

# Ethiopia - Fiscal Federalism: Fiscal Policy Considerations for the Medium Term

Volodymyr Tulin

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IMF Selected Issues Papers are prepared by IMF staff as background documentation for periodic consultations with member countries. It is based on the information available at the time it was completed on June 16, 2025. This paper is also published separately as IMF Country Report No 2025/189.

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**Ethiopia - Fiscal Federalism: Fiscal Policy Considerations for the Medium Term****Prepared by Volodymyr Tulin**

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**ABSTRACT:** Ethiopia's interregional fiscal arrangements entail a sizable redistribution of resources. They help the objective of income redistribution and equity, as well as providing partial insurance against regional macroeconomic shocks. However, overall transfers from the federal government to regions have been constrained by limited fiscal space. By law, regions cannot borrow without Ministry of Finance approval. There is room to improve redistribution and stabilization features of Ethiopia's government finances, strengthen regional budgetary frameworks, and mobilize domestic resources to support socio-economic development. Implementation of revenue mobilization reforms will require support from the federal government to strengthen tax administration in the regions. Lastly, the curtailment of overseas development assistance would disproportionately affect regions with large humanitarian and disaster risk expenditure requirements.

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SELECTED ISSUES PAPERS

# **Ethiopia - Fiscal Federalism: Fiscal Policy Considerations for the Medium Term**

Federal Democratic Republic of Ethiopia

Prepared by Volodymyr Tulin



# THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

## SELECTED ISSUES

June 16, 2025

Approved By  
**African Department**

Prepared by Volodymyr Tulin

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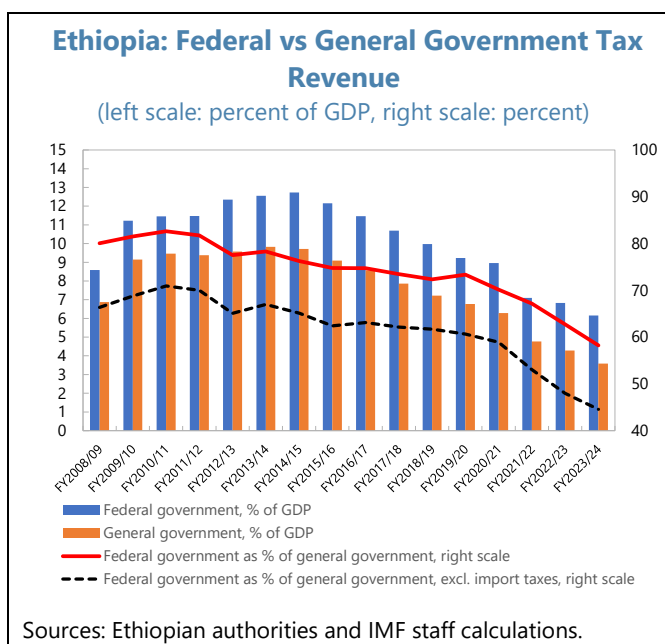
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# ETHIOPIA—FISCAL FEDERALISM: FISCAL POLICY CONSIDERATIONS FOR THE MEDIUM TERM

