Final Report

RESEARCH AGENDA ON FISCAL POLICY REFORM IN ETHIOPIA

2018

The Federal Democratic Republic of Ethiopia
Ministry of Finance and Economic Cooperation

in collaboration with:

unicef

PricewaterhouseCoopers LLP

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Acronyms

BoFED .... Bureau of Finance and Economic Development
CEQ .... Commitment to Equity
DFID .... Department for International Development
DTAs .... Double Taxation Agreements
EIC .... Ethiopian Investment Commission
ERCA .... Ethiopian Revenue and Customs Administration
EDRI .... European Digital Rights
EUROMOD ...... Tax-benefit microsimulation model for the European Union
HNWIs .... High-net-worth individuals
GDP .... Gross Domestic Product
GoE .... Government of Ethiopia
GTP II .... Growth and Transformation Plan II
GFSM .... Government Finance Statistics Manuals
HMRC .... Her Majesty's Revenue and Customs
ICTD .... International Centre for Tax and Development
IFC .... International Finance Corporation
IMF .... International Monetary Fund
IPSAS .... International Public Sector Accounting Standards
IFMIS .... Integrated Financial Management Information System
MoFEC .... Ministry of Finance and Economic Cooperation of the Federal Democratic Republic of Ethiopia
MIC .... Middle Income Country
NB .... National Bank
NPC .... National Planning Commission
OFAG .... Office of the Federal Auditor General
PwC UK .... PricewaterhouseCoopers LLP
PBB .... Performance Based Budgeting
PPPs .... Public-Private Partnerships
PFM .... Public Finance Management
SDGs .... Sustainable Development Goals
TPD .... Tax Policy Directorate
TSA .... Treasury Single Account
UNDP .... United Nations Development Program
UNICEF .... United Nations International Children's Emergency Fund
UNU WIDER .... United Nations University World Institute for Development Economics Research
VAT .... Value added tax
VFM .... Value for money

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1. Introduction

1.1. Background and context

The Government of Ethiopia (GoE) has made remarkable strides in terms of growth and poverty alleviation in recent years (World Bank Group, 2015c). Ethiopia has experienced GDP growth averaging approximately 10% in the last decade and there have been significant improvements to human development indicators. Ethiopia's population surpassed 100 million in 2016 and is expected to grow to 190 million by 2050 (IMF, 2016; World Bank Group, 2015).

This rapid growth in GDP and population, particularly in urban areas, is expected to increase pressures on government service provision, on opportunities for an increasing number of young job seekers, and on the environment. There is also an urgent need to address poverty levels, which remain high, particularly among households with children (UNICEF, 2015, 2015b).

Fiscal policy is crucial in reaching the GoE's development goals as laid out in its five year Growth and Transformation Plan (GTP) II (NPC, 2016), including graduating to Middle Income Country (MIC) status and achieving the Sustainable Development Goals (SDGs).

- **Revenue policy** is crucial for sustainable and equitable economic development, by raising the funds required to pay for vital public goods such as infrastructure, education, and pro-poor spending. Moreover, tax policy can directly facilitate development by encouraging (or at least, not unduly deterring) investment and enterprise and avoiding excess burden on the poor while simultaneously shaping distributional outcomes to directly combat poverty.
- **Public financial management processes** ensure that public resources are allocated in accordance with strategic priorities, and that government expenditure is as efficient as possible. This entails procedures to govern the planning, execution and monitoring of large-scale public investment projects, and performance budgeting to ensure that all other government outgoings are linked to achievement of the intended social, environmental and economic outcomes.
- **Fiscal deficit forecasting and financing** links public revenues and expenditures together, into credible medium-and long-term fiscal plans. Debt management further ensures that funds are raised in a sustainable manner, maintaining macroeconomic stability.

The GoE has passed important tax administration system and expenditure management and control reforms in recent years (IMF, 2016). However, there is still a way to go for the GoE to reach its target revenue levels and to allocate these in the most efficient way in order to increase equity, to achieve its development goals as laid out in its five year Growth and Transformation Plan (GTP) II, and to confront daunting new challenges ahead (including rapid urbanization, climate change and industrialization) (World Bank Group 2015).

In the context of Ethiopia's rapid growth, the role of the finance ministry is becoming increasingly important. The economy is becoming vastly more complex and the government is expanding its provision of services to more people. The finance ministry therefore needs to build its capacities correspondingly and use fiscal policy effectively to further the GoE's development agenda. It needs to ensure macroeconomic stability and sustainability, maintain control over a growing level and intricacy of public finances and to guide an increasingly sophisticated economy and rapidly growing population onto the desired development path.

With a decreasing ability to rely on foreign assistance, the finance ministry also needs to mobilise more resources for public expenditure by developing the domestic debt market, unlocking private sector investment for capital projects, and drawing more effectively on domestic tax revenue. These deepening responsibilities require increased knowledge and capabilities and a clear plan to build these. Building its capacity will require additional financial resources, but the net impact to the government's finances will be significantly positive if this process is done well.

It is in this context that the Ministry of Finance and Economic Cooperation (MoFEC) of the Government of Ethiopia (GoE) requested the assignment "Research agenda on fiscal policy reform in Ethiopia". The assignment was financed by United Nations Children's Fund (UNICEF) and carried out by contracted PricewaterhouseCoopers LLP (PwC UK).

1.2. Purpose and objectives of the research agenda

The purpose of the research agenda is to respond to MoFEC's research and capacity building needs over the short and medium term. It identifies necessary actions and sets out a roadmap covering the next three years, to build the required knowledge, systems and capabilities.

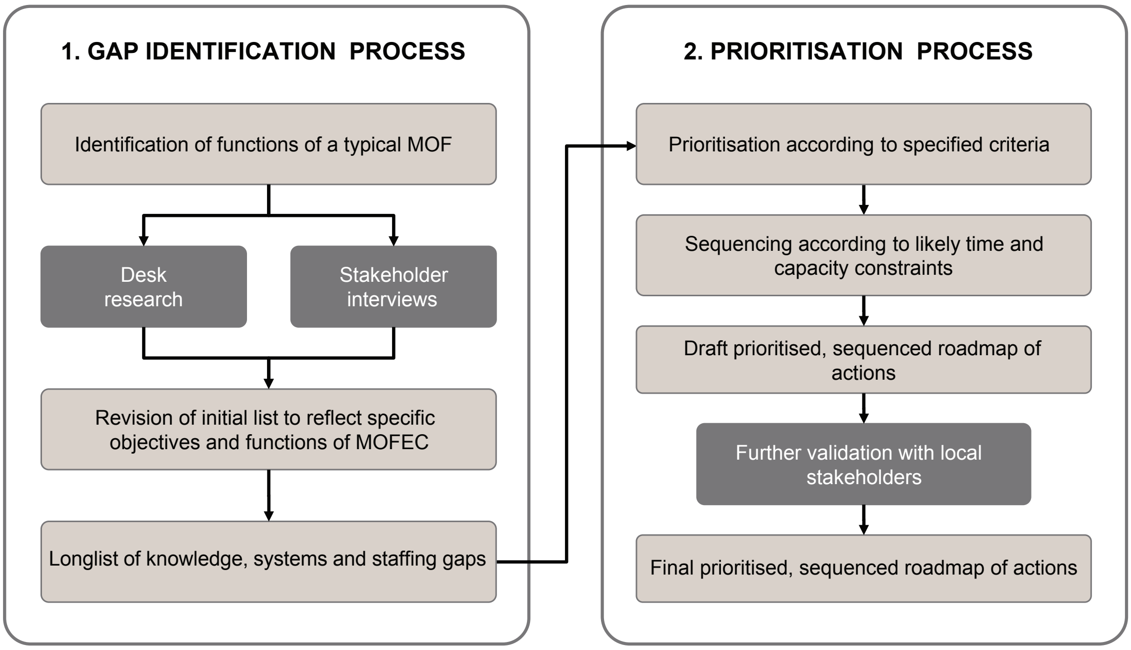
This research agenda aims to be practical, targeted towards the most urgent and important gaps in institutional knowledge for sound, evidence-based fiscal policy making. It also aims to bring structure and clarity to past and ongoing efforts, both across MoFEC directorates, across government, and externally, in the different fiscal policy areas in Ethiopia.

The underlying aim is to guide MoFEC to strategically build its capabilities and better use evidence-based research to sufficiently inform fiscal policy decisions. Executing the research agenda should ultimately improve MoFEC's ability to assess and select fiscal policies that will help achieve the government's objectives of inclusive, equitable and sustainable growth as set out in the GTP II.

2. Methodology applied

In order to identify gaps within MoFEC and prioritise the remedial actions to be undertaken, the team undertook a systematic process to understand the Ministry's existing capabilities, the specific requirements of MoFEC (acknowledging areas where these differ from the general requirements of a Ministry of Finance) and the capacity of the Ministry to undertake these actions over the next 3 years. The graph below outlines the process that was followed:

Figure 1: Process followed for gap identification and prioritisation



These steps are described in turn in the following sections.

2.1. Gap identification process

As part of the background research, the team conducted desk research and stakeholder consultations.

The first component of desk research involved the identification of particular attributes and capabilities one would expect to see in a Ministry of Finance, taking into account Ethiopia's current level of development and national development aspirations. A list of over fifty different thematic areas was compiled, around the categories of: tax and revenue policy; budget processes (planning, preparation, execution, accounting and reporting, audit and evaluation); public investment; debt management; economic and fiscal management; and internal governance. The full list was used as a key reference document to guide the desk research and stakeholder consultations.

Desk research included review of general background and context documents pertaining to the Government of Ethiopia's development objectives and policy priorities; documents on the fiscal policy environment in Ethiopia, including official documents and proclamations, research papers and reports from Ethiopian government institutions and external institutions and researchers; and project documents and strategy papers by the government and international financial and development institutions.

The desk research was complemented by a programme of stakeholder interviews. These included a number of phone calls and an intensive one week programme of stakeholder meetings in Addis Ababa. The objective of these discussions was to obtain an understanding of the context, the government policy priorities and the existing knowledge base, capability needs and research requirements within the Ministry of Finance. Stakeholder interviews were primarily with the different directorates of MoFEC, but also included discussions with representatives of other central and local government agencies (including ERCA, the National Planning Commission, the Ethiopian Investment Commission, the Ethiopian Chamber of Commerce, the Office of the Federal Auditor General, the Public Procurement and Property Management Agency, the Ethiopian Development Research Institute, and Addis Ababa BoFED) and international organisations active in supporting the country's development goals (including the World Bank, DFID, UNDP, UNICEF, UN Women). Although most significant stakeholders were engaged during this process, due to time constraints and limited availability of some stakeholders, not every relevant party could be consulted.

The initial list of potential gap areas identified through desk research was tested and refined through the stakeholder interview process, and developed into an initial list of capability gaps. For planning and prioritisation purposes, these gaps were classified as either:

- Gaps in staff capacity, where too few staff with the necessary skills/experience were identified;
- Gaps in processes and procedures under MoFEC's current operating model; or
- Gaps in knowledge and expertise.

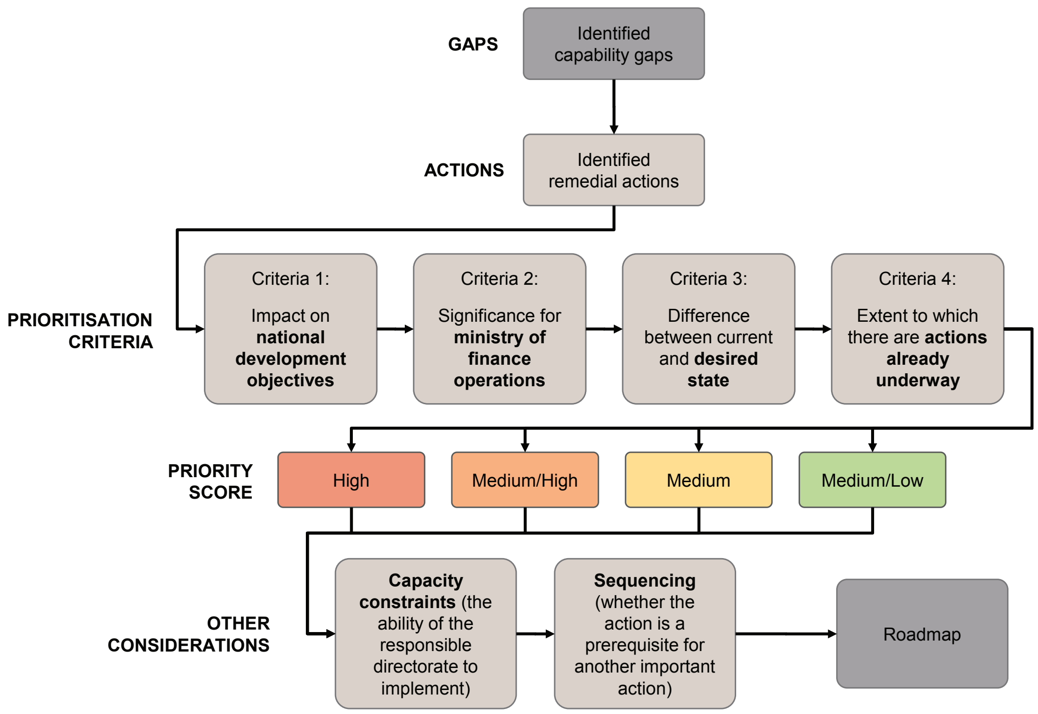
This longlist of capability gaps is presented below in section 3.

2.2. Prioritisation process

As anticipated, the list of gaps identified following the desktop research and stakeholder interviews was too extensive to feasibly be addressed by MoFEC over the next three years, particularly as the organisation is already undergoing a number of structural changes. In order to design a roadmap that could feasibly be adopted by MoFEC, therefore, the second step was to prioritise the identified actions.

Actions were prioritised according to a number of criteria:

Figure 2: Prioritisation criteria



Rather than scoring actions quantitatively across these criteria using numerical scoring, they were scored using relative ranking, with each action awarded an overall score of either High, High/Medium, Medium, or Medium/Low priority (any actions that would have been deemed "Low" priority were excluded at the stage of preparing the longlist). The rankings awarded to each action in the longlist are shown in the table in section 3.

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These initial priority rankings were then considered against two other important criteria: capacity constraints and sequencing considerations.

To identify potential capacity constraints the priority actions were grouped into thematic areas corresponding (broadly) to the current structure of directorates at MoFEC. Where the scale of actions in any particular area appeared unrealistic for the capacity of that directorate (taking into account potential partnership with external experts), the less high priority actions were excluded from the three-year plan or – in some cases – allocated to another area. It is worth noting that MoFEC is already in a process of restructuring and may decide to alter some aspects of its structure further in response to the gaps identified. However, using the broad structure of existing directorates to organise the actions of the Roadmap allows the Ministry to allocate responsibility for these actions more easily within the organisation.

Next, the sequencing was considered. This is an important step for the implementation of the roadmap, because a number of the actions listed here rely on other actions to be complete before they can be undertaken. This has implications for timing and may even mean that some actions would extend beyond the three year Roadmap. We have indicated where this is the case.

The product of this process was a draft roadmap of actions that was subsequently tested and validated with stakeholders, including a workshop with key government officials (primarily from MoFEC) in Addis Ababa in February 2018. The final Roadmap, updated to reflect the feedback received through this process, is outlined in section 4.

3. Research and capability needs identified

Table 1 below presents the research and capacity needs identified through this process, ordered by thematic area. Within each thematic area, the research and capability needs were prioritised as high (H), medium/high (M/H), medium (M), or medium/low (M/L) in the first column of the table. Low priority gaps identified were not included.

The column on the right hand side of Table 1 lists the actions identified to remedy the respective gaps. These correspond to the actions in the Roadmap's Gantt charts in sections 4.3. They are not necessarily sequential in the table below as some actions may cover more than one gap and some gaps may correspond to more than one action. Moreover some actions do not feature in the Roadmap due to prioritisation.

