1	23.2	26.2	0.0	0.0	29.9	20.0	29.9	13.12	5.6	2.2	11.2	38.3
Bangladesh	8.6	8.8	3.7	11.7	0.0	0.0	22.4	33.2	18.0	31.5	3.8	7.1	52.2	16.5
Malawi	16.0	21.2	31.4	38.9	0.0	0.0	24.2	35.4	20.0	15.8	0.5	0.5	23.8	9.5
Nepal	5.2	9.5	4.1	11.7	0.0	0.0	26.5	36.1	36.7	30.5	19.0	5.6	13.7	16.2
Chad	10.8	6.2	16.7	20.8	0.0	0.0	12.3	8.6	45.2	46.2	20.5	12.7	5.3	11.6
Sierra Leone	19.5	9.0	32.7	26.3	0.0	0.0	14.6	25.7	42.4	44.6	0.3	0.3	9.9	3.1
Nigeria	9.4	15.7	43.0	44.2	0.0	0.0	26.3	6.4	17.5	16.4	0.2	14.4	13.0	47.4
Uganda	13.7	5.3	22.1	5.5	0.0	0.0	32.8	19.1	36.3	75.3	0.3	0.0	8.5	0.0
Zaire	9.9	9.4	22.5	35.9	2.3	0.8	12.1	11.9	57.8	45.5	1.6	2.3	3.6	3.6
Burkina Faso	8.6	11.4	16.8	25.0	0.0	8.2	18.0	13.4	51.8	38.9	3.2	6.5	10.2	18.1
India	10.2	15.4	21.3	13.5	0.0	0.0	44.5	35.5	20.1	26.7	0.9	0.4	13.2	23.9
Kenya	18.0	22.3	35.6	28.7	0.0	0.0	19.9	43.6	24.3	18.2	1.4	1.1	18.8	8.7
Pakistan	12.5	17.8	13.6	10.8	0.0	0.0	35.9	33.4	34.2	32.9	0.5	0.2	15.8	22.7
Ghana	15.1	13.8	18.4	28.7	0.0	0.0	29.4	28.3	40.6	35.2	0.2	0.1	11.5	7.8
Zambia	23.2	10.0	49.7	38.1	0.0	0.0	20.2	37.0	14.3	15.8	0.1	4.9	15.6	4.2
Sri Lanka	20.0	21.6	19.1	11.0	0.0	0.0	34.7	48.1	35.4	28.5	2.1	4.1	8.7	8.3
Lesotho	11.7	21.6	14.3	10.7	0.0	0.0	2.0	22.3	62.9	55.7	9.5	0.1	11.3	11.2
Indonesia	13.4	18.4	45.5	55.9	0.0	0.0	22.8	24.5	17.6	5.6	3.5	5.7	10.6	8.3
Liberia	17.0	17.8	40.4	33.9	0.0	0.0	20.3	25.1	31.6	34.6	3.1	2.3	4.6	4.2

Sources: World Bank, *World Development Report 1991*; Ethiopia: Appendix Table 1

Appendix Table 4: Structure of Ethiopian Government Public Expenditure-Functional Classification (1950-1989) (million Birr)

Year	GDP (Cur. Mkt Prices)	1-2+3-4 Total Expenditure	(1) General Service	Defense	(2) Community & Social Services	Education	Health	Social Security & Welfare	Housing & Community Amenities	(3) Economic Services	Roads	(4) Other Purposes
1950	-	86.4	47.5	19.9	11.8	8.8	2.70	-	-	16.4	6.2	10.7
1951	-	91.2	49.1	19.2	12.1	9.2	2.6	-	-	23.1	12.4	6.9
1952	-	80.4	46.4	17.6	13.4	10.3	2.7	-	-	13.1	7.1	7.5
1953	-	81.3	50.8	18.6	13.8	10.2	3.2	-	-	11.6	8.0	5.1
1954	-	102.0	62.6	24.4	14.8	10.6	3.8	-	-	17.1	8.4	7.5
1955	-	120.0	76.1	29.1	15.3	10.7	3.8	-	-	21.4	11.7	7.2
1956	-	120.9	71.9	27.6	19.5	12.1	4.6	-	1.0	24.3	9.3	5.2
1957	-	154.0	82.5	36.5	22.3	15.5	4.7	-	0.9	36.4	11.5	12.8
1958	-	175.0	96.8	40.4	25.1	17.1	5.4	-	0.4	38.7	16.9	14.4
1959	-	199.4	106.7	42.0	32.4	22.9	5.9	-	1.2	39.4	17.2	20.9
1960	-	147.7	79.4	33.5	25.6	16.0	5.8	-	1.2	39.2	23.2	3.5
1961	2460.9	209.7	108.9	42.7	35.4	21.2	9.0	-	2.2	53.3	26.1	12.1
1962	2558.3	243.0	113.6	49.6	35.3	20.7	9.1	0.8	2.1	80.9	21.5	13.2
1963	2672.7	290.8	122.9	50.8	47.8	27.0	11.3	1.1	2.0	109.6	30.1	10.5
1964	2922.7	313.5	129.4	63.9	65.9	37.0	16.3	2.9	1.8	87.7		30.5
1965	3180.5	392.4	162.8	69.8	69.1	35.4	18.5	4.7	2.6	62.1	28.3	98.4
1966	3423.0	59.5	172.9	76.7	77.8	41.4	20.7	6.5	2.5	76.4	36.4	132.4
1967	2625.5	441.6	183.0	73.4	87.5	47.9	22.4	5.4	3.4	65.2	28.6	105.9
1968	3858.0	481.7	200.8	86.8	99.2	57.0	23.9	7.1	3.2	80.2	38.9	101.5
1969	4085.4	508.9	206.5	86.8	118.8	67.9	27.6	9.7	5.1	77.9	32.8	105.7