## A. Main Characteristics of Intergovernmental Relations in Historic and Regional Context

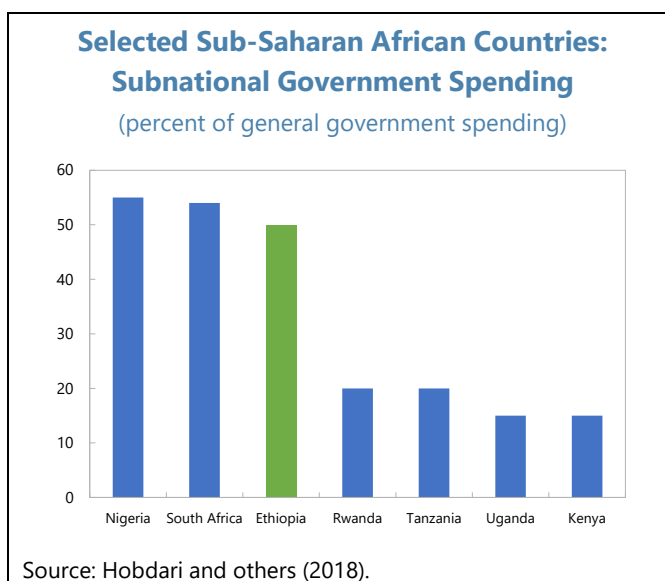
**1. The process of fiscal decentralization in Ethiopia started three decades ago.** The foundational elements of revenue-sharing, regional self-governance, spending mandates, and fiscal responsibility are enshrined in the National Constitution approved in December 1994. Ethiopia's federal structures reflect ethnic or linguistics groups, with considerable variation in terms of land area, population, economic development, and urbanization. From the initial setup of nine states, the number of federal constituencies expanded over time to twelve, with the most recent change in 2023 with the three new regions formed from the previously Southern Nations, Nationalities, and Peoples' Region (SNNPR). Ethiopia's two largest cities, Addis Ababa and Dire Dawa, are under federal government jurisdiction.

**2. A distinctive feature of Ethiopia's fiscal federalism is the split of revenue raising powers between federal and regional governments according to tax sources.** Revenues are categorized as federal, state, or joint. The federal government has an exclusive right to tax international trade, domestic indirect taxes (VAT and excise) are split according to joint revenue sharing formulas, while regional governments collect direct taxes (including PIT) and certain royalties and fees (Table 1). For taxes not mentioned explicitly, the Constitution includes a mechanism to establish revenue assignment (a two-thirds majority vote of the joint session of the House of the Federation and the House of Peoples' Representatives). This mechanism applies to several new taxes envisaged under the National Medium-Term Revenue Strategy, namely property and motor vehicle circulation taxes.



**3. Expenditure responsibilities in Ethiopia are close to those of highly decentralized systems.** The federal government has responsibility for national defense, national infrastructure (air, rail, major roads, post, telecom), formulating country's overall economic and social development (IMF, 1997). In turn, regional governments are responsible for policy areas such as basic education and health, tailored to the specific needs of local populations.

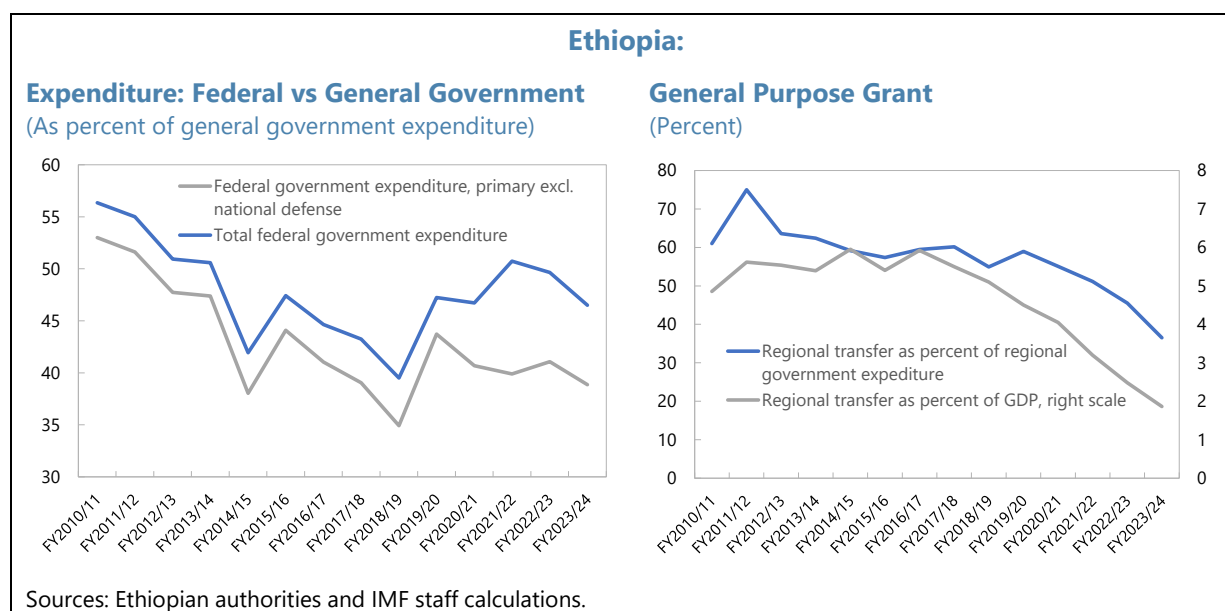
**4. All in all, Ethiopia is relatively decentralized compared to Sub-Saharan African countries.** Most countries in Sub-Saharan Africa retain a highly centralized model of territorial government and fiscal arrangements, and only a handful have embarked on significant fiscal decentralization. Besides Ethiopia, only in Nigeria and South Africa does spending at the subnational government level account for half or more of general government spending. Of the rest, only in a few East African countries is spending at the subnational level significant (Kenya, Rwanda, Tanzania, and Uganda, where it amounts to about 15–20 percent of general government spending).



