Financing Social Protection in Ethiopia: A Long-term Perspective

By Kefyalew Endale, Alexander Pick and Tassew Woldehanna
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Abstract

Social protection is at the centre of Ethiopia’s development policy. It is instrumental in reducing poverty and increasing the resilience of the population. The Government of Ethiopia (GoE) has published a new set of policy frameworks for social protection that envisage the expansion of social protection to cover a greater proportion of Ethiopians against a broader range of risks, and that call for social protection to be increasingly financed from domestic sources rather than by donors. A financing strategy for the implementation of this vision has been identified as a priority by the GoE. This study responds to this requirement. It provides a comprehensive mapping of social protection spending across the five focus areas of the national social protection policy and analyses the fiscal space available for different spending scenarios up to 2025/26. The study focuses on two issues in particular: the role of donor financing for social protection and the relationship between humanitarian relief and social protection spending.
Preface

Social protection is at the heart of Ethiopia’s recent economic and social success. At the same time as Ethiopia’s economy has registered one of the strongest long-term growth rates globally, it has established one of the largest social protection systems in Africa. With strong support from international development partners, it has implemented programmes such as the Productive Safety Net Programme and Community-Based Health Insurance that have succeeded not only in reducing poverty but also in improving access to basic services, thereby promoting long-term gains in human capital.

The National Social Protection Policy of 2014, together with the accompanying strategy (NSPS) and action plan, outline a long-term vision for social protection based on two critical objectives. First, that social protection be scaled up to cover a larger proportion of the population against a broader range of risks. Second, that domestic sources finance a greater proportion of spending. This latter objective reflects the fact that donor support for social protection – as for Ethiopia as a whole – is declining relative to other sources of revenue as the country nears its goal of achieving middle-income status.

This study responds directly to a need identified by the NSPS to analyse options for the long-term financing of social protection in Ethiopia. It is a collaboration between Ethiopia’s Ministry of Labour and Social Affairs, the OECD Development Centre and the Ethiopian Development Research Institute carried out as part of the European Union Social Protection Systems Programme. It also benefited from extensive collaboration with government ministries and agencies responsible for social protection in Ethiopia, the Ministry of Finance Economic Cooperation and the National Planning Commission, as well as development partners and civil society organisations.

Thanks to this collaboration, this landmark study was able to map social protection spending in Ethiopia by programme at both a national and regional level. This mapping includes spending on humanitarian relief; as such, it not only quantifies expenditure on short-term relief and long-term developmental programmes respectively but also demonstrates the potential for transitioning from one source of finance to the other. This study provides a range of scenarios for social protection spending based on a range of different macroeconomic variables. It also assesses the feasibility of Ethiopia becoming self-reliant in social protection spending by 2025/26.
In these ways, this study helps inform the planning of Ethiopia’s social protection policy makers and of development partners as each look to ensure the long-term sustainability and impact of this critical area of public policy. Furthermore, it serves as an example for other countries that currently rely on donor support for social protection as they look to transition away from donor financing and serves as a case study for the nexus between humanitarian relief and developmental programmes.

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## Abbreviations and acronyms

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<td>AGP</td>
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<tr>
<td>BoFED</td>
<td>Bureau of Finance and Economic Development, Ethiopia</td>
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<td>CBHI</td>
<td>Community-based health insurance</td>
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<td>CDC</td>
<td>Centers for Disease Control and Prevention, United States</td>
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<td>CIT</td>
<td>Corporate income tax</td>
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<td>ERCA</td>
<td>Ethiopian Revenue and Customs Authority, Ethiopia</td>
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<td>ETB</td>
<td>Ethiopian Birr</td>
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<tr>
<td>FeSMEDA</td>
<td>Federal Small and Micro Enterprise Development Agency, Ethiopia</td>
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<tr>
<td>FHAPCO</td>
<td>Federal HIV/AIDS Prevention and Control, Ethiopia</td>
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<td>GEQIP</td>
<td>General Education Quality Improvement Programme, Ethiopia</td>
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<td>GoE</td>
<td>Government of Ethiopia</td>
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<td>GTP I</td>
<td>First Growth and Transformation Plan, Ethiopia</td>
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<td>GTP II</td>
<td>Second Growth and Transformation Plan, Ethiopia</td>
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<tr>
<td>IDA</td>
<td>International Development Association</td>
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<tr>
<td>MoANR</td>
<td>Ministry of Agriculture and Natural Resources, Ethiopia</td>
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<tr>
<td>MoE</td>
<td>Ministry of Education, Ethiopia</td>
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<tr>
<td>MoFEC</td>
<td>Ministry of Finance and Economic Cooperation, Ethiopia</td>
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<td>MoH</td>
<td>Ministry of Health, Ethiopia</td>
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<tr>
<td>MoLSA</td>
<td>Ministry of Labour and Social Affairs, Ethiopia</td>
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<tr>
<td>MoUDH</td>
<td>Ministry of Urban Development and Housing, Ethiopia</td>
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<tr>
<td>MWCA</td>
<td>Ministry of Women and Children Affairs, Ethiopia</td>
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<td>NDRMC</td>
<td>National Disaster Risk Management Commission, Ethiopia</td>
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<td>NSPP</td>
<td>National Social Protection Policy, Ethiopia</td>
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<tr>
<td>NSPS</td>
<td>National Social Protection Strategy, Ethiopia</td>
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<tr>
<td>PBS</td>
<td>Promotion of Basic Services Programme, Ethiopia</td>
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<td>PIT</td>
<td>Personal income tax</td>
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<tr>
<td>PSNP</td>
<td>Productive Safety Net Programme, Ethiopia</td>
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<tr>
<td>PWP</td>
<td>Public works programmes</td>
</tr>
<tr>
<td>Acronym</td>
<td>Description</td>
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<td>--------------------------------------------</td>
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<tr>
<td>RPSNP</td>
<td>Rural Productive Safety Net Programme, Ethiopia</td>
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<td>SLMP</td>
<td>Sustainable Land Management Programme, Ethiopia</td>
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<tr>
<td>UNICEF</td>
<td>United Nations Children’s Fund</td>
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<tr>
<td>UPSNP</td>
<td>Urban Productive Safety Net Programme, Ethiopia</td>
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<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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<tr>
<td>VAT</td>
<td>Value-added tax</td>
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<td>WFP</td>
<td>World Food Programme</td>
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Executive summary

Social protection has played a key role in Ethiopia’s dramatic reduction in poverty in recent years and is a critical component of the country’s long-term development strategy, as articulated in the second Growth and Transformation Plan. A National Social Protection Policy (NSPP) and accompanying strategy have charted a significant expansion of social protection to cover a larger proportion of the population against a wider range of risks, thereby ensuring that Ethiopia’s strong economic performance is accompanied by a sustained reduction in poverty and vulnerability.

Central to the challenge of expanding social protection is identifying adequate and sustainable financing. Ethiopia has received strong support from the international community in developing a social protection system, particularly its flagship Productive Safety Net Programme (PSNP), which has replaced humanitarian relief with sustainable, predictable support for households in perpetually food-insecure areas.

The Government of Ethiopia (GoE) will not depend on donor support in the future. Official development assistance to Ethiopia has declined significantly relative to the country’s gross domestic product (GDP), from 20% in 2007 to 3% in 2016. As Ethiopia nears its objective of attaining middle-income status by 2025, this decline will continue. As a consequence, the NSPP commits not only to scaling up spending but also to financing an increasing proportion of this expenditure from domestic sources.

The National Social Protection Strategy (NSPS) identifies the need to analyse how these twin objectives can be achieved. It calls for a scoping of existing social protection provision and for a forward-looking analysis of financing options for the NSPS. This study, carried out in collaboration with the Ministry of Labour and Social Affairs and with the support of the broader GoE, responds directly to the needs of the NSPS.

The mapping of social protection is aligned to the five focus areas of the NSPP: (i) productive safety nets; (ii) employment promotion and livelihood support; (iii) social insurance; (iv) access to basic services; and (v) addressing abuse, violence and exploitation. It identifies historic spending trends as well as planned future expenditure, drawing on official data from the federal government, including ministries and agencies active in social protection as well as the Ministry of Finance and Economic Cooperation.

Focus Area 1 accounted for 71.4% of social protection spending between 2012/13 and 2015/16. This includes both the Rural PSNP and the new Urban PSNP. It also includes humanitarian relief (also known as emergency assistance), which increased sharply in 2015/16 as a result of a severe drought in that year. Donor support for both the Rural and Urban PSNPs as well as for humanitarian relief means that Focus Area 1 is financed predominantly by external sources, although it is worth noting that the Government of Ethiopia (GoE) has increased its financing over this timeframe.

The other focus areas account for a much smaller proportion of social protection spending. Focus Area 4, which looks to enhance equitable access to health, education and
other social services, is the next largest focus area (accounting for 13.2% of social protection spending), followed by Focus Area 3, to promote social insurance (9.0%).

Overall, social protection spending has grown in real terms, as a proportion of total government spending and relative to GDP in recent years. Between 2012/13 and 2015/16, spending was equivalent to 2.8% of GDP on average; the severe drought in 2015/16 increased social protection spending (including humanitarian relief) to 3.4% of GDP. In 2015/16, donors financed 60% of social protection spending, the federal government 20%, regional governments 15% and contributory schemes 10%.

Looking ahead, it will be a challenge for the fiscal framework to maintain social protection spending at recent levels. Public revenues have struggled to keep pace with economic growth: total government revenues declined to 16.0% in 2015/16, far short of GoE targets. Although greater domestic resource mobilisation is critical, the GoE must be mindful of the impact of higher taxation on poor and vulnerable groups.

Non-tax revenues and, especially, foreign borrowing have helped the GoE to fill the financing gap created by the decline in grants. Nonetheless, these financial constraints have resulted in muted expenditure growth; public expenditure rose only slightly between 2010/11 and 2015/16 as a proportion of GDP, to 18.4%. Poverty-targeted spending was equivalent to 12% of GDP on average over this period, with education and roads accounting for almost two-thirds of this expenditure.

The need for continued investment in social protection is clear. Although the poverty rate declined from 44.2% in 1999/2000 to 23.5% in 2015/16, some 21 million individuals remained in poverty in 2015/16. Social protection (particularly the PSNP) has proven extremely effective at reducing poverty. Moreover, social protection is part of a public policy response to long-term challenges, such as climate change and population ageing.

A much slower withdrawal of donor support than is modelled in this study will be required to ensure the sustainability of the present social protection system. A long-term financing strategy for the implementation of the NSPS should take into account future constraints and devise systems to ensure funds are reprioritised between programmes to optimise resources. Incorporating a financing component within the social protection system envisaged by the GoE will be essential in this regard.

Excluding humanitarian relief from social protection significantly reduces the aggregate spending figure. Average spending over the period 2012/13 to 2015/16 excluding humanitarian relief was steady at around 1.4% of GDP. However, this study advocates for considering humanitarian relief and social protection together. Ethiopia has demonstrated the benefits of moving away from humanitarian relief towards predictable, sustained and developmental programmes in chronically food-insecure areas. Evidence is emerging that such an approach can lead to savings worth billions of US dollars over the long term, and might thus serve as a critical source of fiscal space for an expansion of social protection that enhances the population’s resilience to shocks. The NSPS identifies scale-up safety nets as an important component of the future social protection system; it is intuitive that this instrument would replace (to a certain extent) humanitarian relief.

Continued growth in contributory rather than tax-financed social protection schemes would also make social protection more affordable. However, high levels of informality militate against universal coverage of social insurance. Moreover, the risks covered by social assistance and by social insurance do not overlap significantly; large portions of the population have access to neither.
Introduction

The Government of Ethiopia (GoE) defines social protection as “a set of formal and informal interventions that aim to reduce social and economic risks, vulnerabilities and deprivations from all people and facilitates equitable growth” (MoLSA, 2016[1]). Article 41 of the 1995 constitution codifies the right to social protection, including access to an adequate standard of living; special care for children and women; rehabilitation for disadvantaged groups such as orphans and people with physical and mental disabilities; and better employment opportunities and unemployment benefits for unemployed and underemployed individuals.

Social protection has been an integral component of poverty-reduction and development strategies over the past 15 years. These include the first and second Growth and Transformation Plans, which serve as the overarching strategies for the GoE. The second Growth and Transformation Plan (GTP II), which covers the period 2016-20, identifies social protection as the principal mechanism for enhancing social welfare and promoting employment. It also calls for the expansion of social protection to people with disabilities and the elderly as well as for a scaling-up of employment and labour-market services (National Planning Commission, 2016[2]).

With strong support from across government and donors, Ethiopia has made significant progress in expanding social protection (Kiringai et al., 2016[3]). Most notably, it has reformed the system of humanitarian relief into the more predictable PSNP since 2005. The PSNP is now one of the largest social assistance programmes by coverage in Africa (World Bank, 2015[4]).

In recent years, the GoE has endorsed a number of key policy frameworks for social protection that chart a way forward for the sector. These include the NSPP in 2014, the NSPS in 2016 and an Action Plan for the implementation of the NSPS in 2017. These frameworks are based on five focus areas for social protection: promote productive safety nets; promote employment opportunities and improve livelihoods; promote social insurance; increase access to health, education and other social services; and address violence, abuse and exploitation and provide legal protection and support.

To realise the long-term vision for social protection in Ethiopia articulated in these frameworks will have significant financial implications. The NSPS envisages an expansion in the coverage of social protection as well as an improvement in the quality of services. At the same time, the GoE has pledged to finance social protection from domestic sources, thereby ending its long-term reliance on official development assistance (ODA). This objective is consistent with a target of achieving middle-income status by 2025, at which point Ethiopia’s access to ODA is likely to diminish.

The GoE, therefore, faces a double challenge: to increase spending on social protection while assuming greater responsibility for financing the sector through domestic sources of revenue. The NSPS identifies the need for a financing strategy for implementing the
NSPP, calling for a stock-take of existing investment along the five focus areas and a forecast of the resources for social protection from different financing instruments.

This study seeks to respond to this requirement. Chapter 1 maps spending on each programme within each focus area over the past five years and includes new policies such as the Urban PSNP (launched in 2017) and Community-Based Health Insurance. It disaggregates this spending by source of financing: national and regional governments, contributory schemes and external support. The inclusion of regional spending data is a key innovation and represents an important way in which this report builds on the World Bank’s recent public expenditure review of social spending (Kiringai et al., 2016[3]).

Based on this information on spending by focus area, the study calculates an overall figure for social protection spending in absolute terms and relative to other key benchmarks such as gross domestic product and government revenues. It also shows the proportion of spending by source of financing and identifies trends both in spending and financing over the past five years. Two overall spending figures are provided, one of which includes humanitarian relief (emergency assistance) and one which does not.

Chapter 2 examines GoE’s fiscal framework for the period from 2007/08 to 2015/16. It outlines Ethiopia’s broader macrofiscal context, including a specific focus on recent progress in reducing poverty, and locates social protection spending within the GoE’s overall budget framework to identify its pace of growth relative to other areas of spending. In addition, it examines Ethiopia’s revenue and debt dynamics. The overall objective to provide a sense of the fiscal space for increased spending in general – and on social protection in particular – in the future.

Combining analysis of expenditure, revenues and debt allows for the identification of fiscal space that might be available to the GoE in the future to scale up social protection. Moreover, understanding the structure of public revenues, and taxes in particular, is important for assessing the extent to which increases in taxation, intended to finance social protection or to offset the expected decline in ODA more broadly, might place a burden on poor households and force them further into poverty.

Chapter 3 combines the mapping exercise in Chapter 1 with the fiscal analysis in Chapter 2 to project social protection spending to 2025. It generates medium- and long-term scenarios for key macrofiscal indicators such as economic growth, public revenues and spending that it overlays with different scenarios for social protection spending to show how these variables interact and their implications for the affordability of social protection. Finally, it explores how the GoE would need to scale up its own financing for social protection under different scenarios in a context where donor support for the sector gradually declines to zero. Chapter 4 concludes by summarising the key findings from the study and proposes possible policy responses by the GoE and development partners.