Table 1. Long list of research areas and capability needs identified

Priority level	Research and capability needs	Description	Correspondent action(s)
	Macro-fiscal policy and macroeconomic management		
H	Macroeconomic forecasting	While MoFEC currently shares responsibility for macroeconomic forecasting with other government agencies (NB, NPC, ERCA), MoFEC is primarily responsible for: • Developing forecasts for revenues, expenditures and debt, taking macroeconomic variables into account • Providing analysis on fiscal trends and fiscal policy scenarios • Using forecasts to determine budget ceilings, revenue targets and requirements for debt financing. New tools and analytical capabilities in modelling and forecasting are required for more accurate forecasting and analysis. This is particularly important given the introduction of a medium-term fiscal framework. It is also important in order to discuss and assess variables, models and forecasts presented by other agencies. There are needs in terms of the skills and available models and methodologies for forecasting and policy analysis, as well as stronger coordination mechanisms to exchange and review information. *Activities already underway: Assistance is being provided on microsimulations* and forecasting by: IFS and DFID/HMRC; Tax microsimulations (EthMod) were developed by local researchers at EDRI and EUROMOD at Essex University, funded by UNU WIDER.	M1.1 Review distribution of forecasting capabilities across government M1.2 Build capabilities in economic forecasting M1.3 Build/augment economic forecasting models
H	Monitoring and management of fiscal risks	Comprehensive monitoring and management of fiscal risks is imperative for sound public finances and macroeconomic stability. A prerequisite for this is proper reporting of liabilities and extra-budgetary operations across the whole of government including public enterprises and subnational governments, which can pose significant fiscal risks. Policy options to address fiscal risks and their effects should be evaluated so that the government can adjust the budget accordingly and/or find the fiscal space to meet policy commitments if the risks should materialise. It is not clear that MoFEC currently has the information and tools it needs to be able to monitor and manage fiscal risks.	M2.1 Initial research into material fiscal risks M2.2 Review of how fiscal risks are reported across government M2.3 Undertake fiscal stress tests and probabilistic tools

Priority level	Research and capability needs	Description	Correspondent action(s)
M/H	Fiscal deficit limit	The current fiscal deficit limit of 3% is taken as given without analysis conducted around its appropriateness for the Ethiopian context. MoFEC currently has no model driving the decision on the deficit limit and there may be arguments to increase this limit given Ethiopia's growth rate of approximately 10%. However, this needs to be weighed against effects on the current account deficit, the country risk premium, the difficulty of raising finance generally, and other factors.	M1.4 Research project on implications of a higher deficit limit
	Taxation		
H	Structure and capacity of the tax policy function	With the growing importance of tax revenue in the government budget, MoFEC's role in setting tax policy is increasingly important. The importance of linking and coordinating revenue and expenditure policy and achieving wider economic goals and incentives with the tax and transfer system requires a strong understanding of tax policy in the finance ministry. MoFEC is responsible for setting tax policy and has recently established a specialised Tax Policy Directorate (TPD) within MoFEC for this purpose. As the TPD gains in skills and expertise and takes a more proactive role in tax policy formulation, it needs to coordinate closely with ERCA around the division of functions and responsibilities and research on taxation. Also, tax policy and tax administration need to be more closely coordinated. Since the tax authority has greater experience of the implementability of potential tax policy changes and their practical effects, it is crucial that the two institutions share knowledge and coordinate more extensively going forward. It is also important that the aims of tax policy are not contradicted by problems of administration.	T1. Review of role and delineation/coordination with ERCA

Priority level	Research and capability needs	Description	Correspondent action(s)
H	Tax incentives regime	The current tax incentives regime has been identified as a major source of foregone revenue and may not be reaching its objectives effectively and efficiently. It is vital that MoFEC understands the effectiveness of the tax incentives regime and can reform the system accordingly to ensure that all tax expenditures provide strong value for money. Consistency of application is also important, as unnecessary discretion over tax incentives can pose a risk that they are misused. A comprehensive cost benefit analysis is critical. This should include not only direct effects on (foregone) tax revenue but also estimate dynamic effects of incentives on, for example, employment and income taxes resulting from increased investment, growth of priority industries, as well as other potential side effects of incentives (social, environmental, etc.). It should also include a review of the administration of tax incentives as the operational experience of the incentive may not always be in line with its policy intentions. International and inter-regional coordination efforts may also help to reduce the waste caused by international and inter-regional competition. *Activities already underway:* The World Bank and IMF are conducted studies on VAT and income tax incentives with estimations of foregone revenue. See also Gebreyesus and Demile (2017) and Gebreyesus et al. (2016).	T2.1 Coordinate tax expenditure studies currently underway T2.2 Possible follow-up work on tax expenditures, including public consultation T2.3 Tax expenditure budgeting
H	Understanding of the overall tax system and tax potential	The GTP II sets a tax/GDP target and Ethiopia's current ratio is below its target and below other countries in sub-Saharan Africa. There is a lack of understanding of the drivers of the current tax/GDP ratio and its movements. An assessment is needed to examine the composition of the tax system and the tax buoyancy and tax gap for different taxes. This should also include a survey of tax potential through changes to existing taxes or through the introduction of new taxes to mobilise domestic resources. *Activities already underway:* Adam Smith International has previously produced a report on tax revenue potential in Ethiopia.	T3.1 Initial study into the coherence of the overall tax system T3.2 Build/augment tax models and modelling capability T3.3 Build analysis skills through analysis of tax incidence equity outcomes and apply across all key taxes T3.4 Conduct compliance cost survey and analyse results T3.5 Build and apply models to estimate tax potential of all major taxes

Priority level	Research and capability needs	Description	Correspondent action(s)
H	Tax incidence	For estimating the effects of tax policy scenarios, it is important to understand who is paying each tax and how different segments of the population experience the burden of them and potential changes to tax policy (including different industries, subnational governments, income groups, age groups and genders). Capacities should be built within the TPD to independently conduct incidence analyses of tax policies. *Activities already underway:* CEQ/World Bank conducted a poverty/inequality analysis that contains an incidence analysis of taxes and public spending, and developed a simulation model for measuring the incidence of taxation (World Bank Group, 2015c). An ICTD report on the redistributive functions of corporate tax was conducted (Hirvonen, et al., 2017).	T3.2 Build/augment tax models and modelling capability T3.3 Build analysis skills through analysis of tax incidence equity outcomes and apply across all key taxes
M/H	Presumptive income tax	The reassessment of incomes of businesses in the 'c' category within the current presumptive income tax system recently created public concern after notices were issued. It is possible that incomes in the presumptive tax regime could be better estimated in a manner that would be perceived as fairer and more reflective of reality. It is also possible that a change in the current procedure of irregular updates to nominally fixed Birr amounts, and how such changes are communicated, would prevent similar problems in future.	T4.1 Review presumptive income tax settings T4.2 Implement and communicate new settings
M/H	Taxpayer compliance costs	Taxpayer compliance costs have been cited as a major obstacle to doing business for companies and investors in Ethiopia. Measuring the time and costs of complying with different tax payments will reveal bottlenecks and pinpoint where to target reforms to streamline processes and simplify tax payments for taxpayers. *Activities already underway:* The IFC has undertaken a taxpayer compliance cost study (World Bank Group, 2015b). PwC and the World Bank conduct annual estimates of the cost for businesses to comply with their tax obligations as part of the Paying Taxes publication (with Ethiopia ranked 133rd out of 190 countries for the 2018 publication). These may serve as a good starting point for further investigation. ERCA's research unit is also conducting research on taxpayer compliance.	T3.4 Conduct compliance cost survey and analyse results

Priority level	Research and capability needs	Description	Correspondent action(s)
M/H	Property tax	Ethiopia is experiencing rapid increases in its urban populations and large investments are pouring into the real estate sector, which promises high returns. If taxed effectively, these property developments could generate substantial public revenues. They could also work towards stemming increasing income inequality. However, property taxation is barely exploited, particularly in Addis Ababa. The registration of property has not kept up with the growth of the city (which has doubled in population since the last revaluation in 1996) and even those properties that feature in the city's register are severely undervalued. The implementation of property taxation has been met with political and administrative obstacles in various countries, which demonstrates that the design of the policy, the way it is consulted on and introduced, and how the tax is collected is critical. *Activities already underway:* An existing study by ICTD on property taxes in African cities, including Addis Ababa may serve as a good starting point for further investigation. (Goodfellow, 2015). Addis Ababa BoFED has also commissioned a study some years ago, but it is unclear how this has been used.	T5. Research potential enhancement of property taxation
M/H	Stamp duties	A stamp duty or service fee is placed on the provision of legal documents, including the transfer of assets or property and other government services, and the provision of government documents. The rate of the duties may be flat or may depend on the value of the property. The level of stamp duties in various institutions are currently extremely low nominal amounts as in many cases they have not been raised for over a decade, despite relatively high inflation. This has led to a situation where the cost of collection exceeds the revenue received from such duties. There is a need to review the current stamp duty amounts and the determination of rates in many public bodies and construct a more reasonable pricing system.	T6. Review of stamp duties and fees
M/H	Double taxation agreements	Increased foreign direct investment and increasing globalisation are making fiscal arrangements between countries more complex. Double taxation agreements are used by nations to counter several problems and lessen tax burdens but may also create further problems. It is unclear that existing agreements serve the needs of the country. A deeper understanding of double taxation agreements (DTAs) was identified as an urgent capability need in view of upcoming agreements, as well as a need to critically review existing agreements and the current framework.	T7. Training on double tax agreements

Priority level	Research and capability needs	Description	Correspondent action(s)
M/H	Educating the next generation of taxpayers	The population of Ethiopia is expected to grow from under 100 million (2016/17) (CSA, 2018; NBE, 2018) to over 190 million by 2050 according to World Bank projections (World Bank Group, 2016; 2015). Educating this next generation of taxpayers in a crucial part of building a healthy and stable tax base into the future. Many countries have conducted programmes to improve awareness, information and attitudes towards taxation in young people before they enter the workforce. This may be in the form of a universal one week course provided to all secondary school students, explaining the necessity of paying taxes, the cost of government services, what would happen if nobody paid taxes, and where relevant information about how to pay taxes can be accessed. The aim is to build social consensus around the importance of paying taxes and greater understanding of how to pay taxes, so that compliance with the tax system becomes a core aspect of social etiquette. The secondary school curriculum doesn't currently include any tax education. There are also few tax professionals and little expertise around international taxation. Currently there is little on offer to address this gap in expertise through higher education in Ethiopia.	T8.1 Investigate best practices around secondary school level taxpayer education T8.2 Initiate process to introduce taxpayer education into the curriculum T8.3 Introduce courses on international taxation in higher education curricula
M	VAT	VAT has become the largest generator of public revenues for many countries. The effects of potential changes to thresholds and exemptions/zero-rating/reduced rates can be studied through microsimulations and general equilibrium models, but it is currently unclear the extent to which Ethiopia's current VAT system is performing effectively. *Activities already underway*: Assistance on VAT policy is underway by IFS.	T9. VAT optimisation study T3.3 Build analysis skills through analysis of tax incidence and equity outcomes and apply across all key taxes T3.4 Build and apply models to estimate tax potential of all major taxes
M	Customs duties and excise taxes	There are potential revenue gains from customs and excise taxes which currently may not be optimally exploited. Some of these gains may also stem from improvements to customs administration. Customs and excises should also be in line with wider economic and macroeconomic goals, including the correction of potential market failure from the overconsumption of certain goods (e.g. high-emission vehicles). This merits a detailed assessment. *Activities already underway:* World Bank study on excise taxes.	T10. Study on customs and excise tax regime

Priority level	Research and capability needs	Description	Correspondent action(s)
M	Environmental taxes	Environmental taxes, especially energy taxes, are increasingly being used as an effective means to limit the harmful effects of pollution and to support climate-resilient green economic growth (OECD, 2015). Through taxes, the social cost of pollution to society can begin to be reflected in prices. Taxes can produce price signals to households and businesses to reduce their energy consumption, to recycle waste, to invest in greener alternatives, and to innovate and bring down prices of greener alternatives. The government currently does not make use of environmental taxes (Fitiwi, 2013). These could have the double benefit of raising tax revenue and also working towards the GTP II's green economy goals. Different forms of taxation on carbon emissions and other pollutants could be considered.	T11. Study on whether fiscal policy is consistent with green economy goals
M	Cross-border tax evasion and avoidance	It is widely believed that low rates of compliance with certain taxes is contributing to a low tax-to-GDP rate and undermining the key source of financing for GTP II. MoFEC has not undertaken estimations of tax compliance gaps due to cross-border taxation. This may also be a source of illicit financial flows. *Activities already underway:* ERCA has looked into tax gap analysis and compliance issues, yet their coverage is unclear.	T11.1 Research project to understand potential compliance issues of cross-border taxation
M	Taxation of high net worth individuals (HNWIs)	As Ethiopia grows, the pressure on income inequality is increasing. In order to maintain inclusive growth and ensure citizens across the income distribution are contributing fairly, MoFEC needs a strong understanding of the tax practices of high net worth individuals, beyond ERCA's large taxpayer unit. It is currently not tracking assets or focusing on understanding the (typically complex) tax affairs of high net worth individuals. This may also have potential links with capturing of illicit financial flows.	T11.2 Research project to better understand the tax affairs and behaviour of high net worth individuals
M	Transfer pricing	There currently isn't sufficient expertise in understanding transfer pricing policy in MoFEC. Ethiopia may be losing tax revenue from cross-border transactions carried out by multinational enterprises.	T11.3 Study on potential losses from transfer pricing and, if deemed appropriate, steps to address the issue
M/L	Review of income tax reform	Ethiopia's income tax legislation was recently reformed. An evaluation should be conducted in order to understand if the reform achieved its objectives or whether further adjustments to income tax may be desirable. *Activities already underway:* An ICTD report was conducted on the redistributive effects of income tax prior to reform (Hirvonen, et al., 2017). This could be updated with effects of the changes post reform.	T3.3 Build analysis skills through analysis of tax incidence and equity outcomes and apply across all key taxes

Priority level	Research and capability needs	Description	Correspondent action(s)
	Budget planning and preparation		
H	Effectiveness and efficiency of public spending by public bodies	There are processes within the Budget Directorate to assess the budget requests of each of the 187 public bodies that receive funding from the federal budget. Approximately 24 specialists look after an average of 7-8 public bodies each, and are responsible for assessing their budget bids so that the Director can advise the Council of Ministers on the appropriate funding levels. The Directorate is responsible for assessing the extent to which these public bodies are achieving their stated performance objectives as part of the performance based budgeting (PBB) process. The Office of the Federal Auditor General (OFAG) conducts around 25-28 "performance audits" each year for some Public Bodies (target of 35 per year), utilising sector experts to dig into departmental expenditure and report to Ministers. They follow the "Three Es" approach, looking at VFM by how efficient, effective and economical the expenditure is. These performance audits are often focussed on particular projects or programmes and do not necessarily assess the whole Public Body. Some are requested by the Public Bodies themselves, and some are based around topics of interest or other drivers. It is not clear that there is an appropriate level of scrutiny over the baseline funding received by these public bodies at the federal level. While the architecture for performance based budgeting is still being refined, studies can be conducted on the effectiveness and efficiency of spending to reach specific targets, such as for cross-cutting issues. *Activities already underway:* The World Bank undertakes a public expenditure review every 5-6 years, but deeper and more frequent analysis remains necessary (World Bank Group, 2016b). The Bill and Melinda Gates Foundation is conducting value for money assessments, starting with the health sector and then moving onto infrastructure.	B1.1 Assess capability required to effectively scrutinise spending B1.2 Evaluate programme budgeting and assess option of making disbursements contingent on PBB outcomes B1.3 Build the required staff capacity B1.4 Refine reporting requirements and spending approvals process