**5. Ethiopia's intergovernmental relations have evolved over the years.** Vertical fiscal imbalances – the gap between revenue-raising capacity and expenditure responsibilities of different levels of government – have narrowed over the years, primarily due to the increase in regions' share of joint revenues. Key developments include:

- The revenue assignment of regional government was initially concentrated in direct taxes, including personal income tax. In the two decades following the introduction of the federal system, regions could cover only about 1/3 of expenditure mandates with own revenue, in part due to a lack of sustained growth of the income tax base. Most required a sizable grant transfer from the federal government to cover resource shortfalls. In the recent decade, regions' share of concurrent revenues has been increased with intent to reduce the vertical imbalances.
- The share of regions in total public expenditure has increased steadily, from about 35 percent of consolidated expenditure in mid-1990's to around 55 percent in the last decade.
- The regional block (general purpose) grant has shrunk relative to the federal government's resource envelope.

**6. Recent legislative reforms (Proclamation 1250/2021) have strengthened the legislative framework with regards to high-level policy principles and institutional arrangements.** Key elements of the revised legal framework include: (i) a limit on revisions of the grant formula to once in five years, with the possibility of incorporating data updates, and (ii) creation of the House of Federation Secretariat, an independent technical body with parliamentary oversight, tasked with designing grant and joint revenue sharing formula recommendations and implementation of monitoring and evaluation activities. However, the status of implementation of institutional arrangements and the extent of technical capabilities of the autonomous body are unclear.



## B. Revenue: Recent Developments and Reform Considerations

**7. A sequence of revenue sharing methodology reforms has resulted in a significant improvement in regions' revenues and narrowing vertical imbalances.** The joint revenue sharing formula has been revised eight times, resulting in a decline in the federal government's share of joint revenues from 70 percent in 2010/10 to 45 percent by 2023/24. The latest FY2020/21 formula revision (Table 2) had a significant impact on regions' share, which was increased from 30 to 50 percent for VAT, and from 40 to 75 for royalties. The joint revenue sharing methodology implemented in the FY2020/21 committed 50 percent of income taxes to regional states where businesses operate, though leaving the tax assignment of the two federal cities without change.

**8. The division of tax administration and collection responsibilities between the federal and regional governments should balance minimizing administration and compliance costs with the fiscal sovereignty of the states.** Inter-regional equalization argues for central taxation of tax bases that are unequally distributed across regions (e.g., if large corporate entities, or mineral wealth, are concentrated in particular locations). While this policy objective is present to some extent in all countries, it is often balanced, particularly in fiscal federations, by the desire to protect the economic policy autonomy of regions and allow the more dynamic regions to reap the benefits of their economic success. Key revenue reform considerations for Ethiopia's medium-term revenue strategy can be identified as follows:

### Direct Taxes

**9. Ethiopia's decentralized model of progressive income taxation constrains scope for promoting interregional equity through tax policy.** The equity considerations that underpin progressivity principle of personal income taxation warrant aggregation of personal incomes by sources and across regional tax jurisdictions. Though Ethiopia's salary income tax is progressive,

other sources of individual incomes are taxed according to separate schedules (salary, rental income, self-employment). Furthermore, the income tax assignments are not aligned with the schedules. Income under a particular schedule can be allocated to the federal government, a regional government, or both, depending on the source. For example, a federal government employee's salary is taxed by the federal government while the rental income is taxed by the region. As total income is not aggregated across jurisdictions, the individual may not be subject to higher income tax rate bands. Division of taxing rights, with regions entitled to personal business income tax, in combination with the schedular income tax system limits the progressivity of taxation of personal incomes. Introducing progressive unified income at regional level could be feasible, although implementing and administering aggregation of income sources across tax jurisdictions is likely to be far more challenging.

**10. Policy options, such as those identified in Fund TA, to improve progressivity of personal income taxation and to protect regions from presumptive tax revenue loss, will require collaboration of regional and federal tax authorities.** One approach to improve progressivity of personal income taxes could involve applying a progressive scale to income that is taxable by the regional governments, and taxing federal income at a higher rate based on total earnings. Besides policy complexity, this design would require robust tax filing systems and inter-jurisdictional coordination. It requires centralized tax filing or enhanced information sharing between the federal and regional levels, that will take time to implement. Safeguards may be desired to protect regions from presumptive tax revenue losses, given that employment income tax and unincorporated business income tax account for almost 90 percent of regions' direct tax revenues. With the envisaged uniform design of the turnover tax rate across the country, regions could be given the flexibility to apply a surtax to the turnover tax revenues (e.g., 10 percent). Surcharges on excises could also be considered.

## Indirect Taxes

**11. The growing importance of indirect taxes as a revenue source will benefit regions in the medium term, although regions with lower tax bases and weaker administration capacity will benefit less.** Ethiopia's nationwide and uniform VAT rate of 15 percent is applied across all regions, and hence does not give rise to VAT cascading nor distortions to inter-regional trade and economic linkages. The 2024 VAT Proclamation benefits regional revenues by widening the tax base to include services, removing various VAT exemptions, and modernizing administration arrangements. However, a few distinct features of the federal VAT arrangements<sup>1</sup> have implications for tax administration reforms and intergovernmental and interregional fiscal imbalances, specifically:

- **Division of responsibilities between the federal and regional governments to collect VAT.** Ethiopia's VAT is administered at federal level, with the regions carrying some delegated responsibilities for filing and collection. The 2024 VAT Proclamation clarified that VAT shall be assessed and collected by the Ministry of Revenue or the Customs Commission, as appropriate,

<sup>1</sup> For further discussion, see also Yesegat and Krever (2018).



but the Ministry of Revenue can delegate the Regional and City Administration Revenue Bureaus to assess and collect the VAT on its behalf. This division of administrative responsibility could introduce unevenness in the comprehensive and uniform application of the tax. Successful implementation of the new regime requires good coordination and information flow between regional and central tax authorities (e.g. on validation of VAT refunds and input tax credits).

- **The legal form of small businesses affects revenue assignment.** VAT revenues are withheld or collected from a business with assignment (federal vs concurrent) based on the legal form of the business. Regional governments are entitled to revenue from unincorporated businesses, while revenues from incorporated businesses are treated as joint and are subject to sharing. Small businesses (entrepreneurs and individual traders, defined as “category C” taxpayers by the Income Tax Proclamation) and “persons” defined under the Turnover Tax Proclamation, are subject to turnover tax which is a VAT counterpart for establishments with annual sales below VAT registration threshold. Turnover taxes collected from small businesses are assigned to regional government while VAT from larger entities are joint revenues, with VAT being jointly assigned to a region where the large entity trades within its territory. As a result, the division of the underlying tax base will remain dependent on the legal form of the establishment. Unless periodically adjusted for inflation, VAT registration thresholds could drift, forcing more businesses into the VAT’s joint revenue pool.<sup>2</sup>
- **Ethiopia’s VAT is based on the origin principle, with assignment to a region in which the seller (rather than purchaser or consumer) is registered for tax purposes.** Although a tax on consumption, VAT revenue is remitted in a region where a business entity is registered and where it pays taxes, rather than to a region where the tax base is located. A place of supply and consumption would usually coincide for small businesses, but it is not the case for large corporates, which tend to be based in Addis Ababa, selling goods and services across the country. When large corporations collect VAT from a poorer region that is remitted to the headquarters tax authorities, there is effectively a fiscal transfer from a poorer to a wealthier region or to federal government in case of companies headquarter in Addis Ababa. These imbalances are likely to grow with expansion of e-commerce and remote services, which have been subject to VAT following the recent reforms, implying that a periodic public debate on the balance between centralized and local taxation, and the effectiveness and suitability of the block grant, will remain an important feature of the system.