Data for this study was mainly gathered from federal ministry offices and regional bureaus. Fieldworkers travelled to Addis Ababa, Amhara, Oromia, SNNP, Tigray, Dire Dawa, Somali and Benishangul Gumuz to acquire regional data but did not visit three smaller regions (Afar, Gambela and Hareri) which accounted for 2.7% of the population in the 2007 census. Due to data constraints, the social protection activities of numerous charities and societies as well as the activities of the traditional support mechanisms such as idirs (community networks for the elderly) are not included.
References


1. Mapping social protection spending

The Government of Ethiopia (GoE) defines social protection as part of a policy framework for the reduction of poverty, social and economic risk, vulnerability and exclusion through formal and informal mechanisms. The National Social Protection Policy (NSPP) comprises five focus areas: promote productive safety nets; promote employment opportunities and improve livelihoods; promote social insurance; increase access to health, education and other social services; and address violence, abuse and exploitation and providing legal protection and support (Ministry of Labour and Social Affairs, Ethiopia, 2014[1]).

Table 1.1 identifies the principal social protection instruments in each focus area. For instance, cash transfers, public works and scale-up mechanisms for disaster response are the key instruments of Focus Area 1, while contributory arrangements include pensions, health insurance and climate insurance are contained in Focus Area 3. This chapter examines social protection on a programme-level basis for each focus area, providing data on coverage, annual programme expenditure and sources of financing.

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<td>a) Technical support to on and off-farm livelihoods</td>
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<td>b) Conditional social transfers</td>
<td>b) Employment services and standards</td>
<td>b) Index-linked weather insurance</td>
<td>b) Health fee waivers and health insurance subsidies</td>
<td>b) Care for people living outside protective family environments</td>
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<td>c) Public works</td>
<td>c) Financial services</td>
<td>c) Life insurance</td>
<td>c) Establishment of a social work system</td>
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<tr>
<td>d) Scale-up mechanisms for disaster response</td>
<td>d) Community-based health insurance</td>
<td>d) Services for PWDs</td>
<td>d) Support to survivors of abuse and exploitation</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>e) School feeding</td>
<td>e) Drop-in centres and hotline</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>f) Establishment of a network of specialised service providers</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from MoLSA.

For the purposes of this report, humanitarian relief (also termed emergency assistance) is included within Focus Area 1. This reflects clear overlaps and complementarities between humanitarian relief and the safety nets envisaged in Focus Area 1, although the NSPP
does not classify emergency assistance as social protection and humanitarian relief is implemented by a different set of role players within the GoE and the international community.

A key rationale for the Productive Safety Net Programme (PSNP) was to replace humanitarian relief in areas that were constantly receiving such support, in particular in the form of food-for-work programmes that were not able to achieve sustainable reductions in poverty or enhance resilience. This policy change allowed for a shift away from short-term poverty relief towards promoting resilience and long-term development of areas that were perennially at risk (Pankhurst, 2009[2]).

Focus Area 1: Promote productive safety nets

Focus Area 1 accounted for the majority of social protection spending in Ethiopia between 2012/13 and 2015/16. Expenditure grew by 21% per year on average over this period, although this performance was driven largely by a 58% increase in expenditure in 2015/16 relative to the previous year in response to a severe drought.

The objectives of Focus Area 1 include expansion of social assistance to ensure food security for the poor and vulnerable; the provision of support and care to children, individuals and families in difficult circumstances; the implementation of a social safety net for the elderly and people with disabilities who are without access to care and support; and the promotion of public works programmes (PWPs). Ethiopia’s PWPs are intended to guarantee a minimum level of employment, safeguard participants’ food security and enhance community assets. As mentioned above, this study includes humanitarian relief within this focus area.

The National Social Protection Strategy (NSPS) identifies four main social protection instruments under Focus Area 1:

1. Unconditional social transfers.
2. PWPs.
3. Conditional social transfers.
4. Scale-up safety nets and early warning systems for disaster response.

At present, only the first two instruments are implemented; these are examined in greater detail below. Conditional social transfers, which require beneficiaries to fulfil a range of conditions to qualify for assistance, are not currently implemented, although the NSPS raises the possibility of introducing such a programme in the future. A cash transfer programme for vulnerable groups was launched in Tigray in 2011 but did not apply conditions for recipients (Berhane et al., 2015[3]).

Scale-up safety nets and early warning systems for disaster response are not implemented at present. However, the intention to introduce these programmes is of great importance to the long-term planning of social protection financing and thus to this study. Ethiopia has demonstrated its capacity to shift its response to chronic food insecurity from emergency interventions towards social protection programmes through the Rural Productive Safety Net Programme (RPSNP). The proposal to scale up safety nets in response to periods of acute crisis is consistent with this approach and has significant financial implications for the sector given current levels of spending on humanitarian relief.
Rural PSNP

The RPSNP, launched in 2005 to support chronically food-insecure households, is Ethiopia’s flagship social protection programme. It covers two types of beneficiaries: public works beneficiaries, who receive benefits in exchange for the provision of labour, and direct support beneficiaries, who receive transfers on an unconditional basis.

Public works beneficiaries accounted for 86% of the RPSNP’s 8 million beneficiaries in 2016/17. They participate in public works programmes implemented when they are practical and when they are most required, such as during periods of food shortages and/or limited agricultural activity. Payments made to individuals are intended to be in line with the local market wage. Public works are carried out on the private land of the most vulnerable households, with a particular focus on activities that increase access to a more diversified diet and potable water for the most vulnerable. The Ministry of Agriculture and Natural Resources (MoANR) oversees the implementation of public works programmes undertaken under the RPSNP.

Direct support beneficiaries are in households enrolled in the RPSNP that have no labour capacity, such as children, the elderly and people with disabilities, as well as those who cannot participate in public works programmes without jeopardising their ability to care for children. The Ethiopian Ministry of Labour and Social Affairs (MoLSA) is responsible for designing and managing transfers to direct support beneficiaries.

The PSNP is highly effective in reducing poverty. It is well targeted and is able to reach the poorest households thanks to a combination of geographic and community-based targeting (Coll-Black et al., 2011[4]). The PSNP has a positive effect on nutrition outcomes and the acquisition and protection of productive assets (Mohamed, 2017[5]; Gebresilassie, 2014[6]) and has lifted more than 1.5 million people out of poverty (World Bank, 2015[7]). The transfers provided through the RPSNP have also been shown to increase agricultural productivity (IFPRI, 2017[8]). At the same time, beneficiaries are more likely to access health and education services (Devereux et al., 2006[9]).

Figure 1.1 shows the number of direct support and public works beneficiaries of the RPSNP between 2004/05 and 2016/17. The number of direct support beneficiaries has fluctuated between 1.0 million and 1.3 million over this period and accounted for 13.9% of total RPSNP beneficiaries in 2016/17, down from 22.7% in 2014/15. The number of public works beneficiaries rose from 4.0 million in 2004/05 to 6.0 million in 2005/06, fell to 4.0 million in 2014/15 and rebounded to 6.9 million in 2015/16.

Combined coverage of direct support and public works beneficiaries of 8 million individuals in 2016 represented less than half of the country’s poor population. In the absence of other large-scale transfer schemes, this indicates significant unmet demand for social assistance. As Chapter 2 notes, 21 million individuals lived below the poverty line in 2016, or 23.5% of the population. The World Bank (2014[10]) anticipates that the number of RPSNP beneficiaries will increase to 8.3 million by 2019/20 under the fourth phase of the RPSNP (RPSNP IV).

Depending on how local markets are functioning, transfers to RPSNP beneficiaries are in the form of cash or in kind (food assistance). When market systems are functioning well, transfers are made in cash; otherwise, food is often used. Cash expenditure was ETB 5.4 billion in 2004/05 but decreased steadily (and significantly) in real terms over the subsequent decade (Figure 1.2) even though the number of PSNP clients did not follow a similar trajectory.
This decline in benefit spending (in real terms) reflects a significant fall in the value of benefits, which in turn has reduced the programme’s effectiveness in reducing poverty (Devereux, Sabates-Wheeler and Slater, 2008[11]). The value of benefits is expected to decline further over the course of PSNP IV as a result of a gap between financing needs and the resources made available. From July 2017, the value of the benefit was tied to the cost of 15 kg of wheat per person per month rather than 15 kg of wheat and 4 kg of pulses (World Bank, 2017[12]).

Figure 1.2. Spending on the Rural PSNP has declined significantly in real terms

Cash and food transfers to RPSNP beneficiaries from donors and federal government, 2004/05 to 2015/16

Source: Authors’ calculations based on MoANRS (2017).
Figure 1.2 also shows food assistance by region in thousands of metric tons. The total quantity of the food assistance peaked in 2011/12 at about 2.5 million metric tons, which was mainly due to the severe drought in that year. Otherwise, the volume of food aid was relatively steady between 2004/05 and 2015/16. Tigray received the largest share of food assistance over this period, with an average share of 26.2%, followed by Amhara and Oromia regions with 25.1% and 20.7% respectively.

To calculate the total value of transfers (cash and food assistance) made to RPSNP clients requires data on both the quantity of food distributed and the cash value of food assistance. The following analysis is based on data received from the office of Disaster Risk Management, which shows both the quantity of food assistance in metric tons and the monetary value of the assistance.

The annual average value of food assistance was ETB 423 million between 2004/05 and 2015/16, peaking at ETB 2.5 billion in 2011/12. The value of food assistance was highest in Tigray, with an average value of ETB 124 million between 2005/06 and 2015/16, followed by Amhara and Oromia regions with values of ETB 113 million and ETB 87.4 million respectively.

Figure 1.3 shows the total real value of cash and food transfers from donors and the federal government to RPSNP beneficiaries by region. Average yearly expenditure was about ETB 2.7 billion. The largest expenditure was ETB 4.9 billion in 2011/12. Spending was highest in Amhara with an annual average of ETB 958 million, followed by SNNP, Oromia and Tigray. As Box 1.1 discusses, the GoE has contributed to the financing of RPSNP since the start of Phase IV.

**Figure 1.3. Rural PSNP spending varies by region**

Total cash and food transfers to RPSNP beneficiaries by region, 2005/06 to 2015/16

Source: Authors’ calculations based on MoANRS (2017).
Box 1.1. The GoE is increasing domestic financing for RPSNP

The first three phases of the RPSNP were financed by donors through the Multi-Donor Partnership Trust Fund, a single financing instrument that pools diverse sources of financial support. This pooling of donor resources was critical in facilitating a rapid scale-up of the programme and promoting co-ordination between development partners active in Ethiopia. Starting from RPSNP IV (2016-20), the GoE has contributed to the financing of the programme through the federal budget.

Prior to the launch of RPSNP IV, World Bank (2014[10]), estimated the total cost of this phase would be USD 3.6 billion. The World Bank pledged USD 600 million while the GoE was to be the next largest provider of funds, contributing USD 500 million, and other bilateral and multilateral institutions pledged to finance the balance. The GoE provided ETB 300 million in 2015-16 and its contribution increased to ETB 1.5 billion in 2016/17. It should be noted that the majority of donor support for the RPSNP is in the form of loans whose repayment will be borne by Ethiopian taxpayers in the future.

In addition to donors and the federal government, regional governments also contribute to the financing of the RPSNP in various forms such as through grain transfers and by employing contract workers to support the programme. The average contribution of all regions between 2012/13 and 2016/17 was ETB 8.1 million. Amhara region made the largest contribution.

Urban PSNP

Ethiopia has undergone rapid urbanisation in recent decades. As a consequence, poverty is increasingly an urban and rural phenomenon. In response, the GoE, in collaboration with donors, has initiated the Urban Productive Safety Net Programme (UPSNP). Pilots began in 2015 and the programme was rolled out nationally in July 2017 to support over 4.7 million urban poor living in 972 cities and towns. The roll-out is occurring in phases, beginning in cities with populations of over 100 000.

Some 604 000 poor beneficiaries are targeted in the first five years of the programme in 11 major cities (Adama, Addis Ababa, Assayita, Asosa, Dessie, Dire Dawa, Gambella, Hawassa, Harari, Jigjiga and Mekele). Addis Ababa is likely to account for the majority of beneficiaries due to the large size of its population relative to other urban areas.

The programme has three components. The first is a productive safety net, which has three subcomponents. The first is cash transfers for able-bodied persons in exchange for their participation in public works programmes, such as small-scale infrastructure, greener development and environmental services. These activities are overseen by the Ministry of Urban Development and Housing (MoUDH). Beneficiaries in this category currently account for 84% of total UPSNP beneficiaries.

The remaining 16% of beneficiaries receive unconditional cash transfers because they are unable to work; this group is analogous to the direct support beneficiaries of the RPSNP. Transfers to these beneficiaries are managed by MoLSA. The third subcomponent is a system to support the development of common safety net mechanisms including payment systems, targeting, wage-rate setting and market price monitoring.
The second component is livelihood services, which support one individual per participant household to exit poverty. This component is aligned with the second focus area of the NSPP, which focuses on promoting employment and improving livelihoods. The livelihood support component includes counselling and life-skill development, technical skills, entrepreneurship opportunities, and financial support and training.

The third component of the UPSNP is institutional strengthening and project management, which support the development of systems for targeting, monitoring and evaluation of payments and citizens’ engagement. It also finances capacity development and programme management.

UPSNP beneficiaries will be enrolled in three partially overlapping cohorts, with each cohort spanning three years. The number of beneficiaries doubled between 2015/16 and 2016/17 and will exceed half a million in 2017/18 but is expected to decline thereafter (Figure 1.4). The safety net component of the UPSNP accounts for the majority of resources allocated to UPSNP. Total expenditure on this component between 2015/16 and 2019/20 will be ETB 7.2 billion, which is 85% of planned total expenditure for the three components of the programme over this period.

Overall, the project is expected to cost USD 450 million over the first five years of implementation (Annex A). Financing from the World Bank’s International Development Association will cover two-thirds of this cost (USD 300 million) while the GoE will finance the balance. Domestic contributions are expected to increase substantially after 2017/18 to reach 78.5% of the total cost forecast for 2019-20.

Regional governments also provide poverty-targeted transfers that are not mentioned in the NSPP but which nonetheless constitute social protection spending and fit best into Focus Area 1. These include transfers to the urban poor, which consist principally of food assistance during holidays such as New Year and Easter. Average annual spending across the regions was about ETB 85 million between 2014/15 and 2016/17. The Addis Ababa city government accounts for the largest share of transfers made to the urban poor.

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**Figure 1.4. The Urban PSNP is scaling up**

Number of clients and cost of financing the Urban PSNP, 2015/16 to 2019/20


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Humanitarian relief

Ethiopia has been affected by severe and recurrent droughts throughout recent times. Humanitarian relief has played a critical role in supporting the population during these crises. Figure 1.5 shows the number of individuals receiving emergency assistance by region between 2009/10 and 2016/17. The figures rise sharply during periods of severe drought, as occurred in 2015/16 and 2016/17. The average number of beneficiaries per month rose to 7.4 million in 2015/16 and increased further to 7.9 million in 2016/17. During some months of 2015/16, the number of individuals receiving humanitarian relief exceeded 10.2 million, or some 10% of the population.

**Figure 1.5. Demand for humanitarian relief has grown strongly in some regions**

Average monthly number of emergency relief beneficiaries, 2009/10 to 2016/17

Source: Authors’ calculations based on NDRMC (2017).

On average, over 31% and 27% of the beneficiaries of humanitarian relief between 2009/10 and 2016/17 were in Oromia and Somali respectively. Somali accounts for just 6% of Ethiopia’s total population but drought is very frequent in the region. Recipients in Amhara and Tigray stood at third and fourth, with average shares of 15.1% and 10.9% respectively. These regions are also major beneficiaries of the RPSNP.