Priority level	Research and capability needs	Description	Correspondent action(s)
H	Oversight of existing public infrastructure	The government is spending over half its national budget on capital expenditure each year as part of its ambitious GTP II programme. Despite this, there is no entity that monitors the stock of assets, the condition of these assets, maintenance requirements and depreciations reserves (if any), and future asset needs. This is a crucial part of fiscal policy and represents a major fiscal risk to the government. If ongoing maintenance and replacement costs are not well understood and planned for, for example, the government may find itself facing major financial shortages in 10-20 years' time as this capital begins to reach the end of its current lifespan.	B4.1 Review capability required to understand public infrastructure needs/costs B4.2 Evaluate programme budgeting B4.3 Prepare initial national infrastructure plan
H	Monitoring and evaluation of programme budgeting	Programme budgeting was fully introduced in Ethiopia in at the Federal government level in 2011/12. (It was implemented on a pilot basis in selected Federal public bodies between 2005/06 and 2008/09. In fiscal year 2009/10 all public bodies started implementing the program budget on experimental basis and since 2011/12 it has been operational in its full-fledged form.) The performance of programme budgeting has not been evaluated so far. There is a need to evaluate its performance so as to improve the effectiveness of the budget system. The Budget Directorate noted that their assessment of performance against programme and performance objectives rests heavily on assessment by the public bodies themselves, but that the capacity to undertake this monitoring at the public body level was a particular issue. There may be scope for escalating responsibility for PBB to the management level of public bodies and making budget disbursements contingent on monitoring and reporting and achievement of programming and performance objectives.	B1.2 Evaluate programme budgeting and assess option of making disbursements contingent on PBB outcomes O2.1 Assess public body capacity gaps O2.2 Review responsibilities and incentives for public body performance O2.3 Develop strategy to sustainably close the capacity gap in public bodies
M/H	Pricing policy	There are a number of explicit or implicit subsidies on goods and services in Ethiopia. Some of the pricing policies do not appear to be in line with government objectives, such as green economy and climate change goals. There may also be potential for greater revenue from utilities user fees through raised or differentiated pricing.	B2. Review pricing policies (explicit and implicit subsidies)
M/H	Effectiveness and efficiency of decentralised government spending	Much public expenditure is transferred to the state governments and it is not clear that there is sufficient central scrutiny over the effectiveness and efficiency of this expenditure. MoFEC does not currently receive information from the states on how state governments are translating their state development plans into the budget. *Activities already underway:* Studies have been conducted by the World Bank on decentralised spending and outcomes on service delivery and human development indicators (Ayane, et al. 2016; Khan et al., 2014; Garcia and Rajkumar, 2008). The Bill and Melina Gates Foundation is examining value for money of health sector spending.	B3.1 Review reporting requirements of subnational governments to MoFEC B3.2 Assess budget allocation process with respect to GTP II objectives

Priority level	Research and capability needs	Description	Correspondent action(s)
M/H	Public consultation on public expenditure	At the federal level, the public is consulted by the parliamentary Budget and Finance Standing Committee on the overall budget allocation for each of the 187 Public Bodies who receive funding from the federal budget. The Council of Ministers and the Parliament approve these overall allocations but the decision as to how to spend this allocation (specific capital projects or recurring expenditure) is a non-public negotiation between the department and MoFEC's Budget Directorate on the basis of the department's Action Plan submission. The exact way this allocation is spent is not public until the final accounts are published at the end of the fiscal year. At the local level, the public is consulted at the kebele level on locally determined capital expenditure, but not on recurrent expenditure and not at the woreda or state levels.	B5.1 Assess gaps in public access and feedback in budget preparation B5.2 Strengthen the public engagement and consultation system around budget
M/H	Inter-governmental transfer system	A change to the formula for block grants from the federal government to the regions has resolved issues around tax effort of subnational governments. There is less clarity around transfers from regional governments to *woreda* and *kebele* governments, which are often not based on a fixed formula, therefore opening the possibilities for discretion based on political or other criteria rather than need. It is also not clear if special purpose grants by the federal government are effective, whether there are overlaps in their objectives and whether there may be other scope for improvement in the allocation of the budget to subnational governments. The importance of transfers in the subnational government budgets merits a review of the transfer system in the country, covering special purpose grants and block grants from the federal government to the regions as well as transfers from the regions to local governments.	B6.1 Review of transfer system from the Federal government to Regional governments B6.2 Review of transfer system from regional governments to local governments
M	Integration of the green economy strategy into the budget	The Government plans to invest in climate resilient green growth. (NPC, 2016; GoE, 2015). This needs to be integrated into general budget spending. Infrastructure investment proposals need to be assessed on how they will contribute to meeting the Government's green economy goals.	B7. Study on whether fiscal policy is consistent with green economy goals
M	Collection of gender and age disaggregated data to measure budget outcomes	The GTP II has set several goals, such as increasing the secondary school parity index. Currently there is insufficient data available to be able to measure some of the outcomes of budget decisions on specific groupings of the population (such as women and children), as age and gender disaggregated data is not consistently collected (UNWOMEN, 2017).	B8. Coordinate household and other surveys to ensure consistent collection of age and gender disaggregated data

Priority level	Research and capability needs	Description	Correspondent action(s)
	Financial controls and accounting		
H	IPSAS implementation	Technical support is required within MoFEC for the implementation of IPSAS and certifying professionals in IPSAS across the public service to manage this shift. *Activities already underway:* The current World Bank PFM programme may cover (aspects of) this.	F1.1 Training to fill immediate IPSAS knowledge gaps F1.2 Develop training and certification programme F1.3 Rollout training programme across public service professionals
H	IFMIS implementation	In order to control public finances and to make fiscal policy decisions, MoFEC requires comprehensive, detailed and accurate fiscal reports. Fiscal reports should cover not only budgetary central government operations but a full balance sheet of general government operations by all public entities, including regional governments and public enterprises, including all liabilities and any off-budget expenditures. It should include accrued expenditures and ideally use GFSM functional and economic classifications. The new IFMIS system being rolled out to replace the current IBEX system is expected to provide for these functionalities. Staff will need to be trained and prepared for IFMIS implementation and supported in the shift from IBEX.	F2.1 Review of conceptual design of IFMIS F2.2 Training and technical assistance for staff on IFMIS implementation
M	Follow up on audit findings	While audit coverage is wide, historical performance in following up on audit findings has been insufficient. The law was recently changed to improve this and to sanction management if it fails to address relevant audit findings. This should be reviewed to ensure that the steps taken are sufficient and to ensure that audit reports are sent to Parliament for review and oversight.	F3. Monitoring of follow-up mechanisms regarding audit findings.
M	Treasury functions	A need was expressed for understanding how the treasury operates compared to other countries and whether practices can be improved. For instance, the Treasury Directorate is preparing for a transition to a treasury single account (TSA) for consolidating and managing the government's cash resources. This is important to give the treasury a unified view and centralised control over the government's cash resources. It is important for the Treasury Directorate to have a good understanding, for example, of alternative TSA models and options for its design and implementation (e.g. delineating its coverage, how to integrate subnational government accounts and donor funds and how (de)centralised the structure should be). Similarly, there is little experience in the unit with IFMIS and how this can change current practices. For instance, it is believed that the move to IFMIS may improve the current time-consuming manual process of payments, but it is unsure how it will do this. *Activities already underway:* World Bank and IMF are providing some technical assistance to the Treasury Directorate.	F4.1 Assessment of best practice of treasury functions across comparable countries. F4.2 Experience sharing missions to (and from) best practice countries in the region.

Priority level	Research and capability needs	Description	Correspondent action(s)
	Debt management		
H	Development of the domestic debt market	Debt financing plays an important role in raising capital for the implementation of GTP II, and the country's domestic debt markets remain underdeveloped. There is only a small primary market for domestic debt and no secondary market. (Kannan and Ejiguh, 2013). This places constraints on the ability of the government to raise domestic debt, and it is unlikely the government could raise large amounts of capital domestically at short notice if the government was to relax its borrowing constraints.	D1.1 Research best practice for the development of the domestic debt market D1.2 Develop implementation plan for the domestic debt market
M/H	Negotiation skills/strategy with commercial creditors	MOFEC plays a role in supporting public enterprises in their negotiation of loan terms with commercial creditors, but doesn't currently have the skills to be able to support this properly. Also, international financial institutions are moving towards offering non-concessional loans to the government, for which MOFEC will need to negotiate terms.	D2.1 Hire and/or train staff to support commercial negotiations. D2.2 Development of a negotiation strategy
M	Debt sustainability analysis	As Ethiopia's debt rises – following the government's fiscal rule of deficits up to 3% of GDP – it will be increasingly important that the sustainability of public debt is well understood. At present, this capability sits largely with external actors (i.e. the IMF) and the in-house understanding is not as strong as it needs to be.	D3. Build debt sustainability analysis capability
	Public-private partnerships, private sector development and public procurement		
H	PPPs	There is a strong case for involving the private sector more in public investments, especially to meet public infrastructure needs. The private sector can help close infrastructure gaps by bringing in private investment through risk-sharing (UNDP, 2015). However there are also many risks that the Government needs to guard against and preconditions that need to be met in order to prevent some of the problems experienced elsewhere with PPP arrangements. This includes recording liabilities in general government balance sheets to prevent hiding of liabilities (which has led to fiscal crises in Europe); selecting the right contracting type to ensure risk-sharing between private and public sectors throughout the project life-cycle and strong incentives for sound management.	P1.1 Review the risks associated with PPP's and mitigation measures P1.2 Revise accounting standards to ensure appropriate recording of PPP liabilities
M/H	Encouragement of private sector growth through better implementation of public procurement law	Stakeholders in the private sector have indicated that although the procurement laws themselves are mostly fit for purpose, certain clauses are not being observed or enforced. For example, the preferential clauses should give domestic firms an advantage over international firms, but in practice this clause is not being consistently honoured. This is hindering the ability of local firms to participate in government tenders, to compete against public sector/ international providers, and to grow.	P2. Review how public sector procurement law is applied in practice

Priority level	Research and capability needs	Description	Correspondent action(s)
M	Impact of fiscal policy on the private sector	Private sector development is a key part of GTP II, but there is evidence that large investment by the public sector and various rules/regulations are crowding out the development of the private sector. Examples include: • Preferential treatment given to public good/service providers in public tenders • Public universities having their own PLC's which compete with private sector firms • Rules requiring public entities to purchase insurance from the (publicly owned) Ethiopian Insurance Company • Rules requiring public entities to bank with the (publicly owned) Ethiopian Commercial bank	P3.1 Initial research and development of discussion document P3.2 Engagement programme with private sector P3.3 Prepare policy paper for consideration by MoFEC/Ministers
	Legal services		
M/H	Legal drafting skills	MoFEC policy needs to be adequately translated into law. The law needs to give effect to MoFEC's policies, be legally consistent with the broader legal framework, and as simple and clear as possible. Problems identified with proposals need to be identified and resolved. Additional skills are required within MoFEC's legal team in translating policy into law. This applies to the areas of tax law as well as all other policy areas that MoFEC handles.	L1. Training in legal drafting skills
	Organisation and staffing		
H	Forecasting and modelling capabilities across MoFEC	As indicated in the different sections of this research agenda, there are forecasting and modelling capabilities that need to be built in different MoFEC directorates, including the Fiscal Policy Directorate, the Tax Policy Directorate, and the Debt Management Directorate. This requires a review through human resource staff in coordination with these directorates in order to understand the skills required how best to address the gaps.	M1.1 Review distribution of forecasting capabilities across government O1.2 Assess skills and training needs across MoFEC as per this research agenda O1.3 Develop a People Strategy to build staff capacity and attract and retain new staff

Priority level	Research and capability needs	Description	Correspondent action(s)
H	Staff turnover, retention and vacancies	This issue was raised independently by a large number of directorates (and others), and has two related components. Salary is cited as the main reason for such high turnover. Firstly, the public sector salary scale is at a level that makes it difficult to either attract or retain the right staff at MoFEC. Most directorates have a large staffing gap as a result of this. In some cases as high as two-thirds of the intended staff positions are vacant. Salaries have recently been raised, which may mitigate this issue somewhat. Secondly, there is a very high turnover of junior staff. After receiving training and experience at MoFEC, staff become attractive to the private sector, where they might be able to receive a significant increase in salary. These issues are putting major strains on the ability of MoFEC to discharge its duties across the Ministry and cause significant resource to be dedicated to ongoing training and development. The Debt Management Directorate noted in particular the competition they face from the financial sector, who can offer much higher salaries for very similar commercial skills. Addis Ababa BoFED undertook a study in 2016 that suggested the primary reason for their high turnover was low salaries.	O1.1 Assess the size and nature of the retention issue for MoFEC O1.3 Develop a People Strategy to build staff capacity and attract and retain new staff
H	Analytical and academic research capacity across MoFEC	To some extent, academic research can be undertaken by external institutions (universities, research institutions such as EDRI, development partners), but it is also important that MoFEC itself has sufficient analytical capacity in-house to address priority research questions as needed, either within directorates or as a separate unit that supports directorates undertaking research.	O1.2 Assess skills and training needs across MoFEC as per this research agenda
M/H	Capacity of MoFEC-facing staff in public bodies	This is closely related to the "Staff turnover, retention and vacancies" point listed above. MoFEC spend a significant amount of time and money training their counterparts in line ministries and other public bodies which it depends on to produce adequate information and reports to MoFEC. Due to high turnover, staff in line Ministries are often inexperienced new joiners, and rather than the line Ministry taking responsibility for training these new joiners, it falls to MoFEC to build their capability in public finance and budget related matters. It may be the case that management in some line ministries are not giving this due attention. This is putting pressure on MoFEC staff to focus on training and detracting from other priorities. The Treasury and Accounts Directorates also noted that the budget for training new staff is far too low to undertake this training properly. Having very junior, inexperienced and untrained counterparts in these Ministries causes time and quality issues for MoFEC.	O2.1 Assess public body capacity gaps O2.2 Review responsibilities and incentives for PB performance O2.3 Develop strategy to sustainably close the capacity gap in PBs

KEY:
- **H:** High priority
- **M/H:** Medium/high priority
- **M:** Medium priority
- **M/L:** Medium/low priority

4. Roadmap

4.1. Overview

The Roadmap identifies priority actions to fill knowledge and academic research gaps but also points to improvements in coordination, organisational frameworks and staffing issues. It has been divided into the following thematic areas:

- Macro-fiscal policy and macroeconomic management
- Taxation
- Budgeting
- Fiscal controls, accounting and audit
- Debt management
- Private-public partnerships and public procurement
- Legal services
- Organisation and staffing

For each thematic area, we have identified a set of actions to be taken and the recommended owner of those actions among the directorates in MoFEC. We have also noted links between actions, and activities already underway where relevant.

The timetables from the individual thematic areas have been collated into one document as an attachment to this report. Key issues that span across the thematic areas include:

- **Staffing:** As MoFEC's role is becoming increasingly important in overseeing an ever larger budget and a more complex and sophisticated economy and guiding the country towards ambitious medium and long-term development goals, there are numerous new challenges. These include those posed by medium-term performance budgeting, working with the private sector and managing new sources of borrowing. This widening role needs to be met with corresponding broadening of human resources and skills. Currently, acquiring the right staff and retaining existing staff presents major problems not only within MoFEC but also with regard to public sector staff in other institutions which MoFEC relies on. Human resources are fundamental to policy making and execution and mitigating these problems through a comprehensive People Strategy (or Human Resources Plan) needs to be a priority.
- **Information:** For fiscal policy decision-making, MoFEC needs a complete picture of the public finances and of the impacts and outcomes of existing fiscal policies on different segments of the population. Reliable information, summarised in a useable way, is key in order to give MoFEC full visibility of its fiscal position, to analyse policy scenarios and make policy decisions, direct and redirect resources to achieve policy goals, and to mitigate fiscal risks and maintain financial stability. A priority is therefore to ensure that reporting to MoFEC is fit for purpose and that all building blocks for this are in place, including adequate accounting and information systems and processes for data collection and data sharing.
- **Analytical tools:** Forecasting and modelling have become indispensable tools for fiscal policy analysis. Making predictions about the economy and modelling different economic and policy scenarios is important for planning, setting realistic targets, managing debt and mitigating fiscal risks. Improved capabilities in forecasting, modelling and simulations will also allow MoFEC to better predict the impact of different policy options on different segments of the population (different income groups, genders, regions, economic sectors, enterprise sizes, etc.). This is particularly important given the rapidly growing population and potential shocks (such as the major droughts experienced in recent years).

4.2. Interpretation of the Roadmap

The Roadmap presents a prioritised, sequenced set of actions for MoFEC (and in some cases other parties) to undertake over the next three years to improve the Ministry's capability in the areas we have identified as gaps.

It is presented as a series of gantt charts, grouped into thematic areas that correspond (in most cases) to the responsibilities of the existing directorates. The link to existing directorates is so that implementation of the plan is not delayed by unclear delineation of responsibilities for each of the actions.

The actions and timings are intended as a guide only and should not be treated as a full programme plan. We expect consultation with key stakeholders to shape the scope, timing and sequencing of the actions, and for the plan to evolve over time as actions are undertaken. Each of the actions itself will require proper planning and management to implement effectively.