*Fiscal Decentralization in Ethiopia*

1970	4482.8	572.6	206.8	85.3	148.6	79.1	36.8	19.5	5.3	106.1	53.1	111.1
1971	4733.3	609.4	210.2	87.4	150.6	83.3	33.3	21.5	3.2	127.4	61.-	121.2
1972	4768.1	651.2	222.4	92.8	168.5	93.2	37.1	25.5	3.00	151.7*	62.0	108.6
1973	5030.4	701.9	232.5	96.0	197.2	114.1	38.7	30.6	3.10*	163.1*	69.8	109.1
1974	5577.3	761.4	253.8	105.8	211.5	125.3	40.5	30.4	3.50*	168.2*	68.3	128.0
1975	5551.0	1032.7	347.7	184.9	266.9	153.8	46.3	46.8	6.60*	243.8*	88.6	174.3
1976	5995.8	1180.2	485.8	315.6	289.0	146.7	51.9	52.1	19.20*	288.8*	137.4	116.6
1977	6854.5	1328.8	577.1	383.1	308.2	153.9	65.1	58.3	10.50*	360.4*	140.0	83.3
1978	7294.9	1678.0	900.9	703.4	315.5	148.8	66.9	63.1	12.50	336.5*	90.7	125.1
1979	8016.9	1859.1	829.2	627.6	367.0	183.3	69.7	74.8	12.50	399.4	108.4	263.5
1980	8533.9	2151.7	905.4	695.7	410.0	200.6	74.5	81.8	25.60	465.1	180.5	371.2
1981	8902.8	2316.3	939.8	727.1	483.3	228.3	84.8	107.4	31.70	519.8	155.8	373.7
1982	9167.2	2618.4	1085.9	835.6	578.1	270.6	88.8	121.4	71.10	596.7	165.2	357.7
1983	10030.8	3770.0	1328.6	1062.3	652.2	302.4	101.4	142.4	74.80	1153.9*	148.8	635.3
1984	10001.0	3158.4	1239.6	939.1	701.7	326.7	104.2	163.2	66.10	766.7*	142.1	450.4
1985	9889.6	3766.1	1222.3	926.4	836.1	364.4	114.1	200.2	118.-	879.9*	112.4	827.8
1986	10832.5	3986.6	1159.9	929.4	965.1	381.0	122.1	209.6	134.-	1171.3*	160.6	690.3
1987	11195.8	3924.7	1340.1	1011.1	965.0	413.7	139.3	201.8	161.8*	1190.3*	151.9	429.3
1988	11850.9	4709.8	1679.1	1350.7	1062.6	438.2	142.2	193.8	241.8	1167.0*	177.9	801.1
1989	12420.8											

Source: Computed from Ministry of Finance, *Central Government Budgetary Revenue & Expenditures*, various issues, 1950-1988.