Types of assistance include food, targeted supplementary feeding (especially to infants and pregnant women), health and nutrition, water and sanitation services, agriculture and livestock services, school feeding, protection and emergency shelter (when there are displacements during natural or man-made disasters). Major sources of financing for humanitarian relief include World Food Programme (WFP, by far the largest source), the United Nations Children’s Fund (UNICEF), the United States Agency for International Development (USAID), Food for Hunger, Catholic Relief services, Relief Society of Tigray and World Vision among others.
Box 1.2. The economic case for moving from humanitarian relief to social protection is clear

The decision over whether to include humanitarian relief in social protection spending makes a major difference to the final calculation of how much Ethiopia spends on social protection. It is also fundamental to the future of social protection in Ethiopia.

Integrating social protection and humanitarian relief is consistent with the principles adopted at the World Humanitarian Summit of 2016, which recognised the importance of coherent financing strategies that recognise the nexus between humanitarian and development (World Humanitarian Summit, 2016[14]).

Humanitarian relief faces challenges regarding cost, speed and capacity to reach areas most in need, as well as fragmented implementation and a lack of integration with government systems (OECD, 2012[15]). Moreover, as an ex post response, emergency assistance does not enhance the resilience of affected communities, meaning they remain vulnerable to subsequent shocks. Emergency assistance is not a lasting solution to poverty: it meets the protective and preventive functions of the Devereux and Sabates-Wheeler (2004[16]) schema for social protection but not the promotive or transformative objectives.

Well-designed social protection programmes, on the other hand, meet all these objectives. They also have the potential to outperform humanitarian relief in terms of cost, speed and accuracy when a shock occurs: the mechanisms for transfers of cash or food might be already in place, while registries of existing beneficiaries and/or vulnerable households provide information to the government about the at-risk population.

However, these aspects of a social protection system cannot be taken for granted. A cash transfer programme would need to be operated at a large scale (ideally nationally) for it to be relied upon as a mechanism for emergency assistance and show a much better targeting record than many cash transfer programmes demonstrate. Moreover, they require an infrastructure that not only identifies vulnerable populations but can also allow for early warning, contingency planning, pre-positioning of resources and additional caseloads (IDS, 2018[17]; Slater and Bhuvanendra, 2013[18]).

A recent study by USAID presents a compelling economic case for shifting from humanitarian relief to long-term social protection policies (USAID, 2018[19]). The study compares the cost of meeting a minimum set of survival and livelihoods needs for food-insecure populations in the Tigray and Somali regions through a late humanitarian response with the estimated cost of three policy responses targeted at the same populations: an early humanitarian response, a cash transfer and measures to build resilience. The latter two policies build on the former, such that the resilience model incorporates both an early humanitarian response and a cash transfer.

The study estimates that an early humanitarian response in the two regions would have cost USD 1.2 billion less over a 15-year period (2000-15) than a late humanitarian response. The safety net and resilience-building policies would reduce the cost by USD 1.9 billion and USD 2.2 billion respectively. The latter figure is equivalent to an average of USD 150 million per year. Comparing these savings with the cost of such interventions, the study shows that every USD 1 invested in enhancing food-insecure households’ resilience would have yielded USD 3.3 in savings in Somali and USD 2.4 in Tigray. The study calculates that the US government alone would have saved 35% by investing in resilience-building rather than financing late humanitarian response.
Figure 1.6. Food aid accounts for the majority of humanitarian relief

Expenditure on humanitarian relief by intervention, 2009/10 to 2016/17

Source: Authors’ calculations based on NDRMC (2017).

Total expenditure on emergency assistance increased from ETB 9.3 billion in 2009/10 to ETB 13.1 billion in 2015/16 and ETB 16.8 billion in 2016/17 (Figure 1.6). Food assistance accounted for the majority of spending, with an average annual share of 78% between 2009/10 and 2016/17, followed by health and nutrition support and supplementary feeding.
1. MAPPING SOCIAL PROTECTION SPENDING

Figure 1.7. Regional spending on emergency assistance increased significantly in recent years

Emergency-related expenditure by regional governments, 2010/11 to 2016/17

Source: Data obtained from regional governments in 2017.

Although donors provide the majority of financing for emergency assistance, the GoE’s financial contribution is increasing through its early warning response and prevention and rehabilitation directorates. Most funding from WFP and other donors is channelled through the National Disasters Risk Management Commission (NDRMC). Total spending on drought relief in 2015/16 was more than double spending in 2014/15; the GoE’s contribution to this spending increased significantly.

Regional spending on droughts and other emergencies also rose significantly in 2015/16 and 2016/17 (Figure 1.7). Average annual spending by Oromia was highest (averaging ETB 120 million), followed by Somali and Amhara.

**HIV/AIDS support**

The Federal HIV/AIDS Prevention and Control Office (FHAPCO) co-ordinates the activities of several stakeholders who provide care and support to people affected by HIV/AIDS (including orphans) in the form of medicine, food and nutrition, training in income-generating activities and access to finance to start businesses. FHAPCO relies on support from the GoE and donors to provide these services. Spending in 2014/15 amounted to ETB 1.5 billion.

External assistance is the major source of FHAPCO’s funding, with the Global Fund providing almost all financing (Annex A). The Global Fund-supported antiretroviral treatment for 420 000 individuals in 2016 (up from 333 000 in 2014), out of an estimated 718 000 individuals living with HIV (The Global Fund, 2017).

Support for HIV/AIDS sufferers financed by regional governments averaged ETB 205.5 million between 2010/11 and 2016/17. Oromia accounted for the largest share of spending on HIV/AIDS activities (average annual spending of ETB 189 million) followed by Amhara (average annual spending of ETB 4.5 million). Oromia allocates 2% of operating expenditure for HIV/AIDS-related prevention, awareness creation and support to poor living households containing sufferers.
Total spending on Focus Area 1

Spending on Focus Area 1 grew in real terms between 2012/13 and 2015/16 but fluctuated relative to GDP (Figure 1.8, Panel A). Humanitarian relief accounted for the majority of spending on Focus Area 1 over this period and its share increased significantly, from 60.2% in 2012/13 to 79.2% in 2015/16.

As a proportion of GDP, spending on Focus Area 1 fell between 2012/13 and 2014/15 but rebounded to 2.6% of GDP in 2015/16. Spending on humanitarian relief alone exceeded 2% of GDP in 2015/16, underlining the impact of including emergency assistance within calculations for total social protection expenditure.

The contribution of donors to humanitarian relief also fluctuated over this period, declining to 53.0% in 2014/15 and peaking at 72.1% the following year (Figure 1.8, Panel B). It is notable that the GoE and regional administrations are bearing a significant portion of the cost of this expenditure.

Figure 1.8. Emergency assistance far exceeds spending on safety net programmes

Composition of spending on Focus Area 1 and financing for humanitarian relief, 2012/13 to 2015/16

Focus Area 2: Promote employment opportunities and improve livelihoods

Focus Area 2 was the second-smallest in terms of average annual expenditure between 2012/13 and 2015/16. However, it achieved the strongest growth in real spending across the five focus areas over this period, averaging 33% per year.

The NSPP proposes the following five instruments to achieve the major strategic objectives of the second focus area:

1. Technical support to on- and off-farm livelihoods activities.
2. Employment services and standards.
3. Financial services for poor households.
4. Skills training through collaboration with technical and vocational education and training institutions.
5. Tailored employment and livelihood support.

The institutions responsible for promoting employment opportunities and improving livelihoods include MoLSA, the Federal Micro and Small Enterprise Development Agency (FeMSEDA), regional bureaus of social affairs (BoLSAs) and regional small and microenterprise agencies (RSMEA). MoLSA and BoLSAs provide and co-ordinate several employment-related services for both domestic and overseas workers. FeMSEDA and RSMEA offer training and education to increase the employability of unemployed and vulnerable individuals.

Table 1.2 shows MoLSA’s objectives and achievements for employment services and livelihood support in 2014/15. The number of beneficiaries exceeded targets for domestic employment services (192%), employment services for foreign workers (126%) and bi-partite consultation systems (190%). The outcomes in 2014/15 improved upon those of 2013/14, with the exception of overseas employment services.

<table>
<thead>
<tr>
<th>Number of beneficiaries</th>
<th>Growth rate in 2014/15 from 2013/14 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic employment services</td>
<td>1 112 232</td>
</tr>
<tr>
<td>Overseas employment services</td>
<td>140 000</td>
</tr>
<tr>
<td>Employment service for foreign workers</td>
<td>30 000</td>
</tr>
<tr>
<td>Occupation safety and health services</td>
<td>43 334</td>
</tr>
<tr>
<td>Proportion of workers organised in associations (%)</td>
<td>34.9</td>
</tr>
<tr>
<td>Proportion of workers included in corporate agreement (%)</td>
<td>40.7</td>
</tr>
<tr>
<td>Number of bi-partite consultation systems</td>
<td>983</td>
</tr>
</tbody>
</table>


Spending on employment services increased from ETB 2.5 million to ETB 3.3 million between 2012/13 and 2013/14. The change is largely explained by an increase in capital expenditure in 2013/14; total spending decreased to ETB 2.8 million in 2014/15 in the absence of capital expenditure for employment services. Recurrent spending accounts for the lion’s share of expenditure on employment service promotion.

FeMSEDA carries out several activities to create jobs, especially for youths. Its total expenditure increased from ETB 21.4 million in 2012/13 to ETB 45.5 million in 2014/15 but declined to ETB 30.6 million in 2015/16, largely due to a decrease in capital expenditure (Figure 1.9, Panel B). Recurrent expenditure accounts for the largest share of FeMSEDA’s spending on job creation; around 40% of this spending is allocated to administration and management.
Expanding job opportunities, especially for youths, is one of the largest components of Focus Area 2. This is a key responsibility of regional governments, which provide training, employment services and facilitate access to credit for youths. Average annual spending by regional governments on the promotion of employability, employment services and access to finance was ETB 1.1 billion between 2012/13 and 2016/17 (Figure 1.10); loans grew substantially towards the end of this period.

Source: Authors’ calculations based on MoFEC (2017).

Figure 1.9. Spending on employment services is rising
Expenditure on employment service promotion by MoLSA and FeMSEDA, 2012/13 to 2015/16

Figure 1.10. Regional financing for employment support has jumped
Regional government expenditure on promoting employability and job creation, 2012/13 to 2016/17

Source: Computed based on data obtained from regional BoLSAs (2017).
Focus Area 3: Promote social insurance

The third focus area of the NSPP is the promotion of social insurance systems to prevent and mitigate shocks. It also supports informal social protection mechanisms and strengthens their linkages to the formal system. Moreover, it looks to expand social insurance coverage by supporting poor households to access insurance that covers their priority risks, including life, health, crop failure and loss of livestock.

Focus Area 3 was the third largest by spending between 2012/13 and 2015/16 and grew by 14% per year on average. Two mandatory pension schemes account for the majority of spending: the Public Servants’ Social Security Agency (PSSSA) and the Private Organisations Employees Social Security Agency (POESSA). However, enrolment in Community-Based Health Insurance (CBHI) has grown rapidly since its launch in 2015/16 and spending by CBHI can be expected to increase significantly from 2016/17 onwards, in turn driving stronger growth in this focus area.

Faced with the fastest population ageing in East Africa, Ethiopia has made important strides in increasing enrolment in pension schemes, especially among private-sector employees. However, the increase in spending associated with this higher coverage will (for the most part) only materialise when today’s working-age population reaches retirement age (OECD, 2017[21]).

The institutions/agencies responsible for promoting social insurance include PSSSA, POESSA and the Ethiopian Health Insurance Agency (EHIA). MoANR, regional bureaus of health and regional bureaus of agriculture and natural resources are also responsible for instruments in this focus area.

The NSPP identifies five principal instruments for promoting social insurance:

1. Mandatory social insurance through PSSSA, POESSA and health insurance.
2. CBHI for the rural population and for those who work in the informal sector in urban areas.
3. Life insurance.
4. Index-linked crop/livestock insurance.
5. Innovation and appropriate technology.

Mandatory social insurance

At present, the social insurance arrangements managed by the PSSSA and POESSA are the principal components of social insurance in Ethiopia. Both arrangements provide old age, survivors and disability (injury) benefits and are financed by contributions from employers (equal to 11% of salary) and employees (8% of salary).

The number of public employees contributing to PSSSA reached 1.6 million as of June 2017 (Figure 1.11). Annual contributions by public servants increased from ETB 3.6 billion in 2012/13 to ETB 6.7 billion in 2015/16 and amounted to ETB 5.4 billion in the first nine months of 2016/17 (July 2016 to March 2017). Income generated by investing pension contributions in government bonds has also increased steadily. Expenditure on administration and pension payments increased in real terms between 2012/13 and 2014/15 before declining in subsequent years.
POESSA’s membership has grown strongly since it was established in 2011 on a mandatory basis for workers in the formal sector. Prior to 2011, social insurance coverage was limited to the public sector, meaning that the large majority of the working age population had no access to such arrangements. Close to 130 000 organisations and 1 million individuals registered with POESSA between 2011/12 and 2015/16 (Figure 1.11).

Figure 1.11. Civil servants’ pension contributions are growing strongly
Contributions collected from public employees and payments to pensioners, 2012/13 to 2016/17

Source: Data obtained from Public Servants Social Security Agency in 2017.

Figure 1.12. Large numbers of private-sector workers are joining POESSA
Annual number of workers joining of POESSA, 2011/12 to 2015/16

Ethiopia is also in the process of establishing a system of social health insurance (SHI) for formal-sector employees from the public and private sectors, as well as pensioners and family members, as legislated by Proclamation No. 690/2010. This arrangement is intended to promote universal health coverage, reduce out-of-pocket spending and mitigate the financial burden associated with ill health. SHI will be financed by contributions from members and employers. For the purposes of the SHI scheme, “formal sector” refers to enterprises that employ more than ten individuals, a definition which excludes a large proportion of the population.

Because the scheme has yet to be implemented, the costs incurred by the Ethiopian Health Insurance Agency (EHIA), which will manage the programme, so far relate to administration, management, system development and research. Total expenditure increased steadily from ETB 0.1 million in 2012/13 to ETB 47.9 million in 2015/16. Management and administration initially accounted for the majority of expenditure but the system development’s share of spending increased after 2014/15 and accounted for over 57% of total SHI expenditure in 2015/16.

It is important to note that the majority of Ethiopia’s workforce is in the informal sector despite noteworthy changes in the structure of the economy discussed in Chapter 2. Projections in a recent OECD report indicate that high levels of informality will prevail well into the future; as a result, the growth in social insurance coverage evident in the recent past is unlikely to maintain this trajectory (OECD, 2017).  

**Community-Based Health Insurance**

The GoE introduced CBHI in 2015/16 after the programme was successfully piloted from 2011 onwards. Due to the timing of its launch, expenditure on CBHI is not covered in the expenditure analysis for the period 2012/13 to 2015/16. However, a rapid increase in enrolment suggests that spending on CBHI will grow strongly over in the near future.

CBHI aims to provide universal and equitable access to quality health care services to the rural population and informal employees in urban areas through pre-payment and risk-pooling mechanisms. CBHI has been piloted in woredas in Tigray, Amhara, Oromia and SNNP and is also operational in Addis Ababa and Benishangul Gumuz. Bedi et al. (2015) report a 5% decrease in the probability of indebtedness among beneficiary households and an increase in both annual crop output and total income.

The EHIA (2015) reported an enrolment rate of 48% in pilot areas, with 7% of those enrolled classified as indigents (the poorest 10% of the target population). It also calculated a 26% increase in health-service usage among beneficiaries as well as a significant decrease in impoverishing out-of-pocket payments (Ethiopian Health Insurance Agency, 2015).

There is mixed evidence regarding whether households covered by the RPSNP are more likely to be covered by CBHI, Bedi et al. (2015) found a positive relationship in enrolment in the two programmes between 2011 and 2013 but UNICEF found CBHI coverage among RPSNP beneficiaries to be relatively low, at just over 20% in 2016 (Bossuyt, 2017). Both studies highlight the potential to better co-ordinate these programmes to reinforce their impact on poverty.

About 3.8 million households were enrolled in CBHI in 2016/17, covering 34.8 million individuals including family members (Figure 1.13). Members contributed ETB 228.1 million in 2016/17. Those who settled the annual payment constitute 63% of
total members. The low performance is because some members make their payment in the last quarter of the year, especially in Oromia (EHIA, 2017).