The Roadmap is comprised of four different action types. These are described below:

Tender	For most actions we have indicated where we believe external support could play a role, and in these cases the Roadmap sets aside 3-6 months for a tender process to be undertaken. These are indicative only, and MoFEC may not require external support, may wish to commission external support differently or may find that donor agencies have slightly different priorities. It is important to note that in most cases it will be vital for MoFEC to be closely involved in the process even where an external partner is commissioned to provide support. The risk of certain processes being too independent is that the essential skills and knowledge will not be built within MoFEC to draw on in future. Where this is particularly important it is indicated in the text explaining the actions.
Action	Dark red boxes indicate the action to be undertaken by MoFEC, or overseen by MoFEC if that task is delegated to a support partner. The time taken to undertake the action is particularly sensitive to the scope of the action and may change during the planning phase.
Review	In most cases the actions taken should lead to a process of internal review and socialisation with key stakeholders. In some cases decisions may need to be taken by Ministers. Where this review process needs to take place between items on the gantt chart or is of particular importance, this is indicated by a light red "Review" box. In some instances – for example where a full process of Ministerial sign-off is required – this may need to be extended beyond the time allocated in the current Roadmap.
(Action)	Finally, some actions are dependent on the outcome of previous actions/reviews and may not even be needed at all. A light pink "(Action)" box has been used to indicate this in the Roadmap.

4.3. Roadmap

4.3.1. Macro-fiscal policy and macroeconomic management

Indicative owner: Fiscal Policy Directorate

Other directorates involved: Human Resources

Overview

Maintaining a stable and sustainable macroeconomic environment is central to the tasks of any finance ministry and a precondition for growth. In order for MoFEC to produce the policies that support a sustainable fiscal position, it needs to have a comprehensive understanding of the economy and major fiscal risk factors. MoFEC also has an important oversight and coordination role as it oversees the entire economy, collating information from different government institutions and taking steps to ensure that all policies work in sync to meet long term objectives.

An important tool in this regard is being able to predict and forecast tax, expenditure and macroeconomic variables with sufficient accuracy. This is crucial for strategic planning and for understanding the impacts of government policies. It is also crucial in order to be able to mitigate and manage potential risks and volatility.

Two key sets of actions were identified in the area of macro-fiscal policy making and macroeconomic management:

	Topic/action	Year 1				Year 2				Year 3			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Macro-fiscal policy and macroeconomic management	**M1. Modelling and forecasting**												
	M1.1 Review distribution of forecasting capabilities across government	Tender	Action	Review									
	M1.2 Build capabilities in economic forecasting			Tender	Action								
	M1.3 Build/augment forecasting models					Tender	Action						
	M1.4 Research and model for fiscal deficit limit							Tender	Action				
	M2 Fiscal risks												
	M2.1 Initial research into material fiscal risks		Tender	Action									
	M2.2 Review of how fiscal risks are reported across government					Tender	Action		Review				
	M2.3 Fiscal stress tests and probabilistic tools								Tender	Action			

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M1. Modelling and forecasting

Overview	The aim of these actions is to build MoFEC's forecasting and modelling capabilities so that it can better understand the impact of its policies on the medium term development of the population. Forecasting responsibilities are currently shared with other government agencies. MoFEC needs to ensure that it coordinates between the institutions across government to receive timely and reliable information and, where appropriate, develop its own in-house modelling and forecasting capabilities (both for its own forecasts and modelling as well as to challenge/validate models, forecasts and indicators produced by other institutions).
Why this is a priority	In order to make adequate policy decisions, MoFEC needs to have a strong understanding of the likely future of the economy and the impact of its policies in the medium and long term. Forecasting has become indispensable for policy-making globally, and more advanced tools and models have been developed which can make MoFEC's forecasts more accurate, enabling the following: • Better alignment between medium term budgeting and national planning • More adequate spending and revenue targets (including better alignment between budgeted and actual spending) • Better detection and mitigation of fiscal risks • Policy decisions that better reach their intended objectives • Greater certainty and confidence in the economy
Research plan	***M1.1 Review distribution of forecasting capabilities across government*** (6 months) The first action is therefore to review how these forecasting capabilities are shared across government, and decide which variables and indicators MoFEC should develop in-house (if not to conduct solely, then at least to be able to verify and discuss models and indicators presented by other institution). We recommend that this be led by the Fiscal Policy Directorate, in coordination with Human Resources. The review should consider potential changes to the organisational framework to enable improved coordination among the various institutions involved in macroeconomic, revenue and expenditure forecasting and planning as this requires a high level of interagency consultation and cooperation. This may be a macro-fiscal unit or other structure such as regular meetings of a working group comprised of all involved institutions, headed by MoFEC. This would involve: NPC around forecasting and linking medium-term planning and budgeting; coordination with the National Bank around forecasting and interaction with monetary policy; and greater coordination with ERCA around revenue forecasting. ***M1.2 Build capabilities in economic forecasting*** (12 months) This will involve training of staff within MoFEC in economic and tax modelling (e.g. evaluation of econometric models, time series analysis, regression models, model design, dynamic specification, error correction models, forecasting of uncertainty, forecasting of policy options). It may also involve hiring additional staff that qualified to conduct such forecasting. ***M1.3 Build/augment forecasting models*** (9 months) Once the staff capacity building is underway, the Fiscal Policy Directorate should proceed to build and enhance its own forecasting models for policy analysis. These will need to be continuously refined and staff regularly upskilled on advanced modelling and forecasting techniques. ***M1.4 Research and build framework for fiscal deficit limit*** (6 months) The team should undertake research into the implications of a higher fiscal deficit and produce a model or framework to decide on an appropriate limit. This should take into account medium term objectives, economic growth forecasts, effects on macroeconomic stability, the government's ability to raise debt and potential impacts on the country's risk premium.
Outcomes	MoFEC will be better placed to forecast important economic and fiscal metrics and to be able to test those produced by other institutions. Improved accuracy and detail of forecasts will support stronger macro-fiscal policy decisions.

Links between actions	Actions M1.2 and M1.3 should be undertaken sequentially and should follow the review of forecasting capability needs in M1.1. Action M1.1 should be undertaken prior to action M2.3 (Fiscal risk probability tools and stress testing) below.
Actions already underway	Capacity building is being provided on micro-simulations by the Institute of Fiscal Studies (IFS) and the UK's Department of International Development in connection with the UK's revenue and customs authority (HMRC). EthMod tax micro-simulations have been developed by researchers at the Ethiopian Development Research Institute (EDRI) and EUROMOD at Essex University (funded by UNU WIDER).

M2. Fiscal risks

Overview	The purpose of these actions is to build MoFEC's understanding of potential risks to public finances, particularly as the economy develops and becomes more diverse (for example, through increasing private-public partnerships and development of the domestic debt market).
Why this is a priority	It is essential for MoFEC to understand potential risks to public finances and their size and interrelationships in order to be able to mitigate and manage them. MoFEC needs to ensure that it is sufficiently prepared for potential shocks and maintains oversight over potential liabilities building up in different areas of the economy. Understanding these risks is crucial for MoFEC to be able to manage them proactively (such as through countercyclical policies, coordination between fiscal and monetary policy, or creating the necessary fiscal space or reserves).
Research plan	***M2.1 Initial research into material fiscal risks*** (9 months) The first step is to conduct a study that maps the main fiscal risks to public finances, estimates the size of fiscal risks and their potential effects should they materialise. This should include fiscal risks arising from macroeconomic shocks, natural disasters, and the financial sector but also through potential government rescues of PPPs, public enterprises, and subnational governments. Risks should be reported on the basis of estimates of how likely they are to occur, as well as their potential size. ***M2.2 Review of how fiscal risks are reported across government*** (9 months) The reporting of fiscal risks is an important component of the budget cycle and it is not clear that this is currently taking place across government in a coordinated manner. MoFEC should conduct a review of how fiscal risks are currently reported, highlighting any deficiencies in timely reporting and recommending any necessary changes to fiscal risk reporting (including reporting requirements of public bodies). ***M2.3 Fiscal stress tests and probabilistic tools*** (12 months) To understand the size of fiscal risks and their potential inter-relationships, MoFEC staff should invest in training in probabilistic forecasting methods and the applications of stress tests to simulate the effects of shocks and other developments.
Outcomes	An improved risk analysis and reporting process will provide MoFEC with a comprehensive understanding of potential risks to public finances across government and their interrelationships, allowing for improved detection and management of fiscal risks.
Links between actions	Actions M2.1 and M2.2 are prerequisites to action M2.3. Action M1.2 is a prerequisite to action M2.3.

4.3.2. Taxation

Indicative owner: Tax Policy Directorate

Other directorates involved: Human Resources

Overview

As Ethiopia grows and becomes increasingly reliant on domestic revenue for financing public expenditures, it is important that MoFEC plays a more prominent role in setting tax policy, ensuring it is aligned with the wider fiscal policy strategy (i.e. the transfer system, spending policy, and wider economic goals). MoFEC's recently established Tax Policy Directorate needs to build staff and capabilities, enabling it to assess and propose tax reforms and ensure that tax policy is used effectively as a fiscal and economic policy tool.

The starting point should be to build the directorate's understanding of the tax system as a whole, so that it deepens its sense of who bears the burden of each tax, how key taxes (especially VAT and income tax) fare in terms of equity, efficiency, buoyancy, and compliance costs, and which taxes hold the greatest potential to raise additional revenue. A review of how MoFEC coordinates with ERCA as MoFEC takes on a more engaged role and how it shares information and responsibilities is also merited. Mechanisms for close engagement are particularly important as tax administration and tax policy are inextricably linked and operational experience needs to tie back into the tax policy-making process.

Yet there are also some immediate concerns to address. This includes building knowledge around double taxation agreements ahead of upcoming international negotiations, and resolving uncertainties around presumptive taxes. Another area with potentially large revenue gains and which requires follow up on ongoing efforts before momentum is lost concerns the current system of tax incentives and concessions. Further issues include property taxation, as there is a window of opportunity during the current urban expansion for the public finances that should not remain unexploited. Finally, MoFEC should leverage its position to coordinate across ministries and ensure that basic taxation principles are included in secondary school curricula.

Eight distinct sets of actions were identified in the area of taxation:

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	Topic/action	Year 1				Year 2				Year 3			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Taxation	**T1. Review of coordination between MoFEC and ERCA**	Tender	Action		(Action)								
	T2. Reviewing tax incentives regime												
	T2.1 Coordinate tax expenditure studies currently underway	Action											
	T2.2 Possible follow-up work on tax expenditures, including public consultation		(Action)										
	T2.3 Tax expenditure budgeting								Action				
	T3. Understanding the tax system and its impacts												
	T3.1 Initial study into the coherence of the overall tax system		Tender	Action									
	T3.2 Build/augment tax models and modelling capability					Tender	Action						
	T3.3 Build analysis skills through analysis of tax incidence and equity outcomes and apply across all key taxes			Tender	Action								
	T3.4 Review studies on taxpayer compliance costs and potentially follow up with additional analysis					Action	(Action)						
	T3.5 Build and apply models to estimate tax potential of all major taxes									Tender	Action		
	T4. Presumptive income tax												
	T4.1 Review presumptive income tax settings	Tender	Action										
	T4.2 Implement and communicate new settings			Action									
	T5. Property taxation												
	T5.1 Research potential enhancement of property taxation						Tender	Action		Review	(Action)		
	T6. Study on stamp duties and fees					Tender	Action		Review				
	T7. Training on double taxation agreement (DTA)	Tender	Action										
	T8. Taxpayer education												
	T8.1 Investigate best practices around secondary school level taxpayer education			Tender	Action	Review							
	T8.2 Initiate process to introduce taxpayer education into the curriculum					Tender	(Action)						
	T8.3 Introduce courses on international taxation in higher education curricula								Tender	Action			

Additional actions that could be undertaken (if resource constraints permit):

- *T9. VAT optimisation study*
- *T10. Study on customs duties and excise taxes*
- *T11: Tax evasion and avoidance*
  - *T11.1 Research project to understand potential compliance issues of cross-border transactions*
  - *T11.2 Taxation of high net worth individuals (HNWIs)*
  - *T11.3 Study on the potential losses from transfer pricing in Ethiopia*

T1. Review of TPD's role and coordination with ERCA

Overview	The aim of this action is to improve coordination between MoFEC's Tax Policy Directorate and ERCA.
Why this is a priority	Given the growing importance of tax revenue in the government budget, MoFEC's role in setting tax policy is increasingly important. Revenue policy needs to be linked to expenditure policy and the tax system needs to be better used to achieve wider economic goals and to set the right incentives to businesses and individuals. It is therefore important that tax policy functions be well developed within MoFEC. Furthermore, tax policy needs to take into account both the operational experience of tax administration and wider macro-fiscal priorities. This highlights the importance of having a strong coordination mechanisms between MoFEC and ERCA on tax policy and administration.
Research plan	***T1. Review of coordination between MoFEC and ERCA*** (6 months) This should entail a review of the division of tasks and responsibilities between ERCA and MoFEC going forward, including coordination on tax studies and data collection, and where this is appropriate. It should also assess the degree to which current organisational structures facilitate strong coordination with the Prime Minister's Delivery Unit on Taxation. This should include a review of the current responsibilities around tax revenue forecasting, given MoFEC currently sets targets for ERCA. To the extent that this review raises issues with the current framework for coordination on tax policy issues, specific actions should be proposed to rectify this.
Outcomes	MoFEC is better able to influence tax policy and ensure it fits into wider economic planning.
Links between actions	There is a link to action M1.1 in terms of forecasting revenue.
Actions already underway	Potential changes introduced through Prime Minister's Delivery Unit on taxation.

T2. Review of tax incentives regime

Overview	The aim of this action is to review the findings of current studies on tax incentives, complement them with further analysis, if necessary, and coordinate any subsequent reform action.
Why this is a priority	The current tax incentives regime has been identified as a major source of foregone tax revenue working against the tax/GDP targets set out in the GTP II. Although currently unquantified, it may amount to significant tax expenditures without providing commensurate benefits to the economy. It is vital that MoFEC, as the entity responsible for fiscal sustainability and tax policy, has a strong understanding of the tax incentives regime and can advise on reforms to the system to ensure strong value for money.

Research plan	***T2.1 Coordinate tax expenditure studies currently underway*** (6 months) At least two studies have already been commissioned to look into this issue by different institutions. These need to be reviewed for completeness to ensure that they cover all expenditures and yield sufficient information on costs and benefits to guide reform. They should include analysis into potential effects of reform not only on foregone revenue but also on investment and private sector growth (and estimate the taxes yielded through the latter). They should also include public consultation and a review of the administration around tax incentives so that operational experience is looped back into the policy making process. ***T2.2 Possible follow-up work on tax expenditures, including public consultation*** (9 months) Depending on the findings of the aforementioned studies, there may be follow up work required: either complementing it with further analysis and/or undertaking steps for tax incentive system reform. The latter is likely to require close coordination by MoFEC with stakeholders including the EIC, Ministry of Trade and others. It may also require international and inter-regional coordination efforts to reduce the foregone revenue created in the region by international competition for foreign investors. ***T2.3 Tax expenditure budgeting*** (3 months) This involves assessing the feasibility of a procedure whereby the revenue losses from special exclusions, exemptions, deductions, credits, deferrals and preferential tax rates are estimated on an annual basis and included into the budget. Maintaining such a procedure is considered good practice to enhance transparency and ensure that new and existing tax incentives schemes are regularly reviewed and that their objectives continue to be met in the most efficient way.
Outcomes	Potential reform of the existing tax incentives regime, to strengthen revenues and ensure greater value for money and regular review of new and existing incentives to ensure they continue to fulfil their objectives and that their costs do not outweigh their benefits.
Links between actions	Findings of tax incentives studies should be considered in understanding the tax system and its impacts (actions 5.1 – 5.4).
Actions already underway	There is already a study underway on tax incentives in Ethiopia by the World Bank. See also Gebreyesus and Demile (2017), Gebreyesus and Kebede (2017) and Gebreyesus, Beshah and Abebe (2016).