### Property Tax Reforms

- Almost all tax revenues sourced in Addis Ababa and Dire Dawa are channeled to the federal government’s coffers, with property tax and other municipal fees being the main own revenue source. The two cities are expected to be at the forefront of property tax reform, paving the road for other local administrations nationwide. The upcoming reform of the presumptive tax, which belongs to local authorities, provides additional revenue mobilization opportunity for the two cities.

<sup>2</sup> The 2024 VAT Proclamation has raised the mandatory VAT registration annual turnover threshold from 1 to 2 million birr but allowed voluntary registration otherwise (Article 13), in line with international best practice.

## Natural Resource Taxation

- Most countries also allow natural resource-rich regions to benefit from a portion of the tax potential associated with these resources that goes well beyond the local costs and negative externalities generated by the resource exploration. Although Ethiopia does not earn significant revenues from high value extractive mining operations, gold has become the most significant mined commodity, and other industrial materials and fertilizers are under consideration.

## C. Regional Grant Framework

**12. General purpose grants (GPGs) are intended to fill vertical fiscal gaps and manage the equalization objective of limiting horizontal imbalances across regions.** Horizontal fiscal imbalances originate from differences in revenue generation, developmental levels, and administrative capacities across the regions (Yimenu, 2024). General purpose grants have been a key source for financing regional and local public services, aiming to support regions in delivering reasonably comparable levels of essential public services while facing comparable tax burdens. The grants serve to advance national objectives such as in education, health, social welfare policy, and access to basic infrastructure. The regional budget financing nature of the general-purpose grant is meant not to intrude on regions' decision-making autonomy, while ensuring a transparent allocation across regions.

**13. Unconditional budget grants are complemented by a system of targeted regional grants for capital investment towards the achievement of Sustainable Development Goals (SDG).** Relatively small in comparison to the general pool, these SDG grants were envisaged to support basic service-related capital projects guided by national policy priorities, while mitigating risks that SDG-related expenditure are rationed out due to current expenditure pressures. In recent years, these funds have been used by regional government for the construction of agro-industrial parks and small-scale irrigation infrastructure. Other sizable specific purpose transfers include urban and rural Productive Safety Net Programs (PSNP).

**14. The regional grant framework is underpinned by institutional arrangements at the legislative and executive level.** The formulation of the size of the GPG pool is undertaken by the Ministry of Finance, while the responsibility for allocation criteria rests with the House of Federation, the parliament's upper house with regional representation. The size of the grant pool is set as part of the annual federal budget cycle, and hence is subject to parliamentary approval. In practice this process lacks direct input and feedback from the regions as regards the size of the pool and amounts of regional grants.