**Figure 1.13. CBHI is reaching significant numbers in some regions**

![CBHI member registration and contribution collection, 2016/17](image)

Note: Monetary values in 2010/11 prices.
Source: Authors’ calculations based on data obtained from regional health bureaus.

Governments at *woreda* and regional level also contribute to the CBHI to cover indigents’ costs of enrolment. The total contribution by *woreda* and regional governments to CBHI in 2016/17 was ETB 81.8 million, the majority of which was from Oromia and SNPP. A total of ETB 310 million was mobilised for CBHI from contributions by members and governments at *woreda* and regional level in 2016/17.

**Life insurance, livestock insurance and innovative technology**

The third instrument in the promotion of social insurance is life insurance. The policy aims to support *idirs* in their traditional role of covering funeral expenses and providing psychosocial support. The policy also envisages that *idirs* will expand their role to offer life insurance and that they (and other community-based organisations) will be linked to the formal insurance sector to act as brokers, thereby establishing them as insurance-co-operatives/companies.

This study finds that most regional governments are not investing to strengthen traditional insurance schemes such as *idirs*. Average annual spending was ETB 0.5 million between 2010/11 and 2016/17. Addis Ababa city government spent the largest amount (an average of ETB 0.2 million), followed by Tigray regional state government.

The fourth social insurance instrument is index-linked crop/livestock insurance, which is intended to mitigate the adverse effects of weather changes on rural production and productivity. Livestock and crop insurance schemes have been piloted in regions such as Oromia and Tigray but data from these operations is not available.

The fifth instrument is the use of innovative technology and micro-insurance to encourage farmers to adopt high-yielding technologies. Attempts were made to gather information regarding spending by regional governments on encouraging the adoption of
technology among farmers. Data was only available from Benishangul Gumuz, which spent an average of ETB 0.1 million between 2010/11 and 2016/17 on this instrument.

Focus Area 4: Increase equitable access to health, education and other social services

The fourth focus area of the NSPP focuses on increasing access to basic services among the ultra-poor and vulnerable individuals and households. This was the second-largest focus area in expenditure terms between 2012/13 and 2015/16. Spending grew by 6% per year on average in real terms over this period.

Despite Ethiopia’s successes in reducing poverty, many ultra-poor and vulnerable people are not aware of the availability of basic social services or they are unable to pay for these services. Moreover, social sectors such as health and education are not well equipped to accommodate children with disabilities and other vulnerable groups. This reduces the capacity of Ethiopia’s social protection system to perform a transformative role and break the inter-generational transmission of poverty.

The specific objectives in the fourth focus area of the NSPP are the following:

1. Increase access to quality social services such as education, health and other services for children and adults with special needs.
2. Improve completion rates among primary school children.
3. Encourage the introduction of early childhood care where such facilities do not exist.

The NSPP identifies the following as key instruments to achieve these objectives: social transfers for human capital development; health fee waivers and health insurance subsidies; services for persons with disabilities; services for the elderly; school feeding; early childhood care; and a social work sub-system. In addition to the services listed in the NSPP, the government’s low-cost housing programme for the poor and middle-income groups is also included in this study.

The institutions/agencies responsible for implementing the fourth focus area include MoLSA, Ministry of Education, Ministry of Health, MoUDH and regional bureaus of health, education, labour and social affairs. MoLSA provides and co-ordinates physical rehabilitation services such as wheelchairs for people with disabilities and social welfare services like leadership and counselling on skills training, material and financial support for beggars, commercial sex workers and people with disabilities.

MoLSA’s expenditure on social welfare programmes for the poor and vulnerable averaged ETB 3.7 million per year between 2012/13 and 2015/16 (Figure 1.14). Capital expenditure accounted for the major share of this spending on social welfare but grew at a much slower rate than recurrent spending. Total expenditure on social welfare grew at an average annual rate of 19.7% in real terms.
Figure 1.14. Welfare spending is low but growing

Expenditure on MoLSA’s social welfare programmes, 2012/13 to 2015/16


Regional governments provide support to individuals requiring physical and mental rehabilitation and elderly individuals without pensions. This spending averaged ETB 29.3 million between 2012/13 and 2016/17 (Figure 1.15). Most expenditure is in the form of financial support to elderly individuals without pensions. Financing by regions for physical rehabilitation services to the vulnerable, such as for the purchase of wheelchairs for people with disabilities, averaged ETB 1.1 million.

Figure 1.15. Regional support for the elderly has grown significantly

Regional spending on social welfare for elderly and people with disabilities, 2012/13 to 2016/17

Source: Computed based on data obtained from regional Bureaus of Labour and Social Affairs.
Health fee waivers

The GoE provides fee waivers for health services to individuals identified as being particularly poor by local communities, who subsequently are exempt from paying for health services from public providers. Data from regional Bureaus of Health shows that an average of about 1.5 million individuals received health fee waivers each year between 2012/13 and 2016/17 (Figure 1.16). The highest number of beneficiaries was observed in 2016/17, perhaps due to the health impact of the severe drought that year. Once CBHI is scaled up, the health fee waiver programme will be replaced by the CBHI’s subsidised contributions for indigent households.

Regional expenditure on health fee waivers has grown significantly. Regional governments spent about ETB 33 million on average on fee waivers between 2012/13 and 2016/17, implying average expenditure per beneficiary of ETB 22 per year (Figure 1.16).

Figure 1.16. Regional spending on health fee waivers is growing rapidly

Number of beneficiaries and regional expenditure on health fee waivers, 2012/13 to 2016/17

Source: Computed based on data obtained from Regional Health Bureaus.

School feeding

Ethiopia implements a national school feeding programme as part of the National School Health Nutrition Strategy (Ministry of Education, Federal Democratic Republic of Ethiopia, 2012[25]). The strategy recognises school feeding as a critical part of a coherent system for ensuring child health, especially amongst poor and vulnerable children. The programme is also intended to improve the health and nutrition status of women and children and to create employment and market opportunities for small and micro enterprises and farmers in drought-affected areas.

Following the severe drought in 2015/16, the GoE initiated an emergency school-feeding programme to increase school attendance, to improve performance and to reduce school dropout by supplying food and school supplies.3 The Ministry of Education finances and implements the programme. The federal government allocated about ETB 300 million
(2010/11 prices) to severely drought-affected regions to support over 2.7 million pre-primary and primary school students in 2015/16. The number of beneficiaries exceeded the target in every region except the Somali region.

Regions also contribute to school feeding programmes. Average annual spending by regions in 2015/16 and 2016/17 was over ETB 35 million. Addis Ababa city administration spent the largest amount (an average of ETB 17.7 million over these two years), followed by SNNP (ETB 11.9 million). Spending in 2016/17 was almost double the level in 2015/16.

**Low-cost housing**

Low-cost housing programmes, financed by federal and regional governments on a long-term repayment basis, account for the largest proportion of spending on Focus Area 4. Implemented since 2004/05, there are four types of housing programme: 10/90, 20/80, 40/60 and co-operatives. The 10/90 scheme means the lottery winners for completed houses pay 10% of the house price at the time of obtaining the house and the remaining 90% of the price (including interest) in the future. The Commercial Bank of Ethiopia is the major source of financing for these housing programmes.

The 10/90 and 20/80 programmes are targeted mostly at very poor individuals. Out of the total 974,552 registered house seekers between 2004/05 and 2012/13 (there are no new registrations after 2012/13), 82% were either in 10/90 or 20/80 programmes. Total savings by registered house seekers exceeded ETB 4.5 billion as of September 2013.

Out of the total 375,790 houses under construction, 81.7% are in Addis Ababa, reflecting high demand for residential houses. About 60% of the houses under construction in Addis Ababa have been completed. Of these houses, 173,662 (94.4%) had been transferred to the house seekers on a lottery basis as of June 2017.

The Addis Ababa city government and federal government subsidise all the housing programmes but the bulk of subsidies are for beneficiaries of the 10/90 and 20/80 programmes. Within each housing programme, the subsidy differs according to the size of the house, in favour of smaller houses.

Total subsidies in the first seven rounds (carried out between 2004/05 and 2011/12) were ETB 24.9 billion, for the 8th and 9th rounds (2012/13) they were ETB 1.0 billion and for the 10th and 11th rounds (2014/15 and 2016/17) the subsidy was ETB 8.1 billion. Income forgone from land leasing accounts for the major share of the housing subsidy. The subsidy cannot be obtained directly because there are intervals in the years of transfer of completed houses. This report estimates yearly expenditure on subsidies of ETB 2.4 billion for each year of operation.

Other regional governments also subsidise housing programmes, although not on the same scale as Addis Ababa. Data from regional housing development offices show that combined spending by other regions averaged ETB 24 million between 2012/13 and 2016/17.
Focus Area 5: Addressing violence, abuse, exploitation and providing legal protection and support

The fifth focus area of the NSPP is the provision of legal protection and support to citizens exposed to violence, abuse and exploitation. This was the smallest of the focus areas in expenditure terms between 2012/13 and 2015/16, over which period spending grew by 5% per year on average. However, this is likely to be an underestimation of total spending on Focus Area 5.

The strategic objectives of this focus area include preventing abuse, violence, and exploitation; providing social services to victims; empowering the most vulnerable groups in society; and encouraging collaboration among multiple stakeholders (government ministries and agencies, parliament, justice and the police) to enhance the rights of vulnerable groups.

Two main sets of actions constitute the fifth focus area: prevention and rapid response.

There are two key instruments under prevention: (i) communication/awareness raising (person to person and mass media) for prevention of abuse, violence, neglect and exploitation; and (ii) protective legal and policy environment.

Key instruments under rapid response include support to survivors of violence, abuse, exploitation and neglect; drop-in centres and hotlines; specialised service providers and care for people living outside protective family environments. The institutions responsible for the implementation of the fifth focus area include the Ministry of Women and Children Affairs (MoWCA), MoLSA, the Federal Attorney General, as well as regional bureaus of women and children affairs and regional attorney generals.

A wide range of activities in this focus area is implemented through collaborations between several organs including federal, regional and non-governmental organisations, most of which do not have budget information for their respective social protection activities. As a result, this study is not able to provide comprehensive spending information for Focus Area 5.

Total expenditure by the federal government on protecting the rights of vulnerable groups such as women, children and people with disabilities decreased from ETB 2.9 million to ETB 2.4 million between 2012/13 and 2014/15 and then increased to ETB 4.2 million in 2015/16.

MoWCA spent a total of ETB 2.1 billion on the protection and empowerment of women and children during the First Growth and Transformation Plan (GTP I), or about ETB 410 million annually on average. Over 54% of spending was financed by the federal government while the remainder was financed through external support. MoWCA plans to spend a total of ETB 4.3 billion over the period 2015-20, with 65% of financing expected to come from external sources.

Average annual spending by regions on protecting and rehabilitating victims of violence was about ETB 19.5 million between 2010/11 and 2016/17. The highest average expenditure was reported in Tigray (which spent some ETB 13 million) followed by Amhara (ETB 4 million). Expenditure on the prevention of violence and rehabilitation of victims is not available in regions such as SNNP and Dire Dawa. However, it should be noted that total spending by regions is likely to be larger than the reported figures. Obtaining comprehensive information is very difficult because activities are implemented by several agencies and expenditure is often not recorded.
Summary of social protection spending

Figure 1.17 summarises spending on each focus area and their percentage share of total social protection expenditure between 2012/13 and 2015/16. Expenditure on social protection (in 2010/11 prices) increased from ETB 16.4 billion in 2012/13 to ETB 19.7 billion in 2014/15. There was a 38.7% increase in expenditure between 2014/15 and 2015/16, due to a significant increase in humanitarian relief related to the drought in 2015/16.

Average annual spending on Focus Area 1 between 2012/13 and 2015/16 accounted for 71.4% of total social protection expenditure. The second- and third-largest components of social protection spending were access to basic social services and social insurance, with average annual shares of 13.2% and 9.0% respectively. Regional governments’ housing subsidies accounted for the major share of spending on access to basic services.

As noted in the previous discussion on Focus Area 1, excluding emergency assistance from the overall figure for social protection spending significantly reduces both overall spending on social protection and growth in that spending over the recent past. The projections of social protection spending in Chapter 3 of this study include scenarios whereby humanitarian relief is included in total social protection spending as well as a scenario where it is excluded.

Figure 1.17. Focus Area 1 dominates social protection spending

Social protection expenditure by focus area, 2012/13 to 2015/16

Source: Computed based on data available in this study.

Figure 1.18 shows social protection expenditure by four sources of financing: the federal government, regional governments, contributory schemes and donors. Spending by the federal government increased at the fastest rate among these four sources between 2012/13 and 2015/16, growing by 24% per year on average. Spending by regional governments grew by 10% per year on average and contributory schemes by 14%. Donor spending fluctuated over this period but on average grew by 20% per year.
Figure 1.18. Donors are the principal source of social protection financing

Social protection expenditure by source of finance, 2012/13 to 2015/16

Source: Computed based on data available in this study.

In 2015/16, donor financing accounted for 60% of social protection expenditure, similar to its level in 2012/13 but considerably higher than in 2014/15, when it accounted for 48%. This reflects the key role played by external donors in responding to the impact of the severe drought in 2015/16. The federal government financed 20% of social protection spending in 2015/16, regional governments 15% and contributory schemes 10%.

Social protection spending averaged 5.8% of total public expenditure between 2012/13 and 2015/16 (Figure 1.19). There was an upward trend in the proportion of public spending allocated to social protection over this period, from 5.4% in 2012/13 to 6.4% in 2015/16. Social protection spending as a proportion of public spending peaked in 2014/15, at 6.5%.

The level of social protection expenditure relative to GDP averaged 2.77% of GDP between 2012/13 and 2015/16 (Figure 1.19). Spending as a proportion of GDP declined between 2012/13 and 2014/15 but spiked at 3.39% in 2015/16 due to a sharp increase in emergency assistance. Excluding humanitarian relief, social protection spending remained steady at around 1.40% of GDP between 2012/13 and 2015/16.

These results are broadly in line with a recent public expenditure review carried out by the World Bank (Kiringai et al., 2016[26]), which calculated social protection spending to be equivalent to around 3% of GDP in 2013. However, there are important differences in the methodology employed by these two studies (as well as the timeframes they cover). The World Bank review does not cover all the programmes included in this study but does include subsidies for kerosene, wheat and electricity; these subsidies equated to around 1.3% of GDP or 37% of total social protection spending. The World Bank review includes emergency food relief within its definition of social protection spending.

It is notable that social protection spending (as calculated by this study) reached its highest point in 2015/16 in absolute terms and as a proportion of GDP but peaked as a proportion of public expenditure in the previous year. This reflects the fact that GDP growth slowed significantly in 2015/16 as a result of the drought in that year, as will be
discussed in Chapter 2. Nonetheless, public spending maintained its growth in that year, both in absolute terms and as a proportion of GDP. This interplay between the key variables for social protection spending underpins the projections in Chapter 3.

**Figure 1.19. Social protection has fluctuated as a proportion of total spending and GDP**

Social protection expenditure as a percentage of total government spending and GDP, 2012/13 to 2015/16

Source: Computed based on data available in this study.

Donor spending on social protection was equivalent to 1.6% of GDP on average between 2012/13 and 2015/16. The GoE’s contribution (both federal and regional) to social protection as a share of GDP averaged 1.0% of GDP; the relative shares of both the federal and regional governments have increased, particularly since 2013/14. Spending on contributory schemes as a share of GDP has fluctuated around 0.1% of GDP, indicating considerable potential to scale up.