T3. Understanding the tax system and its impacts

Overview	The main action for the newly created Tax Policy Directorate is to gain a comprehensive understanding of the tax system and its impacts. This involves gaining an understanding of who is paying which taxes, how the different taxes fare in terms of equity, efficiency, buoyancy, and compliance costs, and where the potential lies to increase the tax to GDP ratio. It also includes capacity building for in-house analysis of tax efficiency, tax incidence, modelling and estimating tax potential/tax gaps, and ensuring that the tax system is effectively used as an instrument of economic policy by carefully coordinating tax and economic policy objectives.
Why this is a priority	In order to meet the GTP II's tax revenue targets, MoFEC needs to understand where the untapped potential of the tax system lies, how it currently affects distributional outcomes, poverty and growth, and where to target reform efforts. It also needs to take a holistic view of the tax system to assess how its components fare in terms of equity and fairness and whether it sets the right incentives for businesses and individuals in view of GTP II's growth goals. This is a precondition for further policy analysis and decision-making for the newly created Tax Policy Directorate.

Research plan	***T3.1 Initial study into the coherence of the overall tax system*** (6 months) This study should collate information on the tax system as a whole and assess its effects on poverty, growth, distribution and efficiency. It should assess the extent to which tax policy is aligned with economic policy objectives and how effectively taxation powers are used both at the federal and subnational level. This should begin with a review of existing research on the tax system in Ethiopia and of the data available on tax revenue from the different revenue sources. It could also involve comparing the Ethiopian tax system to that of structurally similar countries to understand how the tax-to-GDP goals could be reached in such a way as to limit the negative effects of taxation. ***T3.2 Build/augment tax models and modelling capability*** (12 months) Technical assistance should be sought on modelling tax reform scenarios, tax potential/tax gap analysis and tax incidence analyses. This action is linked to the wider work on strengthening economic forecasting capability and should involve Human Resources Department. ***T3.3 Build analysis skills through analysis of tax incidence and equity outcomes and apply across all key taxes*** (9 months) This involves training in tax incidence and tax equity analysis. This should be applied by the TPD in a detailed theoretical analysis of which segments of the population are affected by the country's key taxes (especially VAT and income tax), whether taxpayers with similar characteristics are in fact paying similar levels of taxes and the extent to which wealthier citizens with a greater ability to pay are paying proportionately more. ***T3.4 Review studies on taxpayer compliance costs and potentially follow up with additional analysis*** (3 months) The objective of this review is to determine the potential for improving tax compliance by making it easier for businesses and households to pay taxes. This refers to costs beyond the tax payment itself such as time and costs to understand tax law, manage records required for tax purposes, fill out tax forms, make tax payments, etc. It should begin with a review of existing studies that estimate tax compliance costs for different taxes and taxpayer groups operating in different sectors. The review should point to aspects of the tax system which could be amended in order to make it easier for taxpayers to comply with tax obligations. If existing studies do not sufficiently point to this, potential follow up research could be requested. ***T3.5 Build and apply models to estimate tax potential of all major taxes*** (6 months) Assistance should be sought in building methodologies to estimate tax gaps and the revenue potential of key taxes. The results should inform which taxes could bring in the greatest increases in revenue through potential changes to tax policy and administration.
Outcomes	MoFEC would have a more comprehensive understanding of the tax system and ability to effectively analyse the effects of policies on changes to revenue yield, growth, poverty and equity.
Links between actions	Action T3.1 is a precondition to further tax policy decision-making. Actions T3.2 and T3.3 are linked to O1.3
Actions already underway	Technical assistance on VAT modelling of policy scenarios by IFS.
Reference material	A number of relevant studies have already been conducted, including Hill et al (2017), World Bank Group (2015b), Mascagni and Mengistu (2016), World Bank Group (2015c: Chapter 5). In addition, a report was recently commissioned on the overall tax system, to be submitted to the Tax Policy Directorate. Work has also been conducted on taxpayer compliance costs by the IFC and potentially ERCA. There has also been a report by Adam Smith International on tax revenue potential in Ethiopia.

T4. Presumptive income tax

Overview	The aim of this action is to address recent public concern around the appropriateness of presumptive income tax settings and help to prevent such issues from arising again in future.
Why this is a priority	The reassessment of incomes with regard to presumptive taxes recently created public concern. It is crucial that such taxes – which are generally targeted at low income earners – work effectively and that taxpayers perceive the tax system as fair and reasonable to comply with.
Research plan	***T4.1 Review presumptive income tax settings*** (3 months) The current presumptive tax should be assessed against international best practice and taxpayer concerns should be addressed. The differences in regional applications and their effects should also be taken into consideration. ***T4.2 Implement and communicate new settings*** (9 months) The communication strategy and implementation of tax policy/tax law changes needs to be reviewed to prevent miscommunication to taxpayers.
Outcomes	This process is intended to improve MoFEC's understanding of the presumptive income tax, implement any necessary changes so that it operates as intended, and communicate any changes to the wider public.

T5. Property taxation

Overview	The aim of this action is to better exploit property taxation in view of rapid urbanisation and property development.
Why this is a priority	Ethiopia is experiencing huge increases in its urban population and significant investments are pouring into the property sector with high expected returns. If taxed effectively, these property developments could generate substantial public revenue and could contribute to stemming increasing income inequality. An adequate design of property taxation is crucial in order to circumvent some of the administrative and political obstacles experienced with property taxation elsewhere.
Research plan	***T5. Research potential enhancement of property taxation*** (6 months) This study should include a review of innovative new methods to tax property in developing country contexts. It should explore potential changes to Ethiopia's property tax regime and a strategy to support subnational governments to make better use of this tax instrument.
Outcomes	Plan for more effective exploitation of property tax, and implementation of any identified changes, for stronger public revenues from the property market.
Reference material	At least two studies have already been conducted which explore this issue: Goodfellow (2015), and a study conducted for Addis Ababa BoFED.

T6. Study on stamp duties and fees

Overview	The aim of this action is to revise the current outdated system of stamp duties/fees for government documents and transactions.
Why this is a priority	The current system of stamp duties/fees and their valuation are bringing about perverse outcomes which need to be corrected, especially in view of citizen perception.
Research plan	***T6. Study on stamp duties and fees*** (6 months) This study should review best practice and set principles for valuation of stamp duties. The study should also lay out the procedure to follow for public bodies to set fees and duties in accordance with the principles laid out in the study. It is recommended that this study be outsourced outside of MoFEC but that the recommendations be formulated in close cooperation with MoFEC and the TPD.
Outcomes	Modernised system of stamp duty collection.

T7. Training on double taxation agreement (DTA)

Overview	The aim of this action is to prepare the Tax Policy Directorate for upcoming negotiations around double taxation agreements.
Why this is a priority	The Tax Policy Directorate will be negotiating double taxation agreements with other countries and needs to enhance its knowledge, understanding and negotiation capacity ahead of these talks to ensure the outcomes are optimal for Ethiopia. These agreements will have implications for administrative and compliance costs, foreign investment, and the tax revenue yield.
Research plan	***T7. Train staff on DTA*** (9 months) Expert staff with experience in negotiating international tax agreements should be hired to support double taxation agreement negotiations. This should include a joint review of the current agreements and framework. Potential costs and benefits for Ethiopia should be researched and discussed and the Tax Policy Directorate should agree a position ahead of the negotiations.
Outcomes	MoFEC will be able to negotiate strong outcomes for Ethiopia in the DTA negotiations.

T8. Taxpayer education

Overview	The aim of this action is to enhance tax education among the next generation of taxpayer, to build social cohesion around taxation and improve future compliance.
Why this is a priority	Tax compliance is heavily influenced by taxpayer attitudes towards taxation and of taxpayer knowledge of how to comply with the tax system. With Ethiopia's very high expected population growth (especially in urban areas) there are large potential benefits from investing in educating the next generation of taxpayers and assisting their future correct compliance with tax obligations.
Research plan	***T8.1 Investigate best practices around secondary school level taxpayer education*** (6 months) The first step is to conduct a study on international experiences of educating young people on the importance of paying taxes and how to go about paying them. Although it may be difficult to identify best-practice, well regarded approaches could be examined along with their transferability to the Ethiopian context. ***T8.2 Initiate process to introduce taxpayer education into the curriculum*** (12 months) MoFEC should leverage its position at the centre of government to coordinate with other institutions (in particular ERCA and the Ministry of Education) to introduce a suitable programme of taxpayer education into the curriculum. ***T8.3 Introduce courses on international taxation in higher education curricula*** (6 months) This involves the design of an international taxation curriculum and engagement with institutions of higher education to incorporate courses in international taxation.
Outcomes	The next generation of taxpayers is well educated in the importance of taxation for the functioning of the state and society, it is aware of its likely future tax obligations and about how to obtain information about complying with those obligations, so that social consensus, tax morale, and tax compliance are strengthened. There is increased expertise on international taxation in Ethiopia.
Links between actions	Needs to consider Action T1: coordination between MoFEC and ERCA.
Actions already underway	ERCA has made some related proposals to the Ministry of Education, but as yet no substantial changes have been made to the curriculum to include tax education.

Additional actions that could be undertaken (if resource constraints permit):

T9. VAT optimisation study

Overview	The aim of this action is to ensure that VAT is optimally used. VAT is a large potential tax revenue generator and the tax should be applied in line with wider fiscal policy objectives.
Research plan	***T9. VAT optimisation study*** (6 months) This study should look into effects of potential changes to thresholds and exemptions/zero-rating/reduced rates as well as VAT administration issues. Microsimulations and general equilibrium modelling can be applied to estimate effects of different policy scenarios.
Outcomes	Increased revenue from VAT alignment of VAT with wider fiscal policy goals.
Links between actions	Analysis skills within the TPD are a prerequisite if this is to be done in-house (Action T2.3).
Actions already underway	IFS is assisting MoFEC with VAT policy analysis.

T10. Study on customs and excise tax regime

Overview	The aim of this action is to study the customs duties and excise tax regime, which are major sources of revenue, in order to find potential for optimisation and ensuring policy consistency with wider economic goals.
Research plan	***T10. Study on customs and excise tax regime*** (6 months) This study should assess the extent to which the current regime of customs and excise taxes are consistent with wider economic goals and the extent to which their collection can be made more efficient.
Outcomes	Revenue is collected more efficiently through customs and excise taxes and they are in line with overall economic goals.
Links between actions	Links to Understanding of the overall tax system (Action T3.1), Study on tax potential (Action T3.5) and Study on fiscal policy and the green economy (Action B6).
Actions already underway	The World Bank is conducting a study on excise taxes in Ethiopia.

T11. Tax evasion and avoidance

Overview	The aim of these actions are to reduce tax evasion and avoidance, particularly through cross-border transactions. Tax evasion and avoidance is likely to be holding back the growth of the tax-to-GDP ratio and undermining the key source of financing for GTP II.
Research plan	***11.1 Research project to understand potential compliance issues of cross-border transactions*** (6 months) This involves estimating tax compliance gaps and revenue potential of different taxes. This should include the potential from the informal economy. ***11.2 Taxation of high net worth individuals (HNWIs)*** (9 months) The aim of this study is to gain a deeper understanding of the tax practices of high net worth individuals and the extent of any tax evasion, tax avoidance and illicit financial flows. ***11.3 Study on the potential losses from transfer pricing in Ethiopia*** (6 months) And study on the relevance of transfer pricing issues for Ethiopia should be conducted in order to inform the decision of whether more steps need to be taken to address this over the medium term.
Outcomes	Increased tax compliance leading to increased tax revenue and reduction of illicit financial flows.

4.3.3. Budget planning and preparation

Indicative owner: Budget Directorate

Other directorates involved: Fiscal Policy Directorate, Expenditure Management and Control Program, Human Resources

Overview

The budget process plays a crucial role in ensuring public expenditures best achieve the country's national development objectives and provide good value-for-money. MoFEC is responsible for running the budget process and liaising with public bodies to agree to make spending recommendations to Ministers. In order to do this effectively, MoFEC must have a strong understanding of the country's spending needs (across the spectrum of economic and social spending areas) and the value of different spending options, as well as the capability and capacity to effectively scrutinise budget bids coming from the public bodies.

Parliament, and the general public, must also be given the opportunity to meaningfully engage in the budget process. This provides an avenue for budget decisions to be tested and challenged by those who will feel the effects of them, and increases public consensus around the ultimate decisions.

Six priority capability areas were identified in the area of budget planning and preparation:

	Topic/action	Year 1				Year 2				Year 3			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Budget planning and preparation	**B1. Effectiveness and efficiency of national public spending**												
	B1.1 Assess capability required to effectively scrutinise spending	Tender	Action										
	B1.2 Evaluate programme budgeting		Tender	Action	Review								
	B1.3 Build the required staff capacity				Tender	(Action)							
	B1.4 Refine reporting requirements and spending approvals process						Tender	(Action)					
	B2. Review pricing policies (explicit and implicit subsidies)			Tender	Action		(Action)						
	B3. Effectiveness and efficiency of decentralised govt. spending												
	B3.1 Review reporting requirements of local governments to MoFEC		Tender	Action									
	B3.2 Assess budget allocation process with respect to GTP II objectives				Tender	Action		(Action)					
	B4. Public infrastructure												
	B4.1 Review capability req. to understand public infrastructure needs/costs		Tender	Action		Review							
	B4.2 Enhance capability/establish new public infrastructure unit					Tender	(Action)						
	B4.3 Prepare initial national infrastructure plan								Tender	Action			
	B5. Public consultation and transparency												
	B5.1 Assess gaps in public access and feedback in budget preparation					Tender	Action		Review				
	B5.2 Strengthen the public engagement and consultation system around budget								Tender	Action			
	B6. Intergovernmental transfer system												
	B6.1 Review of tranfers from federal to regional governments				Tender	Action							
	B6.2 Review of tranfer system from regional to local governments							Action					

Additional actions that could be undertaken (if resource constraints permit):

- *B7. Assess fiscal policy impacts on climate resilient green economy growth*
- *B8. Coordinate household and other surveys to ensure consistent collection of age and genderdisaggregated data*

T. Effectiveness and efficiency of national public spending

Overview	The purpose of these actions are to strengthen MoFEC's capacity to effectively scrutinise public spending requests and to further embed the performance-based budgeting mechanism into allocation decisions. Engagement between the Budget Directorate and the Fiscal Policy Directorate is essential.
Why this is a priority	This is a vital role played by MoFEC and has significant implications for how effectively public spending supports the GTP II objectives. Greater scrutiny by MoFEC and better alignment to the performance-based budgeting principles will help to reduce inefficient or wasteful spending and to direct resources to where they are most effective.
Research plan	***B1.1 Assess capability required to effectively scrutinise spending*** (3 months) The first action should be to undertake a thorough assessment of the current capabilities of the budget (and supporting) teams and whether these capabilities are sufficient to allow MoFEC to scrutinise public expenditure effectively (i.e. a gap analysis). Currently a team of 24 specialists are responsible for the oversight and scrutiny of the budgets of 187 public bodies. This is low by international standards, although the review should take into account Ethiopia's current state and its specific development goals. ***B1.2 Evaluate programme budgeting*** (3 months) This would require an examination of the current practices around programme budgeting and the extent to which agreed programme outcomes are accurately measured and influence ongoing funding levels/decisions. This should assess the option of making disbursements contingent on performance. Implemented properly, performance against agreed objectives should be linked to funding decisions. External support may be required to undertake these two actions (B1.1 and B1.2) ***B1.3 Build the required staff capacity*** (12 months) To the extent that either of the first two actions reveal a staff capacity gap, this should then be addressed. This may include hiring new staff and/or training existing staff. ***B1.4 Refine reporting requirements and spending approvals process*** (12 months) To the extent that either of the first two actions reveal gaps with the current process of reporting and approvals, the process should be amended to support greater scrutiny of expenditures and performance against targets.
Outcomes	Stronger scrutiny of public expenditures through the budget process and better alignment of budgeting with outcomes.
Links between actions	Actions B1.1 and B1.2 should be completed and reviewed before undertaking actions B1.3 and B1.4.
Actions already underway	The World Bank undertakes a public expenditure review every 5-6 years (World Bank, 2016b), but this is too infrequent and not necessarily detailed enough to support MoFEC's operational needs. The Bill and Melinda Gates Foundation is conducting a value for money spending review, beginning with the health sector.