**15. The allocation of GPGs across regions is driven by a formula, which has seen eight modifications over three decades.** Until 2007, the formula went through several modifications primarily to reflect regional populations, the level of economic development, and revenue raising capacity. Starting in 2007, however, the approach shifted to balancing differences in revenue-raising capacity and expenditure needs. The current formula, last modified in 2017, builds on three pillars: (i) difference in regional tax revenue, such as income, turnover, and VAT taxes, (ii) regional government expenditure, such as on primary and secondary education, agriculture and rural development, rural

roads, and (iii) a dedicated though a rather small sub-pool, currently set at one percent of the total pool, to support the catch-up of the four least developed regions (Benishangul-Gumuz, Afar, Gambela, and Somali). The FY2024/25 work plan of the Standing Committee on Budget Subsidies and Shared Revenues foresees revision of the regional state budget allocation formula based on empirical data. Despite periodic revisions and recent legislative changes, there is no rule or procedural trigger guiding the periodicity of formula revisions. The main reasons include the lack of timely and adequate regional data and limited technical capacity. Lastly, the formula remains to be established for the three new regions, previously SNNPR.

**16. The equalization function has been weakened by the decline in size of the of grant pool.** The current grant sharing formula is intended to help fill the financing gap of the regions:

$$\text{Region's Fiscal Gap} = \text{Region's Fiscal Capacity (tax revenue norm)} + \text{Region's Concurrent Revenue} - \text{Region's Expenditure Needs (expenditure norm)}$$

Fiscal gaps are used to determine the shares of the regions in the pool. However, the overall size of the pool is set by the Ministry of Finance and in practice independently of the intended objective of gap filling. Constrained fiscal space and the decline in the tax-to-GDP ratio of the federal government have contributed to the shrinking of the pool, putting regions' essential public service delivery at risk. The decline of the pool can also lead to weaken interregional equity, as less resources flow from the federal budget to regions with weaker fiscal capacity. Furthermore, fiscal gap formula components aggregate multiple subcomponents, resulting in complex and data intensive calculations (World Bank, 2015), that make the allocations less transparent and can lead to questions about fairness. The following considerations are relevant in setting grants over the medium term:

- The equalization principles imply that taxes collected from states with higher revenue potential are shared with regions with less revenue potential. This is implemented through a norm approach to revenue potential of the region, but in practice the calculation of fiscal capacity is based primarily on the region's actual revenue collection as opposed to potential tax base and administration capacity. With states retaining a greater share of concurrent revenue, the resource pool for shared revenue declines, and the equalization function of the block grant can weaken.
- Vertical fiscal gaps can also arise due to imbalances in revenue gains and the expenditure implications of the program-supported reforms. The near-term macroeconomic and domestic revenue mobilization reforms will disproportionately benefit the tax base assigned to the federal government. This is due to revenue gains being concentrated in customs, primarily as a result of exchange rate and excise reform, but also VAT and income taxes from SOEs established by federal government and businesses headquartered in Addis Ababa. In turn, the expenditure pressures for regions stem primarily from their developmental and poverty-reducing spending mandates. Federally financed programs, such as PSNP and rural development capital spending and SDG grant, can help narrow fiscal gaps, but it will be key to set the block grant size with consideration for the absolute fiscal gaps, and share the federal government's revenue windfall

equitably with the regions. The sub-pool to support the catching up of the four less developed regions, already small, could decline further, and may need reconsideration.

- The increase in concurrent revenue shares has incentivized revenue mobilization for regions. Overcoming weaknesses in revenue administration capacity will require concerted effort and support from the federal tax administration to strengthen regional tax collection capacity. Regular and data driven grant formula updates can help attain fiscal equalization.
- Establishing a simple, fair, and transparent grant system is difficult in any federation. In Ethiopia's case, difficulties are compounded by the lack of timely statistics capturing interstate equity, tax effort, and policy implementation effectiveness. Outdated statistics tends to penalize regions with faster urbanization.
- Large fiscal gaps (horizontal and vertical) can be politically divisive. Fiscal equalization through the grant system can help foster a sense of political participation but can also foster resentment in net contributing regions and weaken incentives to raise revenue. Simplicity, objectivity, and transparency of grant allocations are critical for policy effectiveness, accountability, and public acceptance.