**Notes**

1 Both federal government and regional governments contribute to FHAPCO.
2 Obtained from Oromia region health bureau during the regional survey.
3 This is in addition to the donor-financed school feeding programme presented in Figure 1.6 as a subcomponent of humanitarian relief. Donor-financed school feeding programmes in drought-prone areas started long before this school-feeding programme.
4 The numbers before the slash indicate the upfront payment by the house seekers at the time of buying the house and the number after the slash represent the portion of the house price to be paid in the future.
5 Every person who registers will acquire a house eventually and registered applicants stay on the list until they get a house.
6 House seekers are required to save at the Commercial Bank of Ethiopia to meet the down payments of the house prices.
References


1. MAPPING SOCIAL PROTECTION SPENDING


2. Ethiopia’s fiscal framework

This chapter examines the macrofiscal context for social protection spending. It gives an overview of Ethiopia’s macroeconomic trajectory since 2000, which is characterised by sustained and robust economic growth as well as significant change to the structure of the economy. Although this performance has contributed to a significant decline in poverty, the national headcount poverty rate remained above 20% in 2015/16. The need remains for public policies, including but not limited to social protection, to sustain and deepen the reduction in poverty.

The resources available to the Government of Ethiopia (GoE) to implement such programmes are constrained. Revenues are increasing in absolute terms but not as a percentage of gross domestic product (GDP); although tax revenues have increased, they remain low by regional standards and these gains have been offset by a decline in grants. Partly as a result of these trends, public expenditure has fluctuated as a percentage of GDP, although spending has increased in absolute terms, particularly pro-poor spending. At the same time, Ethiopia’s debt levels are rising significantly.

Overall, Ethiopia’s resource envelope has grown significantly in absolute terms thanks to the growth in the economy, as a result of which per capita public spending has increased substantially. However, fiscal space, as measured by the capacity to sustainably increase spending as a proportion of GDP, is constrained. With social protection spending (both including and excluding humanitarian relief) currently reliant on donor support, spending in this area is particularly vulnerable to a decline in grants.

Recent economic performance

Ethiopia has registered rapid economic growth since the early 2000s (Figure 2.1). GDP grew by an average of 9.1% per year in real terms between 2000/01 and 2016/17. Examining this performance across five-year intervals shows that average annual GDP growth accelerated from 6.6% between 2000/01 and 2004/05 to 11.1% between 2005/06 and 2009/10 before slowing to 10.3% between 2010/11 and 2014/15.

The agriculture, industry and service sectors grew at an average rate of (respectively) 6.6%, 12.7% and 10.9% between 2000/01 and 2014/15 (Figure 2.1). Industry’s contribution to economic output increased from 9.7% in 2009 to 22.1% in 2016. However, agriculture still accounts for the majority of employment (Figure 2.2).

In 2015/16, Ethiopia’s economy grew by 8.0%, its worst performance since 2002/03. This slowdown was caused by the impact of the drought on the agricultural sector, which grew by 2.3% in that year, down from average annual growth of 6.6% over the previous five years. Due to the growth of the industrial and service sectors since 2000, this marked slowdown in agricultural output did not slow GDP growth by as much as it would have done in the past. However, this does not alter the fact that the drought put the health and livelihoods of millions of rural households at severe risk and required a massive increase in humanitarian relief to avert catastrophe.
Figure 2.1. The industrial sector has driven rapid economic growth

Trends in the growth rate of GDP and the economic sectors between 2000/01 and 2016/17

Source: Authors’ calculations based on MoFEC and NPC (2016[1]), Growth and Transformation Plan II (GTP II) Volume I: Main Text, National Planning Commission, Federal Democratic Republic of Ethiopia.

Figure 2.2. Agriculture employs the majority of the workforce

Structure of employment and structure of output in Ethiopia (2000-16)


This strong economic performance has been accompanied by a significant decline in poverty (Figure 2.3). The proportion of the population below the poverty line fell from 45.5% in 1995/96 to 38.7% in 2004/05, 29.6% in 2010/11 and 23.5% in 2015/16. The absolute number of people living in poverty has not declined at the same rate as the poverty headcount as a result of strong population growth over this period (OECD, 2017[3]). The number of people living in poverty increased from 25.6 million in 1996 to 27.5 million in 2005 then declined to 21.0 million in 2016.
Poverty rates have declined in rural and urban areas. Although the rural poverty rate is higher than in urban areas (25.6% versus 14.8% in 2015/16), rapid urbanisation means that the number of poor individuals in urban areas is likely to grow (OECD, 2017[3]).

The severity of poverty increased between 2004/05 and 2010/11 in both rural and urban areas, suggesting that the ultra-poor did not benefit from the growth of the economy over this period. Between 2010/11 and 2015/16, the poverty gap and severity declined in rural areas but not by as much as in urban areas, suggesting a need for further strengthening social protection programmes in rural areas (Figure 2.4).

In addition to the decrease in the proportion of individuals with incomes below the poverty line, remarkable improvements have been observed in the nutrition, health, education and sanitation outcomes of children between 2002 and 2013. Multiple overlapping deprivation analysis shows a decline in childhood deprivation in all dimensions (Woldehanna, Hagos and Tafere, 2017[5]).

The proportion of children deprived of access to shelter, safe drinking water and sanitation respectively decreased from 73.5%, 53.4% and 62.1% in 2002 to 58.9%, 11.1% and 22.6% in 2013. Children’s deprivation in health decreased from 48.0% in 2002 to 17.1% in 2006 while their deprivation in education decreased from 23.3% in 2009 to 5.4% in 2013.

The share of children who were poor in two or more dimensions of deprivation declined by 47.5 percentage points (from 82.3% to 34.8%) between 2002 and 2013 (Figure 2.5). The percentage of non-poor children increased from 18% in 2002 to 65% in 2013 while the number of severely poor children fell by 33 percentage points over this period (Figure 2.6).
Figure 2.4. For those who remained poor, the severity of poverty has not declined

Poverty gap and poverty severity by location, 1995/96 to 2015/16

Source: Authors’ calculations based on MoFEC and NPC (2016[1]), Growth and Transformation Plan II (GTP II) Volume I: Main Text, National Planning Commission, Federal Democratic Republic of Ethiopia.

Figure 2.5. Deprivation among children has fallen significantly


2. ETHIOPIA’S FISCAL FRAMEWORK

FINANCING SOCIAL PROTECTION IN ETHIOPIA: A LONG-TERM PERSPECTIVE © OECD 2019

Figure 2.6. The prevalence and severity of child poverty have declined


Trends in public expenditure

Public expenditure comprises spending by federal, regional and other lower-level administrative units. The sources of funding for public expenditure are tax revenue, non-tax revenue, domestic credit, external assistance and external loans (Kiringai et al., 2016[6]).

Funds from domestic sources flow in several ways. These include the federal block grant, which is transferred to federal-level agencies and ministries such as the Ministry of Education and regional Bureaus of Finance and Economic Development (BoFEDs). Regional administrations in turn transfer funds to lower-level administrations such as zones and woredas also via block grants.

Funds from development partners flow in four ways. The first channel is through the Ministry of Finance and Economic Cooperation (MoFEC), which allocates funds to federal agencies, ministries and BoFEDs. The second involves the transfer of funds to the MDG Performance Fund, which then allocates them to facilities such as schools, health posts and hospitals through in-kind transfers and capacity-building grants. Under the third mechanism, donors transfer funds directly to federal ministries such as the Ministry of Education for specific purposes agreed between the federal ministry and the donors. Finally, the fourth channel involves the transfer of funds to implementation partners selected by donors based on bilateral agreements.

Total public expenditure (federal and regional governments combined) was ETB 93.9 billion in 2010/11. Despite declining slightly in 2011/12 (in 2010/11 prices), it increased at an average annual rate of 9.8% between 2010/11 and 2015/16 (Figure 2.7). Capital spending, which captures investment in infrastructure, was larger than recurrent spending on a yearly basis across this period, although the difference between them
fluctuated over this period and recurrent spending increased slightly faster than capital spending on average.

**Figure 2.7. Recurrent spending is rising fast as total spending plateaus**

Trend in capital and recurrent public expenditure, 2010/11 to 2015/16

Source: MoFEC.

While public expenditure has increased in absolute terms, it has fluctuated as a percentage of GDP. Public spending fell from 18.2% of GDP in 2010/11 to a low of 16.6% of GDP in 2012/13 before recovering to 18.4% of GDP in 2015/16. According to Kiringai et al. (2016[6]), these trends reflect the GoE’s policy of fiscal consolidation. Capital expenditure averaged 9.9% of GDP between 2010/11 and 2015/16 while recurrent spending averaged 7.7% of GDP over this period.

**Federal spending by sector**

Federal government spending averaged ETB 107 billion and increased at an average annual rate of 8.4% in real terms between 2010/11 and 2015/16. Figure 2.8 shows federal government spending disaggregated across the three main sectors of government – administration and general services, economy, social – as well as other spending. Annex A disaggregates spending on these sectors.

The administration and general services, economy and social sectors together accounted for 57% of federal government expenditure between 2010/11 and 2015/16 on average. The economic sector was the largest of the three on average over this period but spending in this area declined from 31.6% to 22.2% as a portion of total expenditure. Expenditure in the social sector increased its share of total spending from 17.0% to 26.5% over the same period and was larger than the economic sector in 2015/16 due to a large increase in spending on prevention and rehabilitation following the drought.

The remaining 43% of federal spending over this period comprised transfers, grants and subsidies to regional governments, debt repayments and other items. There has been a strong increase in transfers to regions and debt repayments (discussed below).

Social protection spending takes place across the three sectors as well as at federal and regional level. To calculate the quantum of expenditure on social protection and to
identify trends in social protection spending it is necessary to adopt a bottom-up, programme-by-programme approach, as was carried out in Chapter 1 of this study.

Regional expenditure has increased much faster than federal spending in recent years. Total spending by regional governments was ETB 36.7 billion in 2010/11 and increased at an average annual rate of 18.9% between 2010/11 and 2014/15, more than double the rate of growth in federal government spending.

**Figure 2.8. Social spending at the federal level is growing strongly**

Total federal government expenditure by sector, 2011/12 to 2015/16

![Graph showing federal government expenditure by sector](image)

*Note: Values displayed are the share of spending on each sector.
Source: MoFEC.*

**Figure 2.9. Regional spending has more than doubled in real terms since 2010/11**

Regional expenditure by sector, 2010/11 to 2014/15

![Graph showing regional expenditure by sector](image)

*Source: MoFEC.*
The economic sector accounted for 38% of regional spending on average between 2010/11 and 2014/15 while social spending accounted for 36% (Figure 2.9). Economic spending was driven by road construction throughout this period and by agricultural and rural development in later years. There were strong increases across all components of regional social spending, although health and education were predominant.

**Poverty-targeted spending**

Spending that the GoE classifies as poverty-targeted accounted for two-thirds of total spending on average between 2010/11 and 2015/16, and it rose in real terms. Average annual poverty-targeted expenditure between 2010/11 and 2015/16 was ETB 79.5 billion. Education accounted for the largest share (28%), followed by roads (23%). Poverty-targeted expenditure was equivalent to 12.0% of GDP over this period (Table 2.1).

**Table 2.1. Education and roads comprise the bulk of pro-poor spending**

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<td>11.4</td>
<td>12.1</td>
<td><strong>12.0</strong></td>
</tr>
</tbody>
</table>

*Source: Authors’ calculations based on data provided by MoFEC.*

Figure 2.10 disaggregates poverty-targeted public spending by sector. Poverty-targeted spending covers both the social sector (including health and education) and the economic sector (for example, agriculture and natural resources). Figure 2.10 also divides spending by capital and recurrent expenditure. Capital spending is often characterised as a long-term investment in the economy and recurrent spending as short-term consumption.

However, recurrent spending can be effective at redistributing resources across the economy and, if allocated to activities that enhance human capital, is increasingly recognised as investment in the future. Information on the composition of recurrent spending by economic classification – public-sector salaries, transfers and government goods and services, for example – was not available for this study but would be invaluable for better understanding the effectiveness of public spending.
It is notable that capital spending accounted for two-thirds of pro-poor spending on average, reflecting the importance of spending on roads. Social protection programmes such as health-fee waivers, emergency school feeding and humanitarian relief are typically classified as recurrent spending. The Rural Productive Safety Net Programme has a capital component related to public works activities but this accounts for only 15% of the combined cost of transfers to public works and direct support beneficiaries (World Bank, 2014[7]).

Poverty-targeted expenditure increased at an average annual rate of 9.4% between 2010/11 and 2015/16 in real terms. Agriculture (16.6%) and health (14.1%) recorded the largest average increases. With average annual spending of ETB 22.7 billion between 2010/11 and 2015/16, roads accounted for the greatest share of capital spending in the pro-poor sector (43%). Education accounted for the largest share of recurrent expenditure, averaging 61% over this period.

**Trends in public revenue**

Government revenue has increased in absolute terms but declined as a proportion of GDP. Meanwhile, the composition of revenue is evolving as Ethiopia’s income per capita increases and the country approaches middle-income status: grants are declining at the same time as tax and non-tax revenues increase.

Total government revenue (including grants) grew at an average annual rate of 8.7% between 2010/11 and 2015/16, to ETB 129.5 billion (in 2010/11 prices). Revenue (excluding grants) increased at an average rate of 12.2% while grants declined at an average rate of 14.5%, to ETB 6.9 billion in 2015/16 (Figure 2.11). In 2010/11, grants accounted for 19.1% of total revenue; by 2015/16, this had declined to 5.3%.

While total government revenue has grown in absolute terms, it has declined slightly as a percentage of GDP, from 16.6% in 2010/11 to 16.0% in 2015/16. An increase in tax revenues as a percentage of GDP over this period has been partly offset by the decline in...
grants. By growing domestic revenues at a faster rate than grants are declining, Ethiopia is avoiding zero-sum domestic resource mobilisation, whereby countries do not have scope for higher public spending despite increasing their tax revenue because donors withdraw financial support at the same rate.

Following a number of reforms outlined in Annex 2.A (along with a broad overview of the tax system), tax revenue increased at an average annual rate of 11.5% between 2010/11 and 2015/16 in real terms. Annual tax revenue averaged 78.2% and 86.1% of total government revenue and total domestic revenue respectively, between 2010/11 and 2015/16.

Figure 2.11. Tax revenue has risen in absolute terms but declined as a percentage of GDP

Revenue trends between 2010/11 and 2015/16

Source: MoFEC. Non-tax revenue grew at an average annual rate of 22.1% between 2010/11 and 2015/16. Since 2011/12, non-tax revenue has been a more important source of revenue than grants although its level has fluctuated. This is consistent with evidence that non-tax revenue is more volatile (and thus a less reliable source of financing) than tax revenue across Africa (OECD/ATAF/AUC, 2018[8]).

Federal government revenue is disaggregated in Figure 2.12, based on data in Annex A. Total revenue (including external assistance and loans) averaged ETB 95.7 billion between 2010/11 and 2015/16. Although it has increased in real terms, tax revenue has fallen short of official targets and is low by regional standards.

The average ratio of tax revenue to GDP was only 12.2% between 2010/11 and 2015/16, which is much lower than the GTP I target (15%-17% of GDP by 2014/15) and the African average (18.2% of GDP) (Ministry of Finance and Economic Development, 2013[9]; OECD/ATAF/AUC, 2018[8]).

The low level of tax revenues significantly reduces the scope for fiscal redistribution (Hirvonen, Mascagni and Roelen, 2018[10]). Fiscal incidence analysis for Ethiopia has shown that the Rural Productive Safety Net Programme is both progressive and reduces poverty but taxes and (especially) subsidies have a less positive effect (see Box 2.1).

Domestic sources, on average, accounted for 71.5% of total federal government revenue while external assistance and loans accounted for the remaining 28.5%. Tax revenue
accounted for 85% of the total domestic sources of federal government revenue on average and grew at an average annual rate of 7.2% while the share of non-tax revenue to total domestic revenue averaged 13.4%.

Revenues from taxes on international trade accounted for 46% of total tax revenues on average between 2010/11 and 2015/16, while direct taxes and domestic indirect taxes accounted for 27% and 24% respectively. Across the different sources of tax revenue, direct taxes grew at the fastest rate (9.2%) followed by taxes on international trade and indirect domestic taxes (which grew by 7.0% and 6.6% respectively). The contribution of non-tax revenues (from administrative fees and charges for example) decreased slightly from 13.6% of total domestic revenues in 2010/11 to 13.5% in 2015/16.