B2. Pricing policies (explicit and implicit subsidies)

Overview	Certain consumer products (e.g. sugar, wheat, edible oils, electricity, water) are purchased by consumers at prices below the expected prevailing market price for such products. Whether these prices are artificially low as a result of direct subsidies or indirect subsidies (for example, being provided by public enterprises at artificially low rates), they represent a cost to the government.
Why this is a priority	The costs to the government implied by these implicit or explicit subsidies, and their respective benefits, should be well understood by MoFEC. It does not appear to be the case that these costs are quantified or that any detailed assessment of their value-for-money in achieving the government's GTP II objectives has been undertaken.
Research plan	***B2. Review pricing policies (explicit and implicit subsidies)*** (6 months) Conduct a thorough review of pricing policies for major consumer products that are directly subsidised or provided at artificially low prices by public bodies. This review should (to the extent possible) quantify the implied costs of these pricing policies to the government and undertake an assessment of their benefits. This action could feasibly be undertaken by external experts and, depending on the outcome of the review, may lead to a process of reforms.
Outcomes	A clearer understanding of the financial cost of these pricing policies and their value-for-money to Ethiopia, to potentially support a package of reforms.
Links between actions	This is related to the actions around the effectiveness and efficiency of public expenditure (actions B1.1-B1.3).

B3. Effectiveness and efficiency of decentralised government spending

Overview	The aim of this objective is to give MoFEC visibility over the effectiveness and efficiency of spending by subnational governments.
Why this is a priority	Subnational governments have major spending responsibilities for key public services, including education and healthcare. MoFEC's vital task of scrutinising the efficiency and effectiveness of public spending and how it supports the GTP II objectives is incomplete if it is not able to effectively scrutinise spending by subnational governments.
Research plan	***B3.1 Review reporting requirements of local governments to MoFEC*** (6 months) This review would consider which reporting requirements could be agreed with subnational governments to provide MoFEC with sufficient oversight of subnational government expenditure and performance towards the GTP II objectives. ***B3.2 Assess budget allocation process with respect to GTP II objectives*** (6 months) MoFEC should assess the extent to which subnational governments are linking their spending decisions to important national objectives, with a view to recommending improvements to this process nationally if any issues are identified.
Outcomes	MoFEC gains visibility with regard to value-for-money of subnational government spending and alignment with GTP II.

B4. Public infrastructure

Overview	The government is spending over half its annual budget on capital expenditure each year to support GTP II. Despite this high level of capital expenditure, there is no entity within MoFEC or elsewhere in government that has visibility over the stock of assets, the condition of these assets, ongoing maintenance requirements, reserves set aside to meet these requirements, and future assets needs.
Why this is a priority	Infrastructure plays a key role in supporting the national development objectives, and infrastructure needs and the costs of maintaining existing infrastructure represent a major fiscal risk to the government. Without proper oversight the current programme of capital accumulation could be poorly aligned with future needs and future financing arrangements may be inadequate to fund maintenance and replacement costs.
Research plan	***B4.1 Review capability required to understand public infrastructure needs/costs*** (9 months) The initial action is to undertake a detailed review of the current capability within MoFEC (and elsewhere in government, including the Public Procurement and Property Management Agency), and the capability required to develop and maintain a proper understanding of public infrastructure needs. This review should include staff capabilities but also the processes by which public bodies and subnational governments record and report on infrastructure information to the national government. ***B4.2 Enhance capability/establish new public infrastructure unit*** (9 months) Depending on the outcome of the review, MoFEC should then look to establish an infrastructure team (either a separate directorate or a unit within an existing directorate) with responsibility for gathering data across government, undertaking analysis and supporting budget and policy decisions. ***B4.3 Prepare initial national infrastructure plan*** (12 months) The new infrastructure team should then undertake a process to gather data from across government on existing infrastructure and likely infrastructure needs, and prepare a long-term national infrastructure plan. This plan should address economic, commercial and fiscal considerations, and be updated every 2-3 years. Plans of this nature are regularly prepared in a number of other countries (see the example of New Zealand, below).
Outcomes	A deeper understanding of infrastructure needs and costs, and the likely impact of these on the government's finances over time. This will enable stronger scrutiny of capital expenditure and longer-term planning.
Links between actions	These three actions should be done sequentially.
Reference material	New Zealand 30-year Infrastructure Plan (example): http://www.infrastructure.govt.nz/plan/2015/nip-aug15.pdf

B5. Public consultation and transparency

Overview	Although some public consultation takes place through the parliamentary Budget and Finance Standing Committee, this consultation is limited to the overall amounts allocated to each public body and does not include consultation on the specific activities those amounts will be used for. Engagement of the Budget Directorate with the EMCP is important for this component.
Why this is a priority	For spending to be properly scrutinised by the public and effectively overseen by Parliament, they must have oversight of how each public body's budget allocation is intended to be spent at the start of the year. Without this there is limited basis to assess whether the spending was as intended and effectively met its objectives.
Research plan	***B5.1 Assess gaps in public access and feedback in budget preparation*** (9 months) The first action is to review the channels by which Parliament and the general public are able to access information on the budget, the level of detail they are privy to, and at what point in the budget cycle this occurs. This should be complemented with information on best practices for budget openness and transparency from other countries. Two particular aspects that should be examined are: • the process by which public bodies agree with MoFEC how their overall allocation should be allocated to specific activities; and • the extent to which spending by subnational governments is consistently open and transparent. This process itself should include engagement with Parliament and the wider public, to ensure their expectations around budget openness and transparency are considered. To ensure this review is appropriately independent, it may be carried out by independent experts. The findings should be shaped into recommendations for consideration by MoFEC's senior leadership and Ministers. ***B5.2 Strengthen the public engagement and consultation system around the national budget*** (12 months) Following the outcomes of the review, a process should then be undertaken to address and strengthen any areas of the process identified as less transparent.
Outcomes	Stronger public and parliamentary oversight of public spending, better scrutiny of spending performance, and greater social consensus around government spending decisions.
Links between actions	Action B5.1 is a prerequisite for action B5.2.
Reference material	The Open Budget Survey provides a reference point for comparing budget openness across 102 countries. Details can be found here: https://www.internationalbudget.org/opening-budgets/open-budget-initiative/open-budget-survey/2017-news/

B6. Inter-governmental transfer system

Overview	The objective is to review inter-governmental fiscal transfers (both from federal to regional level and from regional to local levels) in view of potential improvements.
Why this is a priority	A large percentage of spending on basic public services is undertaken by subnational governments. These rely heavily on fiscal transfers from higher levels of government. It is therefore important that the transfer system works in an optimal manner.
Research plan	***B6.1 Review of transfers from the federal government to regional governments*** (6 months) This study should look at the effectiveness of general purpose grants versus special purpose grants and determine if there are overlapping objectives. ***B6.2 Review of transfer system from the regional governments to local governments*** (3 months) This study should look at how transfers are allocated from regions to local governments in the different regions and whether these follow set criteria and are needs based.
Outcomes	More equitable and efficient distribution of funds to subnational governments.
Links between actions	These actions may be done in coordination with B3.

Additional actions that could be undertaken (if resource constraints permit):

B7. Assess fiscal policy impacts on climate resilient green economy growth

Overview	The aim of this action is to ensure that fiscal policy is in line with the GTP II's green economy goals, both through the tax system as well as through the choice of spending projects.
Why this is a priority	The GTP II sets the path for climate resilient green economic growth. In order to reach this goal, fiscal policy should be consistent in achieving this.
Research plan	***B7. Study on whether fiscal policy is consistent with green economy goals*** (6 months) This study should review the compatibility of current incentives created through the tax system with green growth goals. This can entail a review of environmental taxes applied in other countries and their feasibility for the Ethiopian context. The study should also conduct a review of infrastructure projects and recommend a mechanism to ensure that these meet green economy objectives. This study can be outsourced outside of MoFEC.
Outcomes	Fiscal policy does not contradict goals for climate resilient green economic growth.
Reference material	See Fitiwi (2013).

B8. Coordinate household and other surveys to ensure consistent collection of age and gender disaggregated data

Overview	The aim of this action is to ensure that outcomes of budget spending on specific groups such as women and children can be assessed through collection of relevant data.
Why this is a priority	In order to be able to adjust spending to ensure equitable growth, MoFEC needs to have be able to see this effects of spending on different groups of the population. This cannot be done without the requisite data.
Research plan	***B8. Coordinate household and other surveys to ensure consistent collection of age and gender disaggregated data*** (6 months) Several household and other surveys are frequently commissioned by different research institutions, government institutions, and organisations in Ethiopia. This action involves ensuring that gender and age disaggregated data is collected in a consistent manner and that the data allows drawing conclusions on the achievement of the GTP II.
Outcomes	Data available that allow monitoring effects of spending decisions on the wellbeing of women and children.
Reference material	UNWomen (2017).

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4.3.4. Financial controls, accounting and audit

Indicative owner: Expenditure Management and Control Program

Other directorates involved: Treasury Directorate, Accounts Directorate, Inspection Directorate, Human Resources

Overview

In designing fiscal policies, the MoFEC needs to have visibility of its fiscal position and adequate information across the whole of government. Reliable information, summarised in the right way, is key in order to make policy decisions, direct and redirect resources to achieve policy goals, and to mitigate fiscal risks and maintain financial stability.

The key building block to provide MoFEC with a complete overview of general government finances and the information necessary for policy making is a consistent accounting system across the whole of government. The accounting system needs to be adequate to show liabilities and financial commitments into the future. Following on from this, an information system needs to be in place that adequately summarises the essential information, not only on all line ministries and other public bodies federally, but also linking subnational governments, public enterprises and off-budget accounts.

In order for this information to be reliable, effective financial controls and audit need to be an elevated responsibility for management. Audit findings need to be followed up with, and inconsistencies and misconduct need to be addressed. Some steps have already been taken in this regard, but it remains to be assessed whether they were sufficient.

Three capability areas were identified for financial controls, accounting and audit:

	Topic/action	Year 1				Year 2				Year 3			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Financial controls, accounting and audit	**F1 IPSAS implementation**												
	F1.1 Training programme to fill immediate IPSAS knowledge gaps	Tender	Action	Action									
	F1.2 Develop a training and certification programme			Tender	Tender	Action	Action	Action					
	F1.3 Rollout training programme across public service professionals							Tender	Action	Action	Action	Action	
	F2 IFMIS implementation												
	F2.1 Review of conceptual design of IFMIS		Tender	Action	Action								
	F2.2 Training and technical assistance for staff on IFMIS implementation					Tender	Action	Action	Action				
	F3 Monitoring of follow-up mechanisms regarding audit findings									Action			

Additional actions that could be undertaken (if resource constraints permit):

- *F4.1 Assessment of best practice of treasury functions*
- *F4.2 Experience sharing missions to best practice countries in the region*

F1. IPSAS implementation

Overview	The aim of this action is to provide support to MoFEC in its transition to IPSAS.
Why this is a priority	IPSAS accounting is a crucial building block of public finance that will contribute to feeding required information for fiscal policy decision-making and guard against fiscal risks and rent-seeking. Staff need to be appropriately trained and qualified to implement and apply IPSAS.
Research plan	***F1.1 Training programme to fill immediate IPSAS knowledge gaps*** (6 months) Training should be provided to MoFEC staff to improve their knowledge on IPSAS and IPSAS implementation. Although there is a programme in place to roll out IPSAS, a gap in understanding of key staff was identified. ***F1.2 Develop a training and certification programme*** (9 months) This action involves the longer-term IPSAS capabilities in the public sector. MoFEC should develop or oversee a training curriculum and certification programme to provide foundational knowledge and skills/practice in accounting and finance using IPSAS. ***F1.3 Rollout training programme across public service professionals*** (12 months) Roll out training programme on IPSAS for public sector staff.

Outcomes	Public sector staff have a strong understanding of IPSAS and the right programmes are in place to ensure this is sustainable.
Links between actions	Linked to fiscal reporting.
Actions already underway	The international financial institutions are already providing some technical assistance around IPSAS.

F2. IFMIS implementation

Overview	The aim is to ensure that fiscal reports are generated that provide MoFEC with a complete picture of the public finances. This should also allow a smooth transition from IBEX to IFMIS implementation through adequate training and support.
Why this is a priority	In order make fiscal policy decisions, MoFEC requires comprehensive and accurate fiscal reports on all government operations.
Research plan	***F2.1 Review of conceptual design of IFMIS*** (6 months) This action is to ensure that IFMIS, once introduced, will generate useful and accurate fiscal reports on all liabilities and general government operations, including off-budget expenditures. ***F3.2 Training and technical assistance on IFMIS implementation*** (9 months) This action involves training and supporting staff on IFMIS implementation.
Outcomes	Seamless transition from IBEX to a fit-for-purpose IFMIS.

F3. Audit

Overview	The aim of this action is to ensure that audit findings are appropriately followed up by management.
Why this is a priority	Proper follow-up on audit findings is crucial for financial accountability and control as well as for the reliability of information that fiscal policy decisions are based on. Good linkages of the audit process with parliament are also essential for the effectiveness of accountability.
Research plan	***F3. Monitoring of follow-up mechanisms regarding audit findings*** (6 months) The law was recently changed to improve follow-up on audit findings and to take steps to sanction management if it fails to address audit findings. This should be reviewed to ensure that the steps taken are sufficient and to ensure that audit reports are sent to Parliament for review and oversight.
Outcomes	Improved follow-up on audit findings by management, for more reliable fiscal information and stronger public financial management.

F4. Treasury functions

Overview	The aim of this action is to improve preparation of treasury staff for the transition to a suitable treasury single account.
Why this is a priority	It is important for the Treasury Directorate staff to have a good understanding of TSA models and best practice in order to have a unified view and centralised control over the government's cash resources.
Research plan	***F4.1 Assessment of best practice of treasury functions*** (6 months) This involves assessing best practices of treasure functions across comparable countries including different TSA models and their implementation. ***F4.2 Experience sharing missions to best practice countries in the region*** In order to learn first-hand from more experienced counterparts, experience sharing missions could be organised.
Outcomes	Improved practices with regard to treasury functions in MoFEC.

4.3.5. Debt management

Indicative owner: Debt Management Directorate
Other directorates involved: Human Resources

Overview

In the past, MoFEC's borrowing has been largely limited to concessional loans from international financial institutions. As the country advances and in view of its growth goals, however, developing the domestic debt market is seen as crucial for unlocking financing for development. This implies a largely expanded role for MoFEC's Debt Management Directorate and corresponding new skills as well as additional human resources.

Firstly, additional knowledge is needed in MoFEC to understand how it can support the development of the domestic debt market, particularly with regard to the secondary market and longer-term bonds. Secondly, additional skills are needed as it now needs to negotiate with commercial creditors. Finally, greater analytical skills are required for debt sustainability analysis.

The three areas identified for this thematic area are listed in the chart below:

	Topic/action	Year 1				Year 2				Year 3			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Debt management	**D1. Development of the domestic debt market**												
	D1.1 Research best practice for development of domestic debt market	Tender		Action									
	D1.2 Develop implementation plan for the domestic debt market				Tender	Action			Review	(Action)			
	D2. Preparation for negotiations with commercial creditors												
	D2.1 Hire and/or train staff to support commercial negotiations		Tender	Action									
	D2.2 Development of a negotiation strategy						Action						
	D3. Build debt sustainability analysis capability					Tender	Action						

D1. Development of the domestic debt market

Overview	This action aims to further the implementation of a well-functioning and sustainable domestic debt market.
Why this is a priority	Development of the domestic debt market can play an important role in raising additional funding for development and for the implementation of the GTP II. It can facilitate financing of enterprises and critical infrastructure projects, and reduce foreign currency borrowing, thereby reducing the current account deficit and increasing transparency. To rely solely on concessional loans or international borrowing will make it difficult to sustainably finance the country's extensive investment programme as set out in the GTP II.
Research plan	***D1.1 Research best practice for development of domestic debt market*** (6 months) This action would firstly entail research on best practice for domestic debt markets. This research should draw on international experiences with the development of an effective local secondary debt market and the market for issuance of longer-term government bonds, but also look at the particular impediments to such market development for Ethiopia. ***D1.2 Develop implementation plan for the domestic debt market*** (9 months) Following on from the initial review, the next step would be to design a plan to facilitate the development of the domestic debt market. Both actions would likely require the support of external advisors with the necessary commercial and debt management expertise.
Outcomes	A well-functioning domestic debt market that provides funding to the government and is supportive of private sector development.