**17. Analysis of recent regional fiscal accounts and socio-economic indicators confirms that budget grants have been effective at reducing regional fiscal gaps but have not fully offset the impact of regional disparities in fiscal capacity on multidimensional socio-economic poverty.** Analysis of the FY2023/24 regional government's budget execution in combination with the multidimensional poverty indicator (MPI),<sup>3</sup> a composite metric that covers health, education, and living standards at the regional level, suggests the following:

- There is a positive correlation between region's dependence on general-purpose grants and that region's MPI (first panel below). Specifically, regions with higher MPIs tend to have greater shares of their budget expenditure covered by general-purpose grants. Furthermore, as indicated in the 2024 World Bank Poverty Assessment for Ethiopia, multidimensional poverty declined nationwide between 2016 and 2021 reflecting increased access to public services such as water and electricity, improved housing quality, and ownership of durable assets in rural areas, which are areas that fall primarily within the policy mandates of the regions. Taken together, this evidence suggests that federal budget grants have been effective at reducing interregional fiscal gaps that stem from socio-economic expenditure needs.
- At the same time, federal general-purpose grants do not fully offset the impact of regional disparities in fiscal capacity on multidimensional poverty, as indicated by the negative correlation between per capita spending on recurrent social services (education, health) and multidimensional poverty outcomes (second panel).
- Lastly, budget grants also appear to fall short in their ability to offset regional disparities in fiscal capacity. Although regions with higher MPIs collect less own revenue per capita (third panel),

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<sup>3</sup> Multidimensional poverty indicator (World Bank Ethiopia Poverty and Equity Assessment, 2024) ranges from 0 to 1, with higher value representing a higher level of deprivation. For methodology, see Alkire et al. (2021).

there is no clear statistical links between the per capita amount of the general-purpose grant and region's own revenue or the degree of severity of multidimensional poverty (last panel).



## D. Macroeconomic Implications

**18. The federal government's macroeconomic stabilization function should be strengthened.** The fiscal stance, also determined at the federal government level, is set through the federal budget. In principle, the general-purpose grant pool, set in the context of the annual budget cycle, provides a mechanism to harmonize macroeconomic stabilization policy across federal and regional budgets, but in the past has been subject to strong budget constraints at the national level. Strengthening the federal government and regional budgetary frameworks, and rebuilding fiscal space, are needed to support the macro-stabilization function of public finances. Policy recommendations identified by the recent macro-fiscal TA focus on modernizing forecasting techniques, improving institutional coordination, and strengthening links between medium-term fiscal frameworks (MFF) and the annual budgets. Further information from the MFF could be produced to inform decisions during the budget preparation process, including impacts of budget decisions on debt and other sustainability indicators.

**19. Policy coordination between the federal government and regional governments is necessary in many areas for ensuring effective economic governance and development.** Tasked with formulating country's overall economic and social development, the federal government should encourage and support common best practices that can be replicated and implemented effectively at the regional level. Improving coordination of investment plans between government entities with different institutional functions would help ensure public infrastructure is delivered in the right areas and with appropriate funding. Policy recommendations of the 2024 Public Investment Management Assessment (PIMA) and Climate PIMA report call for better investment and budgetary resource planning, project implementation monitoring, systematic disclosure, as well as improving alignment of regional frameworks with federal climate priorities.

**20. Insurance against regional macroeconomic shocks primarily works through federal safety nets programs while other channels are limited.** The general-purpose grant formula is linked to revenue and expenditure norms, with 3-year averaging limiting responsiveness of the grant shares to temporary shocks. Although this design should allow automatic stabilizers to work on regional revenues, regional grant allocation shares are unaffected, and market borrowing is precluded. Helping regions cope with idiosyncratic shocks is effectively done through the shock response facilities of the federal government, namely PSNP and programs administered by the Disaster Risk Management Commission to address localized shocks, such as drought or livestock disease outbreaks. Curtailment of overseas development assistance would disproportionately affect regions with large humanitarian and disaster risk expenditure requirements and would increase the value of a stronger framework to manage regional macroeconomic shocks. Setting up an adequately funded national disaster risk management fund, as envisaged by the authorities, could help strengthen the response to natural disasters and humanitarian crises and channel available international resources transparently. Interregional stabilization and resilience to shocks can be strengthened through broadening the geographic reach of the safety nets, enhancing focus on livelihoods, and improving efficiency through e-payments, digitalization, and establishing National

Social Registry. Producing timely and adequate regional data to inform periodic updates of regional grant shares would also help.