Figure 2.12. Trade taxes account for the majority of revenue

Tax revenue by type, 2010/11 to 2015/16

Note: VAT is value-added tax
Source: Authors’ calculations based on data provided by MoFEC.

Box 2.1. Fiscal incidence study reveals the burden that taxation places on the poor

A fiscal incidence of Ethiopia was published by the World Bank in collaboration with the Commitment for Equity Initiative (CEQ) in 2016/17. The study combines household survey data from 2010/11 with administrative data for the same period to show the combined incidence of tax and expenditure policies, with a particular focus on the impact of different fiscal instruments on poverty and inequality.

The study shows that taxes are relatively low and progressive in Ethiopia, but nonetheless “make poor households poorer and some non-poorer households poor”. Personal income tax (PIT) generates most of Ethiopia’s direct tax revenue; although it is progressive and serves to reduce inequality, the analysis found that it also exacerbated poverty.
At ETB 150 per month, the minimum threshold for PIT payment before a reform implemented in 2016 was far below the poverty line of ETB 315 per adult equivalent (Hirvonen, Mascagni and Roelen, 2018[10]). As a result, the fiscal incidence analysis found that the share of the tax bill paid by households living on less than USD 1.25 per person per day in Ethiopia was very high (11%) relative to other countries with substantially higher per capita incomes where the CEQ methodology has been applied, such as Armenia, Bolivia, Brazil, El Salvador, Guatemala and South Africa.

Meanwhile, the study showed that another direct tax – the agricultural income land use fee levied on rural households – was regressive and exacerbated poverty. In part, this reflected the tendency for agricultural households to be poorer than non-agricultural households. It is also a result of the fact that the tax is largely levied according to landholding size, which might not be an accurate proxy for income.

Ethiopia’s indirect taxes relative to GDP were found to be in line with those of other countries at a similar income level. The study showed indirect taxes to be progressive as a result of higher tax rates applied to goods that are consumed more by richer households, such as alcohol. However, indirect taxes increase poverty, with the USD 1.25/day poverty headcount rate increasing by 3.6 points as a result of these taxes.

The impact of taxation on poverty was partially offset by the Rural Productive Safety Net Programme (RPSNP). When combined with emergency food aid, this was found to reduce poverty by 2.0 percentage points and the poverty gap by 1.4 percentage points (or 14.3%). The study also found that the RPSNP was better targeted than emergency food assistance. Meanwhile, wheat and kerosene subsidies were found to be progressive but not pro-poor, while electricity subsidies were found to be highly regressive.

These findings are of critical importance to this study since they demonstrate a fundamental challenge facing social protection policy makers. For the GoE to finance social protection spending from domestic sources will require substantial increases in tax revenues, as discussed in Chapter 3. However, with direct and indirect taxes both aggravating poverty, it will be a major challenge to finance social protection spending without worsening poverty through taxation and thus offsetting or negating the positive impacts such interventions might have. The PIT reform of 2016 demonstrated how a detailed understanding of tax incidence can inform tax policy to optimise the outcomes of the fiscal system.


Regional government revenues

Regional government revenues include revenues these administrations generate and the block grants they receive from the federal government as well as external assistance and loans. Figure 2.13 (based on Annex A) shows revenues collected by regional governments from domestic sources between 2011/12 and 2014/15, excluding federal block grants and other assistance and loans. Tax revenue, on average, accounted for 82% of revenue while non-tax revenue accounted for 18%. Direct taxes are the principal source of tax revenue, with an average share of 68% between 2011/12 and 2014/15.
Excluded from this analysis are informal tax payments levied on individuals, either in the form of cash or free labour, for the provision of public goods and services. Accurate and up-to-date data regarding this phenomenon are not available, although Olken and Singhal (2011[12]) found that approximately half of rural inhabitants in Ethiopia had provided free labour according to survey data from 1997. Data constraints related to informal taxation make it impossible to calculate the burden imposed on different individuals but Olken and Singhal found that informal taxes tend to be regressive. Civil servants recently forewent one month’s salary to help finance the construction of the Grand Renaissance Dam.

Figure 2.13. Regional governments rely on direct taxes for the bulk of own revenues

Revenues collected by regional governments by type, 2011/12 to 2014/15

Source: Authors’ calculations based on data provided by MoFEC.

Ethiopia is receiving less in grants and more in loans

As noted previously, external assistance and loans are important sources of financing for Ethiopia’s development needs. Figure 2.15 shows trends in external assistance and outstanding external debt both in absolute levels and as a percentage of GDP.

Total external assistance averaged ETB 37.8 billion per year between 2010/11 and 2015/16. It decreased at an average annual rate of 2.9% over this period, although there was considerable volatility between years. Multilateral assistance accounted for the largest share, averaging ETB 21.5 billion per year between 2010/11 and 2015/16; bilateral assistance averaged ETB 16.5 billion. External assistance as a percentage of GDP decreased at an annual average rate of 11.4% between 2010/11 and 2015/16, falling to 4.3% of GDP in 2015/16.

Official development assistance (ODA) from countries of the Development Assistance Committee (DAC) declined as a percentage of GDP from 19.9% in 2007 to 3.1% in 2016. The largest decline was in the area of social infrastructure and services (from 11.0% of GDP to 1.1% of GDP) although this remained the largest sector.
Over the same timeframe, foreign loans (multilateral, bilateral and private creditors) increased dramatically, both in absolute terms and relative to GDP. Loans made up only 14% of total ODA in 2004 but reached 25% and 32% in 2009 and 2013 respectively (Development Assistant Group (DAG) Ethiopia, n.d.[14]). Growth in total external credit averaged 15% per year over the period 2010/11 to 2015/16.

Most of this borrowing is on concessional terms and a significant portion is intended for investments – for example in water and power infrastructure – that is expected generate a high-growth return, making it relatively straightforward to repay these debts. However, weak export performance in 2016/17 prompted the IMF to assess Ethiopia to be at high risk of debt distress at the end of 2017 (IMF, 2017[15]). A foreign exchange crisis in 2018 further highlighted the risks to macroeconomic stability associated with Ethiopia’s external imbalances (Bezawagaw et al., 2018[16]).

Disaggregating growth by sources of credit shows that bilateral credit grew by 22.8% between 2010/11 and 2015/16 and private credit grew at an average annual rate of 20.6%. Borrowing as a percentage of GDP increased across the two sources of external credit (bilateral loan and private credit). Especially large increments were observed for bilateral loans: loans obtained from bilateral sources were 5.8% of GDP in 2010/11 but increased to 11.9% of GDP in 2015/16.

External assistance and loans received by the federal government are presented in Figure 2.16 and Annex A by source. These averaged ETB 27.7 billion annually between 2012/13 and 2015/16. External assistance averaged ETB 13.6 billion, of which 75% was provided by multilateral institutions and the remaining 25% by bilateral donors. The World Food Programme provided the largest share, contributing over 59% in 2015/16. The United Kingdom’s Department for International Development accounted for the major share of bilateral assistance with an average share of 74% of the total bilateral assistance received between 2012/13 and 2015/16.
Large multi-donor programmes support the GoE’s efforts in alleviating poverty. These include the Promotion of Basic Services Programme, the PSNP, the General Education Quality Improvement Programme, the Agricultural Growth Programme, the Sustainable Land Management Programme and the Pastoral Community Development Project. Development partners’ contribution to these five large programmes accounted for over one-quarter of ODA, or an estimated USD 806 million in 2014.

External loans averaged ETB 14 billion and grew annually by 5.2% per year between 2010/11 and 2015/16. Multilateral sources accounted for 86% of external loans while bilateral sources accounted for 14%. With an average share of 78%, loans from the International Development Association (IDA) accounted for the major share of Ethiopia’s borrowing from multilaterals, followed by the African Development Bank (16.7%). Bilateral loans averaged ETB 1.9 billion annually across this period; over 86% of this borrowing was obtained from China.

**Figure 2.15. External grants are declining but foreign borrowing is on the rise**

Total external assistance and outstanding debt, 2010/11 to 2015/16

Source: MoFEC.
Figure 2.16. Ethiopia is supported by a range of international sources of finance

External assistance and loans received by the federal government by sources between 2012/13 and 2015/16

A. Assistance

![Graph showing sources of assistance]

B. Loans

![Graph showing sources of loans]

Source: MoFEC.

Notes

1 Credit from private creditors include: bonds and notes holders; commercial bank loans from private banks such as the EXIM Bank of China; and other private credit from manufacturers, exporters and suppliers.

2 Ethiopia’s top development bilateral partners in order of importance include the United States, the United Kingdom, the European Union, Japan and Canada and its top multilateral partners include the World Bank (IDA), the African Development Bank, The Global Fund, GAVI Alliance funding for civil society organisations and UN Funds and Programmes (Development Assistant Group (DAG) Ethiopia, n.d.(14)).
The GoE also receives grants and financing from other sources, including from non-DAC donors such as China and India, philanthropic organisations including the Bill and Melinda Gates Foundation and new social impact investors such as the Shell Foundation and the Acumen Fund. MoFEC recorded USD 161 million from China and USD 31 million from India in 2013/14 (Development Assistant Group (DAG) Ethiopia, n.d.).
References


Annex 2.A. Taxation in Ethiopia

The principal taxes currently in place in Ethiopia are: personal income tax (PIT), corporate income tax (CIT), turnover tax, value-added tax (VAT), excise tax, stamp duty, withholding tax, royalty tax and dividend tax (Ministry of Finance and Economic Cooperation, 2016[17]). The types of taxes and their rates as reported in MoFEC (2016[17]) are as follows.

Income taxes are levied on income from employment and business. The current marginal tax rates on income from employment and business range from 10% to 35%. The CIT rate on income earned by businesses is 30%. A turnover tax is levied on non-VAT registered businesses with annual transactions below ETB 500 000 per year. The turnover tax rate is 2% for goods sold locally and for services rendered locally. It is 10% for other goods and services.

VAT is levied at a rate of 15% on businesses whose total annual turnover exceeds ETB 500 000 per year. However, certain entities are required to register for VAT regardless of their annual sales turnover. These include share companies, leather and leather product manufacturers, shoe factories, computer and related product suppliers, electronic refrigerators and television sets (Ministry of Finance and Economic Cooperation, 2016[17]).

A wide range of products and services are exempt from VAT. These include financial services, imported raw materials used for production of exportable produce, raw materials and packaging materials purchased domestically and used for exportable produce, medical services, drugs, books, electricity, kerosene, water, education, milk, bread, transport, postal services, license and certification fees, houses, fertilisers, pesticides and improved seeds and seedlings, as well as all export items.

Excise taxes are imposed on 19 locally produced goods or imported goods. The rate ranges from 10% to 100% depending on the type of good produced or imported. Withholding tax is payable on the import of goods at a rate of 3% of the cost, insurance and freight. In the case of organisations having legal personality, government agencies, private non-profit institutions and non-governmental organisations (NGOs), the withholding tax rate is 2% of the gross payment. A royalty tax of 5% is payable by those who receive a patent or copyright. Finally, a tax of 10% applies to dividends received by shareholders.

The GoE initiated a series of tax reforms starting from 1991 to address severe macroeconomic imbalances, including a sizeable budget deficit, a deterioration of the balance of payments and high foreign debt (Demirew, 2013[18]). The reforms sought to broaden the tax base and improve tax administration. Tax rates on wages and salaries, rental income and foreign trade have been reduced. A sales tax was replaced by VAT in 2003 (Ministry of Finance and Economic Development, 2013[9]).
Taxes have been shown to represent a significant burden on the poor in Ethiopia. The main results of a fiscal incidence analysis conducted for Ethiopia are discussed in Hill et al. (2017[11]).

Following this report, a reform in July 2016 raised the exemption threshold for PIT from ETB 150 per month to ETB 600 per month to ease the burden of taxation on low-income households. Changes were also made to the upper thresholds: the threshold of the monthly employment income to which the 35% tax rate is applied was raised from ETB 5 000 to ETB 10 000 (Income tax (amendment) proclamation No. 608/2016). Similarly, the portion of annual rental income on which the 35% tax is levied was increased from ETB 60 000 to ETB 138 000. These reforms aimed at improving compliance among employees and businesses.

Ethiopia has introduced electronic systems to improve administrative efficiency (Ministry of Finance and Economic Cooperation, 2016[17]), including an Automated System for Customs Data Administration and fingerprint-based taxpayer registration numbers (Ministry of Finance and Economic Development, 2013[9]). Enforcement has been promoted through stronger tax audit systems, a more efficient court system to punish tax evaders and measures to prevent and control contraband.

The Ethiopian Revenue and Customs Authority has implemented short-term and long-term training courses for many staff and managers with the help of experienced training institutions to strengthen the implementation and execution capacity of the authority. In addition, the federal Ethics and Anti-Corruption Commission has provided ethics training to tax officials.
3. Financing scenarios for social protection

This chapter presents scenarios for financing social protection between 2016/17 and 2025/26. It starts by projecting the macroeconomic context to demonstrate how the fiscal space for social protection might evolve over this period and then overlays this with different scenarios for social protection spending. Particular interest is paid to the extent to which domestic sources of finance might fill the gap left by declining donor support.

The macroeconomic variables examined in this chapter include gross domestic product (GDP), public expenditure (capital and recurrent) and public revenues. Scenarios are based on extrapolations of historical data for the period 2010/11 to 2015/16 and on targets of the second Growth and Transformation Plan (GTP II) for the period from 2015/16 to 2019/20 and beyond.

Five scenarios for social protection spending are developed, which are compared with projections for revenues and expenditure to assess the future affordability of social protection. A model is also presented that explores the feasibility of the Government of Ethiopia (GoE) financing the different social protection scenarios from domestic sources.¹

Scenarios for real GDP

Three scenarios for real annual GDP growth between 2016/17 and 2025/26 are used as a starting point for this analysis (Figure 3.1). The first is a low-growth scenario of 8%, which corresponds to the growth rate in 2015/16, when a severe drought struck the agriculture sector. Under this scenario, real GDP will reach ETB 1.04 trillion by 2019/20 (the end of the GTP II period) and exceed ETB 1.6 trillion by 2025/26.

The second scenario for GDP is based on a business-as-usual growth rate: real GDP is assumed to grow by 9.9% per year, the average annual growth rate between 2010/11 and 2015/16. Under this assumption, real GDP would reach ETB 1.13 trillion at the end of the GTP II period and ETB 2.1 trillion by 2025/26.

Finally, a fast-growth scenario is based on the 11% annual GDP growth targeted by GTP II for the period between 2015/16 and 2019/20 (extrapolated to 2025/26). Under a fast-growth scenario, real GDP would approach ETB 2.3 trillion by 2025/26.

The second and third scenarios for GDP growth generate very similar results. As a result, the first and third scenarios (low and fast growth) are used in this chapter for the purposes of projecting key variables, including public expenditure, public revenue and social protection expenditure relative to GDP.
Scenarios for public expenditure

Projecting the evolution of overall public expenditure up to 2025/26 indicates the proportion of spending that would be absorbed by social protection under different scenarios. Naturally, public spending forecasts are closely linked to revenue projections; for a given level of spending on social protection, the strength of the revenue performance will determine the extent to which spending on other items might need to be reprioritised.

Forecasts for recurrent, capital and total public expenditure up to 2025/26 are developed under two scenarios. The first is a business-as-usual approach whereby a low-GDP-growth scenario is assumed and the share of the main components of public expenditure to GDP remains at the same level as during the GTP I period. The average percentage shares of recurrent, capital and total public expenditure to real GDP between 2010/11 and 2015/16 were 7.8%, 9.9% and 17.6% respectively.\(^2\)

The second scenario is a high-expenditure scenario: this assumes fast GDP growth and envisages an increase in spending based on GTP II, which targets recurrent and capital expenditure reaching 8.2% and 14.4% of GDP by 2019/20 respectively. Beyond 2020, it is assumed that the share of recurrent spending to GDP will remain constant while capital expenditure will keep rising to reach 15% of GDP by 2025/26. Total spending under a high-expenditure scenario would reach 23.2% of GDP by 2025/26.