*Wogene: History of the Post-War Fiscal System*

**Appendix Table 5: Size and Composition of Ethiopian Government Public Expenditure Functional Classification (1950-1988)**

Year	Size of the Public Sector (percentage of GDP)			Composition of Public Expenditure (percent of total expenditure)							
	Total Expenditure	Civilian Expenditure	Defense Expenditure	General Services	Defense	Community & Social Services	Education	Health	Economic Services	Roads	Other Purpose
1950				54.98	23.03	13.66	10.19	3.13	18.98	7.18	12.38
1951				53.84	21.05	13.27	10.09	2.85	25.33	13.60	7.56
1952				57.91	21.89	16.67	12.81	3.36	16.29	8.83	9.32
1953				62.48	22.88	16.97	12.55	3.94	14.27	9.84	6.27
1954				61.37	23.92	14.51	10.39	3.73	16.76	8.24	7.35
1955				63.42	24.25	12.75	8.92	3.17	17.83	9.75	6.00
1956				59.47	22.83	16.13	10.01	3.80	20.10	7.69	4.30
1957				53.57	23.70	14.48	10.06	3.05	23.64	7.47	8.31
1958				55.31	23.09	14.34	9.34	3.09	22.11	9.66	8.23
1959				53.51	21.06	16.25	11.84	2.96	19.76	9.63	10.48
1960				53.76	22.68	17.33	10.83	3.93	26.54	15.71	2.37
1961	8.52	6.78	1.74	51.93	20.36	16.88	10.11	4.29	25.42	12.45	5.77
1962	9.50	7.56	1.94	46.75	20.41	14.53	8.52	3.74	33.29	8.85	5.43
1963	10.88	8.98	1.90	42.26	17.47	16.44	9.28	3.89	37.69	10.35	3.61
1964	10.73	8.54	2.19	41.28	20.38	21.02	11.80	5.20	27.97		9.73
1965	12.34	10.15	2.19	41.49	17.79	17.61	9.02	4.71	15.83	7.21	25.08
1966	13.41	11.17	2.24	37.63	16.69	16.93	9.01	4.50	16.63	7.92	28.81
1967	16.82	14.02	2.80	41.44	16.62	19.81	10.85	5.07	14.76	6.48	23.98



*Fiscal Decentralization in Ethiopia*

1968	12.49	10.25	2.24	41.69	18.02	20.59	11.83	4.96	16.65	8.08	21.07
1969	12.46	10.34	2.12	40.58	17.06	23.34	13.34	5.42	15.31	6.44	20.77
1970	12.77	10.87	1.90	36.12	14.90	25.95	13.81	6.42	18.53	9.27	19.40
1971	12.87	11.02	1.85	34.49	14.34	24.71	13.67	5.46	20.91	10.01	19.89
1972	13.66	11.71	1.95	34.15	14.25	25.88	14.31	5.70	23.30	9.52	16.68
1973	13.95	12.04	1.91	33.12	13.68	28.10	16.26	5.51	23.24	9.94	15.54
1974	13.65	11.75	1.90	33.33	13.89	27.78	16.46	5.32	22.09	8.97	16.81
1975	18.60	15.27	3.33	33.67	17.90	25.84	14.89	4.48	23.61	8.58	16.88
1976	19.68	14.42	5.26	41.16	26.74	24.49	12.49	4.40	24.47	11.64	9.88
1977	19.39	13.80	5.59	43.43	28.83	23.19	11.58	4.90	27.12	10.54	6.27
1978	23.00	13.36	9.64	53.69	41.92	18.80	8.89	3.99	20.05	5.41	7.46
1979	23.19	15.36	7.83	44.60	33.76	19.74	9.86	3.74	21.48	5.83	14.17
1980	25.21	17.06	8.15	42.08	32.33	19.05	9.32	3.46	21.62	8.39	17.25
1981	26.02	17.85	8.17	40.57	31.39	20.87	9.86	3.66	22.44	6.73	16.13
1982	28.56	19.44	9.12	41.47	31.91	22.08	10.33	3.39	22.79	6.31	13.66
1983	37.58	26.99	10.59	35.24	28.18	17.30	8.02	2.69	30.61	3.95	16.85
1984	31.58	22.19	9.39	39.25	29.73	22.20	10.34	3.30	24.27	4.50	14.26
1985	38.08	28.71	9.37	32.46	24.60	22.20	9.68	3.05	23.36	2.98	21.98
1986	36.80	28.22	8.58	29.09	23.31	24.21	9.56	3.06	29.38	4.03	17.32
1987	35.01	25.98	9.03	34.15	25.76	24.59	10.54	3.55	30.33	3.87	10.94
1988	39.74	28.34	11.40	35.65	28.68	22.56	9.30	3.02	24.78	3.78	17.01
1989											

Source: Calculated from Table 2