D2. Preparation for negotiations with commercial creditors

Overview	The aim of this action is to better prepare the Debt Management Directorate for negotiations with commercial creditors regarding non-concessional borrowing.
Why this is a priority	MoFEC plays a role in supporting public enterprises in their negotiation of loan terms with commercial creditors. It will also need to negotiate commercial loan terms with international financial institutions as these move away from concessional lending. Being equipped with strong negotiating skills is crucial to ensure that terms agreed are favourable and reasonable.
Research plan	***D2.1 Hire and/or train staff to support commercial negotiations*** (9 months) Following a review of existing and required capabilities, this would likely require a combination of hiring new staff with commercial negotiation skills as well as training current staff in negotiation skills and the technicalities of commercial loans. ***D2.2 Development of a negotiation strategy*** (9 months) This action would involve agreeing on an acceptable spectrum of loan terms and a negotiation strategy for negotiations with commercial creditors.
Outcomes	MoFEC has the capability to raise finance on strong commercial terms as needed to facilitate the government's broader fiscal and development strategy.

D3. Build debt sustainability analysis capability

Overview	The aim of this action is to build the required capabilities within MoFEC for conducting debt sustainability analysis.
Why this is a priority	As the absolute value of government debt continues to grow, and as external grants and concessional loans diminish and alternative financing mechanisms grow in prominence, MoFEC needs an increasingly sophisticated understanding of its debt sustainability. This is important for fiscal sustainability and ensuring borrowing costs are minimised.
Research plan	***D3. Build debt sustainability analysis capability*** (9 months) The Ministry should look to acquire training for MoFEC staff to conduct debt sustainability analysis in-house, including training in data analysis and forecasting around debt and risk management. Although external support will be required, the focus should be on ensuring knowledge transfer to MoFEC's own staff.
Outcomes	Ability to conduct debt sustainability analysis within MoFEC.
Links between actions	Related to Action 1.1 on modelling capabilities.
Actions already underway	The IMF already conducts a debt sustainability analysis every few years, but this is relatively infrequent and does not necessarily provide MoFEC the capability to bring these considerations into its day-to-day debt management operations (see IMF, 2016b).

4.3.6. Public-private partnerships (PPPs), private sector growth and public procurement

Indicative owner: PPP unit

Other directorates involved: Fiscal Policy, Public Procurement, Accounting

Overview

One of the strategic pillars of the GTP II is to increasingly involve the private sector in financing development and to enhance private sector development. With regard to private-public partnerships, a new PPP legal and regulatory framework was put in place and a new unit has been established in MoFEC in anticipation of increasing PPPs. As MoFEC begins to draw increasingly on PPP arrangements, it is important that it is fully aware of the potential risks involved and ensures that it mitigates these sufficiently in its contractual arrangements with the private sector.

It is also important for MoFEC to review its policies and ensure that fiscal policy is not crowding out private investment or hindering private investment in other ways. One concrete immediate issue is to ensure that procurement laws that prioritise domestic private firms over public enterprises are properly complied with.

The actions identified in this area are shown in the chart below:

	Topic/action	Year 1				Year 2				Year 3			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Public private partnerships and public procurement	**P1 Study on PPP risk mitigation**												
	P1.1 Review the risks associated with PPP's and mitigation measures	Tender	Action										
	P1.2 Revise accounting standards to ensure appropriate recording of PPP liabilities		Tender	Action									
	P2 Review of how public sector procurement law is applied in practice					Tender	Action		(Action)				
	P3 Understanding the impact of existing fiscal policy on the private sector												
	P3.1 Initial research and development of discussion document					Tender	Action			Review			
	P3.2 Engagement programme with private sector									Tender	Action		
	P3.3 Prepare policy paper for consideration by MoFEC/Ministers											Tender	Action

P1. Study on PPP risk mitigation

Overview	PPPs can help to meet public investment spending needs, with the private sector contributing to closing the funding gap especially for infrastructure and service delivery. PPP arrangements can be complicated and risk, however.
Why this is a priority	While PPPs can be crucial to meeting public investment targets, there are majors risks with PPP arrangements that have caused large problems in other countries. It is crucial that MoFEC is aware of these risks prior to engaging in PPP contracts and understands how best to mitigate them with the right selection of PPP models and contractual arrangements.
Research plan	***P1.1 Review the risks associated with PPP's and mitigation measures*** (9 months) Conduct a comparative study to understand the potential risks associated PPP arrangements and which models of PPPs and types of contractual arrangements would be most appropriate for the context. Risks may include rent-seeking, hiding of liabilities, incentives for cuts in quality and uncompleted projects, among others. ***P1.2 Revise accounting standards to ensure appropriate recording of PPP liabilities*** (12 months) This action would ensure that accounting rules (e.g. IPSAS32) require PPP liabilities to be recorded in the general government balance sheet so that liabilities do not accumulate unnoticed. The Accounting Directorate may be engaged to assist with this.
Outcomes	MoFEC will be well-placed to facilitate the introduction of more public-private partnerships and unlock private sector capital to support national development in a way that manages risks appropriately.
Links between actions	Action P1.2 is linked to F1 and F2.
Reference material	UNDP brief on PPPs in Ethiopia (UNDP, 2015).

P2. Review of how public sector procurement is applied in practice

Overview	The aim of this action is to review whether public procurement rules, as applied in practice, are enabling local firms to participate in government tenders and encouraging private sector growth, or whether there are obstacles that remain to be solved in law and/or in practice.
Why this is a priority	Private sector development is a cornerstone of the GTP II, but current procurement practices may be acting as an obstacle to local firms' participation in government tenders and stymying private sector development as a result.
Research plan	***P2. Review of how public sector procurement is applied in practice*** (6 months) Review application of public sector procurement law in practice and recommend potential actions to improve compliance, for example with preferential clauses that give small domestic firms priority over international or public sector providers.
Outcomes	The objectives of procurement law (for example, around the preferential treatment of domestic firms in public tenders) are properly met.

P3. Understanding the impact of existing fiscal policy on the private sector

Overview	The aim of these actions is to remove obstacles created by fiscal policy to private sector development and ensure fiscal policy settings promote strong private sector growth. These actions may be led by the Fiscal Policy Directorate.
Why this is a priority	Private sector development is a cornerstone of the GTP II, and the economy relies on private investment for growth. Creating space for the expansion of domestic firms in the economy is a priority but is still largely perceived to be hindered, such as by crowding out private investment through public investment or by uncompetitive practices by public enterprises. The health of the private sector is an important indicator of the sustainability of Ethiopia's reform programmes.
Research plan	***P3.1 Initial research and development of discussion document (9 months)*** Research should be conducted on the different ways in which fiscal policy may be crowding out private investment or hindering private sector development in other ways. This first step is an internal step and would produce a discussion document with initial findings to form the basis of consultation with the public. ***P3.2 Engagement programme with the private sector*** (6 months) MoFEC should then make their discussion document public and conduct a systematic programme of engagement with the private sector to understand the impact of fiscal policy on private sector development and identify any specific issues to be rectified. ***P3.3 Prepare policy paper for consideration by MoFEC/Ministers*** (3 months) Following the initial research and engagement with private sector stakeholders, a policy paper should be prepared covering actions to be taken to better support private sector development. The shape of this action will depend to a large extent on the outcomes of the initial assessment and public engagement.
Outcomes	MoFEC has a strong understanding of the impacts of fiscal policy on private sector development and fiscal policy supports a thriving private sector across all sectors of the economy.
Links between actions	These actions are to be undertaken sequentially.

4.3.7. Legal services

Indicative owner: Legal services
Other directorates involved: Human Resources

	Topic/action	Year 1				Year 2				Year 3			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Legal services	**L1. Legal services**												
	L1. Enhancement of legal drafting skills		Tender	Action	Action	Action							

L1. Enhancement of legal drafting skills

Overview	The aim of this action is to enhance legal drafting skills within MoFEC in order to adequately translate fiscal policy decisions into laws and regulations.
Why this is a priority	The law needs to give effect to MoFEC's policies, be legally correct and also be as simple and clear as possible in order to be effectively implemented. It is important for MoFEC to have the capabilities required to ensure that its policies are reflected in law as intended and without problems occurring down the line.
Research plan	***L1. Enhancement of legal drafting skills*** (9 months) This requires the human resources department to liaise with the Legal department in order to understand the needs for enhancement of legal drafting skills and how best to meet these needs. The drafting skills should cover both tax law as well as other policy areas that MoFEC handles.
Outcomes	Proposals for law that give effect to MoFEC's intended policies and prevent problems of implementation.

4.3.8. Organisation and staffing

Indicative owner: Human Resources
Other directorates involved: Legal Department, MoFEC leadership

Overview

There are significant human resourcing issues to address, both across MoFEC directorates and among MoFEC-facing staff in public bodies (especially staff responsible for financial management, public property management and reporting to MoFEC in the public bodies). Having adequate human resources is fundamental to successful policy development and execution, making this an immediate priority.

This Roadmap in the various sections above includes actions that call for capacity building and skills enhancement as well as hiring in different directorates. This needs to be owned and managed by the Human Resources department, who should coordinate which each of the relevant directorates to understand the human resource requirements.

There are also difficulties in hiring qualified staff and problems of high staff turnover, as well as excessive resources spent on training and retraining staff. This calls for a strategy that uses a range of feasible methods to attempt to retain staff.

Separate from this, legal drafting skills are also required within MoFEC in order to adequately translate policy into laws and regulations.

The actions for this thematic area are outlined in the chart below:

	Topic/action	Year 1				Year 2				Year 3			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Organisation and staffing	**O1. MoFEC staff retention**												
	O1. MoFEC staff retention	Action	Action										
	O1.2 Assess skills and training needs across MoFEC as per this research agenda			Action									
	O1.3 Develop a People Strategy to build staff capacity and attract and retain new staff			Tender	Action	Action	Review	(Action)	(Action)	(Action)	(Action)		
	O2. Capacity of MoFEC-facing staff in public bodies												
	O2.1 Assess public body capacity gaps				Action								
	O2.2 Review responsibilities and incentives for PB performance				Tender	Action							
	O2.3 Develop strategy to sustainably close the capacity gap in public					Tender	Action	Action	Review	(Action)	(Action)	(Action)	(Action)

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O1. MoFEC staffing and staff retention

Overview	The aim of this action is to address the MoFEC-wide staffing and staff retention issues.
Why this is a priority	Adequate human resources is fundamental to successful policy development and execution. There are currently staff shortages across departments and the organisation finds it difficult to retain staff after they have been trained (particularly at certain levels of seniority and experience) due to strong competition from the private sector. This issue is particularly prominent for certain directorates but appears to be an issue across MoFEC.
Research plan	***O1.1 Assess the size and nature of the retention issue for MoFEC*** (6 months) Examine opportunities, benefits and other aspects of staff reward used to retain the right expertise within MoFEC and benchmark these to comparable packages in the private sector. ***O1.2 Assess skills and training needs across MoFEC as per this research agenda*** (3 months) Work with each of the departments listed in this research agenda that require skills and capacity enhancement to understand what is required. This would also consider whether the current number of MoFEC staff is suitable given its broad and growing mandate, and whether the right skills are being targeted. This requires coordination between the human resource department and each of other departments where human resources are listed as "involved" in this research agenda. This includes assessing forecasting and modelling capabilities, research and policy analysis skills, as well as legal drafting skills, among others. ***O1.3 Develop a People Strategy to build staff capacity and attract and retain new staff*** (9 months) On the basis of these assessments a People Strategy (or human resources plan) should be developed. This would include a plan with the required number of and skill sets of staff over the medium term and a strategy for attracting new staff, for providing training and building necessary skills, and for staff retention with methods to encourage staff to remain in MoFEC.
Outcomes	A People Strategy on staffing is developed and the ministry is fully and sustainably staffed with people of the right mix of skills and experience.
Links between actions	This links to staffing/capacity building in other directorates. Actions 32.1 and 32.2 are to be finalised prior to Action 32.5.

O2. Capacity of MoFEC-facing staff in public bodies

Overview	The aim of this set of actions is to ensure that MoFEC-facing staff in public bodies are trained and qualified to present high quality reports on finances and performance to MoFEC.
Why this is a priority	MoFEC relies on staff in public bodies to provide reliable information and reports on finances and performance. Having very junior, inexperienced and/or untrained counterparts in public bodies causes quality issues for MoFEC and is causing MoFEC to invest a significant amount of time on training new staff in these public bodies.
Research plan	***O2.1 Assess public body capacity gaps (3 months)*** Assess what is required in terms of the standards of reporting to MoFEC, the size of the capacity gap among MoFEC-facing staff in public bodies, and the process by which the public bodies themselves currently train their MoFEC-facing staff. ***O2.2 Review responsibilities and incentives for public body performance (3 months)*** The organisational structure should be reviewed with regard to the existing incentives of the management of public bodies to take responsibility for providing high quality information to MoFEC and for training their own staff for this purpose. ***O2.3 Develop strategy to sustainably close the capacity gap in public bodies (9 months)*** This strategy should consider changes to the incentives structure around reporting to MoFEC and raising the importance of high quality reporting to the management of public bodies. This may include withholding a portion of budget to line ministries if reporting and financial accountability are unsatisfactory.
Outcomes	Higher quality financial management and reporting to MoFEC by public bodies.

5. Existing literature

This section provides an overview of the studies and academic papers that have been consulted with regard to fiscal policy in Ethiopia. The full reference can be found in the bibliography section of this report.

The resources listed in the table below include the government's 5 year development strategy and international organisations' views on general socio-economic conditions:

Topic	Reference
Government 5 year development strategy	GoE, National Planning Commission (2016). Growth and Transformation Plan II (2015/16-2019/20).
IMF's assessment of Ethiopia's economic health	IMF, (2016). Federal Democratic Republic of Ethiopia (FDRE), 2016 Article IV Consultation.
Poverty assessment	World Bank Group (2015). Ethiopia Poverty Assessment 2014.
Equity situation analysis on children and women	UNICEF (2015). Updated National Equity Situation Analysis on Children and Women in Ethiopia.
Child well-being	UNICEF (2015). Child Well-Being in Ethiopia: Analysis of Child Poverty Using the HCE/WMS 2011 Datasets.

With regard to taxation, the following studies deal with distributional effects and incidence of taxes:

Topic	Reference
Redistributive effects of taxation	Hirvonen, K., Mascagni, G. and Roelen, K. (2017). Linking Taxation and Social Protection: Evidence on Redistribution and Poverty Reduction in Ethiopia.
Corporate tax burden	Mascagn, G.i and Mengistu, A. (2016). The Corporate Tax Burden in Ethiopia: Evidence from Anonymised Tax Returns.
Tax incidence	Hill, et al. (2017). Fiscal incidence analysis for Ethiopia.
Tax benefit microsimulation	Mengistu, et al. (2015) Tax–benefit microsimulation: Feasibility study in Ethiopia.

The below papers cover taxpayers' perspectives of taxation:

Topic	Reference
Taxpayer compliance costs and taxpayers perceptions	World Bank Group (2015b). Tax Compliance Cost Burden and Tax Perceptions Survey in Ethiopia.
Doing Business profile report for Ethiopia	World Bank Group (2017). Doing Business Economy Profile 2017.
Business' perception of paying taxes	Yesegat and Fjeldstad (2016). Business people's view of paying taxes in Ethiopia.
Firms' perspectives on VAT	Gebresilasse and Sow (2015). Firm Response to VAT Policy: Evidence From Ethiopia.

Further studies on specific taxes include those listed in the table below. We understand that further studies have been completed but we were unable to access these (e.g. a study on tax potential by Adam Smith International; a study on VAT and the overall tax system by ICTD; and a study commissioned by AA BoFED on taxation of immobile property).

Topic	Reference
VAT withholding	Yesegat (2016). Value Added Tax withholding in Ethiopia: Implications for revenue performance and refund (Preliminary findings).
VAT and development	Gashaw (2015). Tax Reform Discourse and Its Implications on Development: Evidence from the VAT Introduction in Ethiopia.
Property tax	Goodfellow. (2015). Taxing the Urban Boom: Property Taxation and Land Leasing in Kigali and Addis Ababa.
Environmental tax	Fitiwi (2013). The Need for Environmental Tax in Ethiopia: Economic Analysis of Law.
Trade taxes	Gebreyesus, M. and Kebede, A. (2017). Ethiopia's export promotion and the misalignment of the tariff and exchange rate regimes.
Tax incentives	Gebreyesus and Demile (2017). Why export promotion efforts failed to deliver? Assessment of the export incentives and their implementation in Ethiopia.
Tax incentives	Gebreeyesus et al. (2016). Foreign Direct Investment in Ethiopia: Challenges Opportunities and Policy Options for Effective Use to Stimulate Industrialization.