Under the business-as-usual scenario, public expenditure will reach over ETB 199 billion by 2019/20 (ETB 87.7 billion for recurrent and ETB 111.6 billion for capital expenditure) and ETB 316 billion by 2025/26 (Figure 3.2). Under the high-expenditure scenario, total public expenditure is expected to be ETB 308.8 billion (ETB 111.6 billion for recurrent and ETB 197.2 billion for capital expenditure) by the end of the GTP II period and is projected to exceed ETB 500 billion by 2025/26.
Scenarios for government revenues

Revenue projections up to 2025/26 indicate the overall resource envelope for the GoE. Expenditure scenarios in the previous section are dependent on a certain level of revenue growth, although there is scope for spending growth to exceed increases in revenues. How the GoE might finance the associated deficits is beyond the scope of this study but the rising debt levels identified in Chapter 2 might act as a constraint to deficit spending.

Projections for tax revenue, non-tax revenue, grants and total government revenue are developed according to two scenarios similar to those developed for public expenditures. A business-as-usual scenario is obtained by assuming that each component of total revenue will remain constant as a percentage of GDP based on their respective shares during the GTP I period. A high-revenue scenario is predicated upon revenue growth exceeding economic growth and upon changes in the composition of revenues in line with GTP II targets.

The average percentage shares to GDP for tax revenue, non-tax revenue, grants and total government revenues between 2010/11 and 2015/16 were 12.2%, 2.0%, 1.6% and 15.7% respectively. In the business-as-usual scenario, which uses a low-GDP-growth scenario, these shares are projected to remain constant up to 2025/26.

Under the high-revenue scenario (which is based on a fast GDP growth scenario), tax revenue, non-tax revenue, grants and total government revenues reach a level equivalent to 18.4%, 1.8%, 0.7% and 21% of GDP respectively by the end of 2019/20. For the period after GTP II, it is assumed that tax revenues as a proportion of GDP will increase to 20% by 2025/26 while non-tax revenues as a proportion of GDP will remain at the level targeted by GTP II. Grants are projected to decline to almost to zero (0.01% of GDP) by 2025/26 when Ethiopia aims to attain middle-income status. Total revenues will be equivalent to 20.7% of GDP, 6 percentage points higher than under the business-as-usual approach.

Under the business-as-usual revenue scenario, total public revenue would reach ETB 177 billion by 2019/20 (Figure 3.3). Of this amount, tax revenue is projected to
account for ETB 137.4 billion, non-tax revenue ETB 22.2 billion and grants ETB 17.7 billion. This would be about ETB 20 billion below the level of public expenditure under the business-as-usual spending scenario in 2019/20. Total government revenue under a business-as-usual scenario approach will increase to ETB 281 billion by 2025/26 and the corresponding budget deficit would increase to ETB 35 billion (or 1.9% of low-growth-scenario GDP).

Figure 3.3. Projected values of domestic revenues and grants, 2015/16 to 2025/26

Under the high-revenue scenario, total revenue is projected to reach ETB 240 billion by 2019/20 (of which ETB 211 billion would be tax revenue, ETB 21 billion non-tax revenue and ETB 8.6 billion grants). The budget deficit under a high-revenue-high expenditure scenario is projected to reach ETB 37 billion by the end of the GTP II period. Total government revenue is projected to reach ETB 498 billion by 2025/26 under the high revenue scenario and the budget deficit is projected to decline to ETB 34 billion.

Scenarios for social protection expenditure

Five scenarios are presented for future social protection spending (Figure 3.4). Four scenarios correspond to different assumptions regarding the level of social protection expenditure relative to GDP; three of these four include humanitarian relief while one does not. These are analysed with reference to low- and high-growth scenarios for GDP. A fifth scenario projects social protection spending by costing or extrapolating spending in absolute terms for specific programmes and is not determined by GDP growth.

The first scenario is a business-as-usual spending projection whereby social protection expenditure as a proportion of GDP is kept at its average level between 2012/13 and 2015/16 (2.77% of GDP). In a low-growth scenario for GDP, social protection expenditure under this assumption is projected to increase from ETB 24.8 billion in 2016/17 to ETB 49.6 billion in 2025/26. In a high-GDP-growth scenario, social protection expenditure is projected to grow to ETB 63.5 billion over this period.
The second scenario is a low-social-protection projection, whereby social protection expenditure up to 2025/26 is equivalent to 2.27% of GDP, or 0.5 percentage points lower than average spending between 2012/13 and 2015/16. Under a low-GDP-growth scenario, social protection expenditure would nonetheless double in real terms, from ETB 24.2 billion in 2016/17 to ETB 48.4 billion by 2025/26. Under a high-GDP-growth scenario, social protection spending under this scenario would almost treble to ETB 61.9 billion in 2025/26.

The third, high, scenario is based on social protection expenditure equivalent to 3.27% of GDP, 0.5 percentage points above average spending between 2012/13 and 2015/16. Under a low-GDP-growth scenario, total annual social protection expenditure under this scenario would increase from ETB 29.3 billion in 2016/17 to ETB 58.9 billion by 2025/26. Under a high-GDP-growth scenario, social protection spending would reach ETB 75 billion in 2025/26.

The fourth scenario is a costed projection based on available plans for the productive safety net programmes and other programmes included within the mapping of social protection expenditure. Linear trends are assumed to forecast the costs of programmes for which future data is unavailable. Under the costed scenario, real expenditure on social protection programmes is projected to increase from ETB 25.5 billion in 2016/17 to ETB 44.7 billion in 2025/26.

The fifth scenario excludes humanitarian relief from social protection spending. As Chapter 1 demonstrates, social protection spending between 2012/13 and 2015/16 was stable at around 1.4% of GDP once emergency assistance was excluded. As a result, the fifth scenario projects the cost of maintaining social protection spending at 1.4% of GDP and assumes that humanitarian relief will be considered a distinct area of spending.

Figure 3.4 shows the effect of higher GDP growth on social protection spending when it is benchmarked against GDP. Under a high-GDP-growth scenario, even the low spending
scenario for social protection is higher in ETB terms than the high-social-protection spending scenario under the low-GDP-growth scenario. The costed scenario is not affected by GDP growth but nonetheless increases in real terms over this period.

**Net social protection spending**

As discussed in Chapter 1, social protection spending is financed through general revenues (taxes, non-tax revenues or grants) as well as by contributions from individuals and employers. In addition, some elements of social protection are financed by loans provided by financial institutions to youths and poor households to start businesses and in the form of land, which is provided free of charge to young entrepreneurs and for the construction of housing.4

Contributory schemes, loans and housing are not financed through tax revenues or external assistance. As a result, they can be netted out from total social protection expenditure when calculating the level of tax and non-tax revenues and external assistance needed to finance future social protection spending. Social protection spending that is financed solely through general revenues is hereafter termed “net social protection spending”.

The business-as-usual projections for contributory programmes and loans from financial institutions are generated by extrapolating from historical trends. To value the land provided for free by the Addis Ababa city government, the average of the foregone value from leasing is used.5

Spending by contributory and microfinance programmes as well as in-kind contributions to social protection expenditure are forecast to increase from an annual average of ETB 3.1 billion over the period from 2012/13 to 2015/16 to ETB 10.9 billion in 2025/26. Spending by contributory social insurance arrangements is projected to reach ETB 6.0 billion by 2025/26.

Net social protection expenditure represents the amount of social protection spending to be financed through domestic revenue (tax and non-tax) and external assistance. Under a business-as-usual approach for social protection spending, net social protection spending (including humanitarian relief) under the low and high GDP growth scenarios is expected to be ETB 39.1 billion and ETB 53.0 billion respectively, by 2025/26 (Figure 3.5).

Under the low social protection spending scenario, net social protection spending would reach ETB 37.9 billion (low GDP growth) or ETB 51.4 billion (high GDP growth) in 2025/26. Under the high social protection spending scenario, annual net social protection spending would reach ETB 48.1 billion (low GDP growth) and ETB 64.5 billion (high GDP growth) by 2025/26.

The portion of social protection spending to be covered through domestic revenues and external assistance would reach ETB 34.2 billion by 2025/26 according to the costed approach. Excluding humanitarian relief, net social protection spending would increase to ETB 14.6 billion and ETB 21.6 billion by 2025/26 under the low and high GDP growth scenarios respectively.
3. FINANCING SCENARIOS FOR SOCIAL PROTECTION

Figure 3.5. Projected net social protection (SP) expenditures, 2012/13 to 2025/26

Notes: Total social protection expenditure in 2015/16 was very large, hence the 2012/13 to 2015/16 average is used as a baseline for better representation.
* The costed scenario is independent of the low and high GDP growth scenarios.
** The value for 2012-16 is the average of the period from 2012/13 to 2015/16.
Source: Authors’ calculations based on data provided by MoFEC.

These results show that the resources required to finance social protection vary considerably depending on assumptions regarding GDP growth and the level of social protection spending relative to GDP. The exclusion of emergency assistance makes a significant difference to the calculation. The lower expenditure associated with the costed scenario shows how not linking social protection spending to a specific level of GDP enhances its affordability.

The extent to which increased coverage of contributory arrangements might reduce the onus on general government revenues depends on the degree to which individuals who enrol in social insurance arrangements are protected from the same risks as are mitigated by non-contributory arrangements. At present, there is little overlap between social assistance and social insurance in this regard. For example, it is very unlikely that elderly direct support beneficiaries of the Rural Productive Safety Net Programme would have been able to access a social insurance fund while they were of working age.

Projected net social protection spending to public spending

To determine the fiscal space for social protection, this study calculates net social protection spending as a proportion of public spending and recurrent spending. Net social protection spending accounted for 11.6% of public expenditure on average between 2012/13 and 2015/16; excluding humanitarian relief, this figure falls to 4.6%.

Business-as-usual net social protection spending at low-GDP and high-GDP growth scenarios as a share of business-as-usual public expenditure would increase to 12.4% and 16.7% respectively by 2025/26. Under a high social protection spending scenario, net social protection spending would absorb 15.2% and 20.4% of business-as-usual public expenditure in 2025/26 at the low and high GDP growth scenarios respectively (Figure 3.6, Panel A).
Under the costed scenario, social protection spending would fall to 10.8% of business-as-usual total spending by 2025/26 and to 6.4% of total spending under a high expenditure growth scenario.

If emergency assistance is excluded, net social protection spending would be equal to or lower than its current level of total public spending by 2025/26 under a low GDP growth scenario. Under a high GDP growth scenario, it would increase to 6.8% of total expenditure under a business-as-usual expenditure scenario but decline to 4.1% under a high expenditure scenario.

**Figure 3.6. Social protection expenditure as a proportion of projected spending scenarios**

This shows that achieving the high net social protection spending scenario under a business-as-usual expenditure scenario would require a significant reprioritisation of public funds towards social protection. However, if expenditure were to grow according
to the GTP II targets, net social protection spending in 2025/26 would account for 12.1% of total spending, which is only marginally higher than the baseline measure (Figure 3.6, Panel B).

Net social protection spending is predominantly classified as recurrent expenditure and accounted for 23.9% of the total recurrent expenditure under the baseline. Under a business-as-usual scenario for recurrent expenditure and social protection expenditure, the latter would absorb 28.1% and 38.1% of the former by 2025/26 under the low- and high-growth GDP scenarios respectively (Figure 3.6, Panel C). The high social protection spending scenario would absorb up to 46.3% of recurrent expenditure by 2025/26 (almost double the baseline share) under a high GDP growth scenario.

If humanitarian relief is excluded, the baseline falls to 9.5% of recurrent spending. This figure would rise to 10.5% or 15.5% by 2025/26 depending on the GDP scenario under a business-as-usual expenditure scenario. If expenditure were to increase according to the high spending scenario, these proportions would drop to 7.7% and 11.5% respectively.

Under the high public spending scenario, net social protection spending would account for a more manageable proportion of recurrent expenditure, both under a business-as-usual social protection spending scenario as well as under a high social protection spending scenario. However, the latter would still require an increase of up to 11 percentage points in the share of high scenario recurrent expenditure allocated to social protection relative to the baseline. This is unlikely to be feasible.

Scenarios for domestic and external contributions to social protection financing

The following section examines the feasibility of financing net social protection from domestic sources of revenue without donor support. This exercise responds to the GoE’s intention to be self-reliant for financing social protection and demonstrates to development partners the implications of a relatively abrupt withdrawal of support for social protection.

Table 3.1 shows net social protection spending in 2010/11 prices over the period from 2012/13 to 2015/16. It disaggregates this spending by source (domestic and donor) and indicates the share of domestic contributions to social protection spending as a proportion of tax revenue and domestic revenue (tax and non-tax) over this period.

Table 3.1. Domestic and donor financing of net social protection, 2012/13 to 2015/16

<table>
<thead>
<tr>
<th></th>
<th>2012/13</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net social protection spending in ETB billion (at 2010/11 prices)</td>
<td>13.8</td>
<td>14.9</td>
<td>16.1</td>
<td>24.2</td>
<td>17.3</td>
</tr>
<tr>
<td>Donor contribution in ETB billion</td>
<td>9.6</td>
<td>11.0</td>
<td>9.4</td>
<td>16.5</td>
<td>11.6</td>
</tr>
<tr>
<td>Domestic source contribution in ETB billion</td>
<td>4.2</td>
<td>3.9</td>
<td>6.7</td>
<td>7.7</td>
<td>5.6</td>
</tr>
<tr>
<td>Domestic source contribution (% of net social protection spending)</td>
<td>31.3</td>
<td>27.2</td>
<td>43.5</td>
<td>33.3</td>
<td>33.7</td>
</tr>
<tr>
<td>Domestic source contribution as a share of tax revenue (%)</td>
<td>5.5</td>
<td>4.4</td>
<td>6.7</td>
<td>7.7</td>
<td>6.1</td>
</tr>
<tr>
<td>Domestic source contribution as a share of domestic revenue (tax and non-tax) (%)</td>
<td>4.7</td>
<td>4.0</td>
<td>5.9</td>
<td>6.3</td>
<td>5.2</td>
</tr>
</tbody>
</table>

*Source:* Authors’ calculations based on MoFEC (n.d.){11}.

Net social protection spending (including humanitarian relief) averaged ETB 17.3 billion between 2012/13 and 2015/16 (of which ETB 5.6 billion was financed through domestic sources and ETB 11.6 billion by donors). The share of domestic sources to net social
protection spending averaged 33.7% across the four years. Domestic financing of social protection as a proportion of tax revenue and domestic revenue (tax and non-tax) averaged 6.0% and 5.2% respectively.

Figure 3.7 shows how responsibility for financing net social protection under different social-protection spending and GDP growth scenarios might evolve in a context where donor funding for social protection declined to 50% by 2019/20 and to zero by 2025/26. The results indicate the rate at which financing from domestic sources would need to increase in order for Ethiopia to achieve self-reliance in its net social protection spending.

Under the business-as-usual approach for social protection spending (Figure 3.7, Panel A) and under the low-GDP growth scenario, annual financing from domestic sources would need to increase to ETB 12.9 billion (more than double the baseline value) by 2019/20 to meet the 50% financing requirement. Between 2019/20 and 2025/26, annual contributions from domestic sources under the low GDP growth scenario would need to grow by 20.5% per year to achieve self-reliance.

Under the high GDP growth scenario, the annual domestic financial contribution would need to grow by 26% per year between 2015/16 and 2019/20 to reach a 50% share in the net social protection spending by 2019/20 under a business-as-usual social protection spending scenario. Between 2019/20 and 2025/26, annual contributions from domestic sources under the low GDP growth scenario would need to grow by 20.5% per year to achieve self-reliance.

In the low social protection spending scenario (Figure 3.7, Panel B), the annual contribution from domestic sources between 2015/16 and 2019/20 would need to grow by 22% per year (low GDP growth) or by 25% per year (high GDP growth) to reach 50% net social protection financing from domestic sources. To achieve self-reliance under the low social protection spending scenario by 2025/26, domestic contributions would need to grow by an average of 20.4% per year (low GDP growth scenario) and 25% per year (high GDP growth scenario) between 2019/20 and 2025/26.