**21. Reinforcing the fiscal responsibility framework by maintaining tight control over regional borrowing should continue.** Market discipline has not played a role in shaping decentralization. Regional governments are legally empowered to borrow domestically, subject to terms and conditions set by the federal government. But there has been no regional borrowing, with exception of Addis Ababa, constrained by scarce financial system capacity, potentially high risks, and federal government control over regional finances through the requirement for approval of any borrowing.<sup>4</sup> A range of legislative safeguards has precluded budget or project financing by regions. Tight control over regional borrowing should continue, as revenue mobilization capacity and fiscal space is rebuilt, and domestic debt market preconditions are established.

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<sup>4</sup> The only possibility for regions to borrow provided by law is for projects, which requires a feasibility study showing capacity to repay the debt, and the borrowing request is subject to approval by the Ministry of Finance. External borrowing by regions is not permitted. NBE or commercial banks are not permitted to lend to regional governments

**Table 1. Ethiopia: Taxation Powers of the Federal and Regional Governments**

<b>Federal Power of Taxation</b>	<b>State Power of Taxation</b>	<b>Concurrent Powers of Taxation</b>
<p>To levy and collect:</p> <ul style="list-style-type: none"> <li>• Custom duties, taxes and other charges on imports and exports</li> <li>• Income tax on employees of the federal government and international organizations</li> <li>• Income, profit, sales and excise taxes on enterprises owned by the federal government</li> <li>• Taxes on incomes and winnings from national lottery and games of chance</li> <li>• Taxes on income of air, rail and sea transport services</li> <li>• Taxes on income of houses and properties owned by the federal government</li> <li>• Fees and charges related to licenses issued and services rendered by organs of the federal government</li> <li>• Taxes on monopolies</li> <li>• Federal stamp duties</li> </ul>	<p>To levy and collect:</p> <ul style="list-style-type: none"> <li>• Income taxes on employees of the state and of private enterprises</li> <li>• Fees for land usufructuary rights</li> <li>• Incomes of private farmers and farmers incorporated in cooperative associations</li> <li>• Profit and sales taxes on individual traders carrying out a business within their territory</li> <li>• Income from transport services rendered on waters within their territory</li> <li>• Taxes on income derived from private houses and other properties within the state; and rent on houses and properties they own</li> <li>• Profit, sales, excise and personal income taxes on income of enterprises owned by the regional states</li> <li>• Taxes on income derived from mining operations, and royalties and land rentals on such operations</li> <li>• Fees and charges relating to licenses issued and services rendered by state organs</li> <li>• Royalty for use of forest resources</li> </ul>	<p>To jointly levy and collect:</p> <ul style="list-style-type: none"> <li>• Profit, sales, excise and personal income taxes on enterprises they jointly establish</li> <li>• Taxes on the profits and sales of companies and on dividends due to shareholders</li> <li>• Taxes on incomes derived from large-scale mining and all petroleum and gas operations, and royalties on such operation</li> </ul>



**Table 2. Ethiopia: FY2020/21 Joint Revenue Sharing Reform**

Tax Type	Type of Revenue	Previous Formula (Share)		New Formula (Share)	
		Federal	Regions	Federal	Regions
SOEs Established by both federal and state government	Business Profit	Based on capital share	Based on capital share	50%	50%
	Income Tax	50%	50%	0%	100%
	Sale/Vat/Excise Taxes	70%	30%	50%	50%
Private Share companies	Business Profit	50%	50%	50%	50%
	Sale/Vat/Excise Taxes	70%	30%	50%	50%
	Dividend Tax from Share Holders	50%	50%	50%	50%
Large Mining, fuel and Petroleum works	Royalty	60%	40%	25%	75%
	Business Profit	50%	50%	50%	50%

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