With regard to budgeting and public expenditure management, the following sources contain reviews of public expenditures and public financial management, and the budgeting system, a gender gap analysis and a paper on subsidies/pricing policies:

Topic	Reference
World Bank Group review of public expenditures	World Bank (2016b). Ethiopia Public Expenditure Review. World Bank, Washington DC.
World Bank review of public financial management performance	World Bank (2015). PEFA Report
Gender and PFM	UNWOMEN (2017). Gender Gap Analysis of the Public Finance Management System of Ethiopia.
Budgeting system	Moreda (2015). Budgeting System in Ethiopia: Program Budget System
Pricing policies	Tefera, et al. (2012). Implications of Oil Price Shocks and Subsidizing Oil Prices to the Ethiopian Economy: A CGE Analysis.

The following studies have been conducted to measure the effects of decentralisation:

Topic	Reference
World Bank evaluation of MDG Specific purpose grants	Ayane, et al. (2016). Ethiopia – Evaluation of MDGs specific purpose grant to regions.
Decentralisation and basic services	Khan et al. (2014). Improving basic services for the bottom forty percent: lessons from Ethiopia.
Decentralisation and basic services	Garcia and Rajkumar (2008). Achieving Better Service Delivery through Decentralization in Ethiopia.

With regard to debt management and PPPs, the below documents were identified:

Topic	Reference
Ethiopia’s debt management strategy	Ministry of Finance and Economic Development (2012). Ethiopia's Medium Term Debt Management Strategy (2013-2017).
IMF debt sustainability analysis	IMF (2016b)Staff report for the 2016 Article IV Consultation – Debt Sustainability AnalysisDebt sustainability analysis.
Debt market in Ethiopia	Kannan and Ejiguh (2013). Establishing secondary market in Ethiopia: Benefits and costs study.
PPPs	UNDP (2015). Prospects of Public-private Partnership (PPP) in Ethiopia.

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Gebresilasse, M. and Sow, S. (2015) Firm Response to VAT Policy: Evidence From Ethiopia. Working Paper. http://www.columbia.edu/~ss3721/VATPaper.pdf

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Goodfellow, T. (2015). Taxing the Urban Boom: Property Taxation and Land Leasing in Kigali and Addis Ababa. ICTD Working Paper

Government of Ethiopia (GoE) (2015). Ethiopia's Climate-Resilient Green Economy: Green Economy Strategy.

Hill, R., Inchauste, G., Lustig, N., Tsehaye, E. and Woldehanna, T. (2017).Fiscal Incidence

Analysis for Ethiopia. In The Distributional Impact of Taxes and Transfers: Evidence from Eight Low-and Middle-Income Countries,edited by Gabriela Inchauste and Nora Lustig. World Bank, Washington DC

Hirvonen, K., Mascagni, G. and Roelen, K. (2017). "Linking Taxation and Social Protection: Evidence on Redistribution and Poverty Reduction in Ethiopia", IDS, ICTD Working Paper 61, http://www.ids.ac.uk/publication/linking-taxation-and-social-protection-evidence-on-redistribution-and-poverty-reduction-in-ethiopia

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Appendix 1: Full Roadmap of actions required to address capability gaps

<table>
<tr><th colspan="2">Topic/action</th><th colspan="4">Year 1</th><th colspan="4">Year 2</th><th colspan="4">Year 3</th></tr>
<tr><th colspan="2"></th><th>Q1</th><th>Q2</th><th>Q3</th><th>Q4</th><th>Q1</th><th>Q2</th><th>Q3</th><th>Q4</th><th>Q1</th><th>Q2</th><th>Q3</th><th>Q4</th></tr>
<tr><td rowspan="10">Macro-fiscal policy and macroeconomic management</td><td>M1. Modelling and forecasting</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>M1.1 Review distribution of forecasting capabilities across government</td><td>Tender</td><td>Action</td><td>Review</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>M1.2 Build capabilities in economic forecasting</td><td></td><td></td><td>Tender</td><td colspan="4">Action</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>M1.3 Build/augment forecasting models</td><td></td><td></td><td></td><td></td><td>Tender</td><td colspan="3">Action</td><td></td><td></td><td></td><td></td></tr>
<tr><td>M1.4 Research and model for fiscal deficit limit</td><td></td><td></td><td></td><td></td><td></td><td></td><td>Tender</td><td colspan="2">Action</td><td></td><td></td><td></td></tr>
<tr><td>M2 Fiscal risks</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>M2.1 Initial research into material fiscal risks</td><td></td><td>Tender</td><td colspan="3">Action</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>M2.2 Review of how fiscal risks are reported across government</td><td></td><td></td><td></td><td></td><td>Tender</td><td colspan="2">Action</td><td>Review</td><td></td><td></td><td></td><td></td></tr>
<tr><td>M2.3 Fiscal stress tests and probabilistic tools</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>Tender</td><td colspan="4">Action</td></tr>
<tr><td rowspan="23">Taxation</td><td>T1. Review of coordination between MoFEC and ERCA</td><td>Tender</td><td colspan="2">Action</td><td colspan="2">(Action)</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>T2. Reviewing tax incentives regime</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>T2.1 Coordinate tax expenditure studies currently underway</td><td colspan="2">Action</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>T2.2 Possible follow-up work on tax expenditures, including public consultation</td><td></td><td colspan="3">(Action)</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>T2.3 Tax expenditure budgeting</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>Action</td><td></td><td></td><td></td><td></td></tr>
<tr><td>T3. Understanding the tax system and its impacts</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>T3.1 Initial study into the coherence of the overall tax system</td><td></td><td>Tender</td><td colspan="2">Action</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>T3.2 Build/augment tax models and modelling capability</td><td></td><td></td><td></td><td></td><td>Tender</td><td colspan="4">Action</td><td></td><td></td><td></td></tr>
<tr><td>T3.3 Build analysis skills through analysis of tax incidence and equity outcomes and apply across all key taxes</td><td></td><td></td><td>Tender</td><td colspan="3">Action</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>T3.4 Review studies on taxpayer compliance costs and potentially follow up with additional analysis</td><td></td><td></td><td></td><td></td><td>Action</td><td colspan="3">(Action)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>T3.5 Build and apply models to estimate tax potential of all major taxes</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>Tender</td><td colspan="3">Action</td></tr>
<tr><td>T4. Presumptive income tax</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>T4.1 Review presumptive income tax settings</td><td>Tender</td><td>Action</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>T4.2 Implement and communicate new settings</td><td></td><td></td><td colspan="3">Action</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>T5. Property taxation</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>T5.1 Research potential enhancement of property taxation</td><td></td><td></td><td></td><td></td><td></td><td>Tender</td><td colspan="2">Action</td><td>Review</td><td colspan="3">(Action)</td></tr>
<tr><td>T6. Study on stamp duties and fees</td><td></td><td></td><td></td><td></td><td>Tender</td><td colspan="2">Action</td><td>Review</td><td></td><td></td><td></td><td></td></tr>
<tr><td>T7. Training on double taxation agreement (DTA)</td><td>Tender</td><td colspan="2">Action</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>T8. Taxpayer education</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>T8.1 Investigate best practices around secondary school level taxpayer education</td><td></td><td></td><td>Tender</td><td>Action</td><td>Review</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>T8.2 Initiate process to introduce taxpayer education into the curriculum</td><td></td><td></td><td></td><td></td><td>Tender</td><td colspan="4">(Action)</td><td></td><td></td><td></td></tr>
<tr><td>T8.3 Introduce courses on international taxation in higher education curricula</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>Tender</td><td>Action</td><td></td><td></td><td></td></tr>
</table>

v

Budget planning and preparation	**B1. Effectiveness and efficiency of national public spending**												
	B1.1 Assess capability required to effectively scrutinise spending	Tender	Action										
	B1.2 Evaluate programme budgeting		Tender	Action	Review								
	B1.3 Build the required staff capacity				Tender	(Action)							
	B1.4 Refine reporting requirements and spending approvals process						Tender	(Action)					
	B2. Review pricing policies (explicit and implicit subsidies)			Tender	Action		(Action)						
	B3. Effectiveness and efficiency of decentralised govt. spending												
	B3.1 Review reporting requirements of local governments to MoFEC		Tender	Action									
	B3.2 Assess budget allocation process with respect to GTP II objectives				Tender	Action		(Action)					
	B4. Public infrastructure												
	B4.1 Review capability req. to understand public infrastructure needs/costs		Tender	Action		Review							
	B4.2 Enhance capability/establish new public infrastructure unit					Tender	(Action)						
	B4.3 Prepare initial national infrastructure plan								Tender	Action			
	B5. Public consultation and transparency												
	B5.1 Assess gaps in public access and feedback in budget preparation					Tender	Action		Review				
	B5.2 Strengthen the public engagement and consultation system around budget								Tender	Action			
	B6. Intergovernmental transfer system												
	B6.1 Review of tranfers from federal to regional governments				Tender	Action							
	B6.2 Review of tranfer system from regional to local governments							Action					
Financial controls, accounting and audit	**F1 IPSAS implementation**												
	F1.1 Training programme to fill immediate IPSAS knowledge gaps	Tender	Action										
	F1.2 Develop a training and certification programme			Tender		Action							
	F1.3 Rollout training programme across public service professionals							Tender	Action				
	F2 IFMIS implementation												
	F2.1 Review of conceptual design of IFMIS		Tender	Action									
	F2.2 Training and technical assistance for staff on IFMIS implementation					Tender	Action						
	F3 Monitoring of follow-up mechanisms regarding audit findings									Action			
Debt management	**D1. Development of the domestic debt market**												
	D1.1 Research best practice for development of domestic debt market	Tender		Action									
	D1.2 Develop implementation plan for the domestic debt market				Tender	Action			Review	(Action)			
	D2. Preparation for negotiations with commercial creditors												
	D2.1 Hire and/or train staff to support commercial negotiations		Tender	Action									
	D2.2 Development of a negotiation strategy						Action						
	D3. Build debt sustainability analysis capability					Tender	Action						
Public private partnerships and public procurement	**P1 Study on PPP risk mitigation**												
	P1.1 Review the risks associated with PPP's and mitigation measures	Tender	Action										
	P1.2 Revise accounting standards to ensure appropriate recording of PPP liabilities		Tender	Action									
	P2 Review of how public sector procurement law is applied in practice					Tender	Action		(Action)				
	P3 Understanding the impact of existing fiscal policy on the private sector												
	P3.1 Initial research and development of discussion document					Tender	Action			Review			
	P3.2 Engagement programme with private sector									Tender	Action		
	P3.3 Prepare policy paper for consideration by MoFEC/Ministers											Tender	Action

Legal services	**L1. Legal services**												
	L1. Enhancement of legal drafting skills		Tender	Action									
Organisation and staffing	**O1. MoFEC staff retention**												
	O1. MoFEC staff retention	Action											
	O1.2 Assess skills and training needs across MoFEC as per this research agenda			Action									
	O1.3 Develop a People Strategy to build staff capacity and attract and retain new staff			Tender	Action		Review	(Action)					
	O2. Capacity of MoFEC-facing staff in public bodies												
	O2.1 Assess public body capacity gaps				Action								
	O2.2 Review responsibilities and incentives for PB performance				Tender	Action							
	O2.3 Develop strategy to sustainably close the capacity gap in public					Tender	Action		Review	(Action)			

Additional Actions

Taxation

T9. VAT optimisation study

T10. Study on customs and excise tax regime

T11. Tax evasion and avoidance

T11.1 Research project to understand potential compliance issues of cross-border transactions

T11.2 Taxation of high net worth individuals (HNWIs)

T11.3 Study on the potential losses from transfer pricing in Ethiopia

Budget planning and preparation

B7. Fiscal policy impacts on climate resilient green economy growth

B8. Coordinate household and other surveys to ensure consistent of age and gender disaggregated data

Financial Controls, accounting and audit

F4. Treasury functions

F4.1 Assessment of best practice of treasury functions

F4.2 Experience sharing missions to best practice countries in the region

Appendix 2: List of meetings/interviews

The following informational and stakeholder interviews were conducted during the course of the project:

Date	Interviewee	Issues discussed
London, 27 September (via phone to Paris)	OECD Fiscal policy/social protection expert	Background and context on socio-economic issues and fiscal policy in Ethiopia
London, 27 September (via phone to Brighton)	International Centre for Tax and Development (ICTD) /Ethiopia Tax Policy Research Centre	ICTD work in Ethiopia; recent tax policy issues; donor activities in the tax space
London, 28 September	Institute for Fiscal Studies (IFS)/ TAXDEV Ethiopia	Background on IFS TAXDEV work with Ethiopia
Addis Ababa, 2 October	UNICEF	Priorities and scope, specific issues, approach to interviews
Addis Ababa, 2 October	MoFEC Fiscal Policy Directorate	Role of the Fiscal Policy Directorate and organizational structure of MoFEC; review of our meeting agenda and focus areas; capability gaps; objectives and goals of the ministry
Addis Ababa, 2 October	MoFEC Tax Policy Directorate	Role and structure of the directorate; capability needs and skills requirements; potential research priorities areas and future revenue sources; organizational change
Addis Ababa, 2 October	MoFEC Budget Directorate	Role of the directorate; budget process/budget cycle; methods for forecasting expenditure requirements; effectiveness of budget ceilings; review of budget requests; contingency and supplementary budgets; staffing; monitoring and evaluation; program budgeting
Addis Ababa, 2 October	UNWomen, UNDP	Human development context and trajectory; PFM context and donor activities; block grants; gender responsive budgeting; participatory planning and budgeting; further pressing issues
Addis Ababa, 3 October	MoFEC Expenditure Management and Control Program (EMCP)	Role; past, present and planned reforms; challenges and capacity needs
Addis Ababa, 3 October	MoFEC Treasury Directorate and Accounts Directorate	Role of accounts; role of treasury; capacity gaps and obstacles
Addis Ababa, 3 October	MoFEC Inspection Directorate	Role; internal audits of public bodies; reports; content of different audits; main audit findings; capacity gaps
Addis Ababa, 3 October	MoFEC Debt Management Directorate	Staff and organization; functions of domestic, external and data analysis teams; relations with central bank; domestic resource mobilization and bond market; risks and debt sustainability analysis; commercial loan negotiations
Addis Ababa, 3 October	MoFEC International Financial Institutions Directorate	Relations with donors; public investment projects

Date	Interviewee	Issues discussed
Addis Ababa, 4 October	Ethiopia Revenue and Customs Authority (ERCA)	Role of the tax administration, especially regarding policy; tax assignment between levels of government; tax transformation office; customs; VAT; research; tax compliance risk management strategies; e-filing and e-declaration issues; tax data quality; tax gap
Addis Ababa, 4 October	Department for International Development (DFID)	Public finance working group activities in Ethiopia; IFMIS implementation; DFID involvement via ICTD, with ERCA via HRMC/McKinsey; PM delivery unit; OFAG
Addis Ababa, 4 October	Ethiopia Investment Commission	Tax incentives, public investment and capital projects
Addis Ababa, 5 October	Ethiopian Chamber of Commerce	Role; public-private dialogues; issues presented; subsidies and private investment
Addis Ababa, 5 October	Office of the Federal Auditor General (OFAG)	Role of OFAG; types of audits; reporting lines; content and frequency of performance audits; selection of audit subjects; relations to MoFEC; subsidies
Addis Ababa, 5 October	Public Procurement and Property Management Agency	Role; property management; complaint handling; inventories and overview of public assets; e-procurement; relations to MoFEC; capacity gaps
Addis Ababa, 5 October	National Planning Commission	Role of the NPC and organizational structure; government priority areas; potential challenges; planned research; monitoring and planning; relations with regional governments; capacity gaps
Addis Ababa, 6 October	Ethiopian Development Research Institute	Fiscal policy research conducted; process for research requests; data issues; interaction between monetary policy and fiscal policy; subsidies; public investment
Addis Ababa, 6 October	World Bank	Development partner activities in the PFM space; research issues; transparency; and donor funding opportunities
Addis Ababa, 6 October	Debrief with UNICEF/ MoFEC	Review of the week and preliminary findings
Addis Ababa, 6 October	AA BoFED	Local revenue; local tax instruments; collection and rate setting functions; property taxation
Addis Ababa, 6 October	MoFEC CRGE	Translation of green growth objectives into the budget; assessment of tax incentives
London, 12 October (via phone to Addis)	ERCA Tax Transformation Office	Purpose and history of the Tax Transformation Office; work programme; mapping of technical assistance in the tax area.

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