Under the high social protection spending scenario (Figure 3.7, Panel C), annual contributions from the domestic sources should grow by between 29% per year (low GDP growth) and 32.4% per year (high GDP growth) on average between 2015/16 and 2019/20 to finance 50% of net social protection spending by 2019/20. Between 2019/20 and 2025/26, domestic financing should grow by an average of 20.6% per year (low GDP growth) and by 24.6% per year (high GDP growth) to achieve self-reliance.

For domestic sources to finance 50% of net social protection expenditure by 2019/20 under the costed scenario (Figure 3.7, Panel D) would require domestically financed social protection spending to grow by 22.1% per year between 2015/16 and 2019/20. To achieve self-reliance by 2025/26 under this scenario, domestic financing should grow by 18.2% per year between 2019/20 and 2025/26.

If emergency assistance is excluded from aggregate social protection spending, the increase in domestic spending required to offset a decline in donor support remains significant. Domestic financing of net social protection would need to increase from a baseline of ETB 2.3 billion to ETB 14.6 billion in 2025/26 under a low GDP growth scenario and to ETB 21.6 billion under a high GDP growth scenario.
Figure 3.7. Domestic sources of finance need to grow fast for Ethiopia to become self-reliant

Trends in the contributions of domestic and donor sources to social protection (SP), 2012/13 to 2025/26

* The costed scenario is independent of the high GDP growth scenarios.
** The value for 2012-16 is the average of the period from 2012/13 to 2015/16.
Source: Authors’ calculations based on data provided by MoFEC.
Social protection spending as a proportion of domestic revenues

The final exercise presented in this section shows the proportion of domestic revenues (tax and non-tax revenues combined) that would be absorbed by net social protection spending if Ethiopia were to reduce its reliance on donors to zero by 2025/26 (Figure 3.8). For each social protection scenario, business-as-usual and high revenue scenarios are considered. For the business-as-usual revenue scenario, a low GDP growth scenario is assumed, while high GDP growth is assumed for the high revenue scenario.

**Figure 3.8. Social protection under all scenarios will absorb a higher proportion of revenues**

Percentage shares of domestic social protection financing to total domestic revenues, 2012/13 to 2025/26

* The costed scenario is independent of the high GDP growth scenarios.
** The value for 2012-16 is the average of the period 2012/13 to 2015/16.
Source: Authors’ calculations based on data provided by MoFEC.

Under the baseline, net social protection spending equated to 5.2% of domestic revenues between 2012/13 and 2015/16, or 1.9% if emergency assistance is excluded. Under the business-as-usual scenario for social protection spending (and business-as-usual revenues), domestic financing of net social protection spending should increase to a level equivalent to 8% of domestic revenue by 2019/20 to achieve 50% financing from domestic sources. Thereafter, it would need to increase to 15.4% by 2025/26 for Ethiopia to achieve self-reliance (almost three times the baseline level).

Under the high-revenue scenario, domestic financing of net social protection spending must increase to a level equivalent to 6.1% of domestic revenue by 2019/20 to achieve 50% financing by 2019/20. By 2025/26, 10.6% of domestic revenues would need to be allocated to social protection to achieve financial self-reliance.
Under the low social protection spending scenario, net social protection expenditure would equate to 15% of domestic revenues (business-as-usual revenues) and 10.3% of domestic revenues (high revenue) by 2025/26 for the country to be self-reliant. Under the high social protection spending scenario, net social protection expenditure would equate to 19% of domestic revenue (business-as-usual revenue scenario) and 13% of domestic revenue (high-revenue scenario) by 2025/26 to achieve self-reliance.

Excluding humanitarian relief, net social protection spending would be equivalent to 5.8% and 4.3% of domestic revenues by 2025/26 under a business-as-usual and high revenue growth scenario respectively if financed solely from domestic sources. This assumes that humanitarian relief would still be covered partly from external sources throughout this period. However, social protection would nonetheless absorb a higher proportion of domestic revenues that might otherwise have contributed to financing emergency assistance, perhaps making it harder to finance crisis response domestically.

The costed scenario requires slower increases in domestic financing for social protection. Results from this scenario indicate that the proportion of domestic financing for social protection expenditure to domestic revenues will need to increase to 13.5% (under business-as-usual revenue scenario) and 6.9% (high-revenue scenario) for self-sufficiency by 2025/26.

These results reinforce the importance of Ethiopia increasing tax (and non-tax) revenue at a rate faster than GDP growth over the period ahead if it is to be able to finance social protection under the five scenarios envisaged here from domestic sources. They also underline that a costed approach to social protection spending will be easier to achieve than maintaining social protection spending at a certain level of GDP.

Notes

1 For all predictions, we used the following sigmoid model (not exponential growth): \( Y_t = Y_0 (1 + g)^t \), where \( t \) stands for time \( (t = 0, 1, 2, 3, \ldots T) \), \( g \) is the annual growth rate, \( Y_t \), the forecast value at time \( t \), \( Y_0 \), value at time 0 (initial value of \( Y \)).

2 The forecasts of public expenditures, government revenues and social protection expenditures are made as percentage shares of real GDP.

3 All of the programmes covered in the social protection mapping are covered in the costed projection method. There are existing projected figures until 2019/20 for programmes such as the rural and urban productive safety net programmes. These figures are adopted from the official documents after adjusting the figures for inflation but extrapolations are used to project for the years between 2020/21 to 2025/26. For the other programmes, we use extrapolations of the historical data to project for the period from 2016/17 to 2025/26. After making the projections for each programme, we sum the projected values of the programmes in each year to calculate the annual projection of social protection spending in the costed method.

4 Lower level governments provide land free of charge for young people establishing enterprises as a group to use as places of work and business. However, there is no organised data about the size or the estimated value of the land provided to the youth to start their business. Hence, it is not included in the expenditure mapping or in the forecasts of social protection expenditure.

5 Addis Ababa city government estimated the foregone value of land that it provided freely for the construction of 10/90 and 20/80 condominium housing programmes between 2004/05 and 2017/18
as ETB 27.7 billion if it was leased out. This amounts to an average of ETB 1.98 billion annually and we further assume that the average will remain the same until 2025-26.

6 However, it is not possible to report the exact share of recurrent and capital net social protection spending because in most of the data sources only the gross is reported.

7 We assume business-as-usual scenario for revenue at the low-GDP growth scenario and high-revenue scenario under the high-GDP growth scenario.
References


4. Key findings and policy recommendations

This report comprises two main components: a mapping of social protection spending and future financing scenarios for social protection up to 2025/26. These scenarios incorporate a range of projections for social protection spending and cover different scenarios for economic growth, public expenditure and public revenues. For this last category, particular attention is paid to donor financing, reflecting both the Government of Ethiopia (GoE)’s commitment to become self-reliant for its social protection spending and a steady decline in grants (as a proportion of revenue) in recent years.

The mapping component catalogues spending on the five focus areas of the National Social Protection Policy (NSPP). This exercise, which responds to a specific requirement of the National Social Protection Strategy (NSPS), gathers data from a wide number of institutions involved in the provision of social protection, including federal government ministries, sub-national administrations and development partners. Moreover, the study identifies the source of funding for social protection activities, such as different levels of government, contributions from individuals or employers, and donors.

The mapping exercise provides a baseline for future financing requirements. By revealing the trends in spending on each programme, it indicates which components of the social protection system are growing (or likely to grow) or whose spending is declining, as well as where financial responsibility lies across the system. This allows policy makers to anticipate future spending pressures. Where programmes are predominantly financed by donor sources, this exercise also demonstrates which interventions might be most vulnerable to a withdrawal of external support.

Mapping social protection activities by expenditure empowers policy makers to determine whether resources are allocated efficiently across the social protection system. Given the broad range of stakeholders involved in social protection, the exercise also sheds light on where there might be cost-savings from a more systematic approach to social protection that exploits economies of scale, common administrative mechanisms or broader policy coherence across the sector.

Chapter 2 analyses key macrofiscal variables such as public expenditure, revenue and debt, as well as poverty dynamics of the past 20 years. In so doing, it provides the historical context for social protection spending and identifies the fiscal space available to the GoE (and to social protection specifically) over the period up to 2025/26.

The final component of this study projects the social protection activities mapped in Chapter 1 against the fiscal framework of Chapter 2. Based on a range of scenarios, it addresses two critical questions confronting the GoE and development partners: (i) what level of social protection spending can Ethiopia afford; and (ii) will it be feasible for the GoE to be self-reliant for its financing of social protection by 2025/26?

These questions cannot be answered definitively. Affordability is not an objective concept but, in the context of public expenditure, reflects the priorities of government and the country as a whole. As a result, this study considers affordability in terms of the
proportion of revenue and expenditure that would be absorbed by social protection under different scenarios, and therefore to what extent the GoE would need to increase revenue or reprioritise spending to accommodate different levels of social protection spending.

Key findings

A number of important findings regarding the financing of social protection in Ethiopia emerge from the three principal components of this study. This section summarises those related specifically to social protection financing.

Mapping social protection spending

The mapping exercise calculates spending equivalent to 2.77% of gross domestic product (GDP) on average between 2012/13 and 2015/16. If humanitarian relief is excluded from social protection, spending falls to 1.4% of GDP. Domestic financing for social protection has increased significantly, although donors financed around 60% of social protection spending on average in recent years.

Spending on humanitarian relief is considerably higher than expenditure on the flagship social protection programme, the Rural Productive Safety Net Programme (RPSNP). Spending on the RPSNP has declined significantly in real terms while the number of beneficiaries has largely remained steady. This implies a decrease in the level of support per beneficiary, which in turn weakens the programme’s capacity to reduce poverty among this group.

There remains considerable unmet demand for social assistance: although Ethiopia has achieved great progress in reducing poverty, the national poverty rate was 23.5% in 2015/16. The implementation of the Urban Productive Safety Net Programme will address some of this unmet demand by targeting poverty in urban areas. While urban poverty is significantly lower than rural poverty, it is a growing policy priority due to Ethiopia’s rapid urbanisation.

Regional governments finance a broad range of social protection activities, either directly or in kind. Sub-national spending is thus an increasingly important component of the social protection system.

Contributions to the social insurance schemes for public- and private-sector workers are growing rapidly. However, it will take a long time for these programmes to start spending significant amounts on pensions and the high rate of informality will constrain continued growth in coverage.

Enrolment in Community-Based Health Insurance (CBHI), which is targeted at agricultural workers and the informal sector, has grown rapidly. As a result, its expenditure can be expected to increase quickly in the near future. To maximise its coverage, strong links should be established with PSNP beneficiaries.

The overall social protection spending figure is broadly in line with that calculated by a public expenditure review published by the World Bank in 2016. However, the respective reviews cover a different range of programmes. This underlines the difficulty in calculating (and comparing) harmonised figures for national social protection spending.
**Ethiopia’s fiscal framework**

The fiscal space for social protection in the future appears to be limited. The GoE has already accommodated significant growth in social protection and other poverty-targeted spending by shifting the composition of spending away from economic development.

Social protection spending has increased as a proportion of GDP but public revenues have not. Higher tax and non-tax revenues were offset by a decline in grants; as a result, public revenues fell from 16.6% of GDP in 2010/11 to 16.0% of GDP in 2015/16.

Ethiopia’s tax-to-GDP ratio over this period averaged 12.2%. This is much lower than was targeted by the Growth and Transformation Plan and is also much lower than the average for African countries. Non-tax revenues were volatile but trended upwards and made an important contribution to overall revenues, recently overtaking grants.

With tax revenue subdued and grants declining, the GoE is increasingly reliant on foreign borrowing; its debt level is increasing rapidly as a result. Although most of this debt is on concessional terms, interest payments have risen considerably and the International Monetary Fund has classified Ethiopia as being at high risk of debt distress.

The sluggish revenue performance has constrained public spending, which rose only slightly between 2010/11 and 2015/16, from 18.2% to 18.4% of GDP. Poverty-targeted spending and social spending have grown strongly, while expenditure on economic development remained steady in real terms but became a less important component of spending overall.

Fiscal incidence analysis for Ethiopia has shown that the tax system is progressive but places a significant burden on the poor. The RPSNP has an important impact on reducing poverty, while subsidies tend to benefit the better-off. Overall, the fiscal system is too small to facilitate significant redistribution between income groups.

**Future social protection spending scenarios**

Maintaining social protection spending under the business-as-usual scenario (social protection spending at 2.77% of GDP) will absorb an increasing proportion of public spending and revenues unless the GoE achieves the high revenue scenario envisioned under the GTP II.

When only the GoE’s recurrent rather than capital spending is considered, the proportion rises further still. However, identifying “net” social protection spending – i.e. spending which is financed through taxation rather than individual contributions or loans – somewhat reduces the size of the burden.

Increasing revenues as a proportion of GDP will be critical just to sustain current levels of spending on social protection, let alone increasing social protection as envisaged by the NSPP or financing the sector only from domestic sources. If revenues do not grow as a percentage of GDP, it would be necessary to carry out reprioritisation of spending towards social protection of a scale that is very unlikely to occur in practice.

A costed approach to planning social protection generates a more feasible set of projections for the future of social protection spending than does fixing expenditure as a proportion of GDP. Under a costed scenario, social protection spending would decline as a proportion of GDP up to 2025/26; to finance this scenario entirely from domestic sources under a high revenue growth scenario would require 6.9% of domestic revenues...
to be allocated to social protection, less than two percentage points more than the historical average.

Excluding humanitarian relief from social protection expenditure significantly reduces the cost that social protection places on the fiscus. However, humanitarian relief would still need to be funded by the GoE (with the support of donors). As a recent study by the United States Agency for International Development makes clear, there is a strong economic case for investing in social protection systems that increase households’ resilience in food-insecure areas rather than waiting for a crisis to hit before organising a humanitarian response that will only generate short-term benefits.

A rapid decline in donor support for social protection is likely to lead to major financing gaps and would make it very difficult for the GoE to implement the NSPS. The 3.4% of GDP Ethiopia allocated to social protection in 2015/16 was equivalent to over a quarter of its tax revenues in that year – a level of spending that would be impossible without external support. Nonetheless, external support for Ethiopia has declined significantly over the last two decades as a proportion of revenues and GDP; the GoE should base future spending plans on continued reductions.

**Policy recommendations**

This study is intended primarily to respond to the GoE’s needs (as articulated in the NSPS) regarding the current and future financing of social protection. However, the recommendations it generates are also relevant for development partners supporting the GoE, as well as for the broader social protection community. A number of the challenges that the GoE is confronting, such as how to scale up social protection amid declining donor support and how to deal with the long-term impact of climate change, have broad resonance in Africa and beyond.

**Think carefully about the denominator for social protection spending**

Four of the five scenarios used for projecting social protection fixed spending at a specific level of GDP. In every case, the outcomes showed it would be difficult to sustain these spending levels into the future. This reflects the dynamics of the underlying variables: social protection spending (including humanitarian relief) has grown much more strongly as a percentage of GDP than revenues and overall expenditure. Extrapolating these trends was bound to exacerbate the different trajectories.

It is important to note that budget planners in government typically do not use GDP as a benchmark for spending. Allocations are made to programmes or institutions as a proportion of available resources and/or total spending rather than the overall size of the economy. Moreover, using GDP as a denominator for projections related to social protection spending, total public spending and public revenues means that their dynamics are closely connected by a variable that is exogenous to budgetary decisions.

A financing strategy which shows a significant decline in social protection spending as a percentage of GDP risks being misconceived as advocating a scaling-down of social protection rather than the expansion envisaged by the NSPP. This reflects the problem with benchmarking government spending on a specific sector as a proportion of GDP to gauge a government’s commitment. A more reasonable indicator of this commitment would be the proportion of public spending or public revenues that is allocated to social protection since this would (to an extent) neutralise the fact that public revenues as a proportion of GDP differ widely even among countries at the same income level.
4. KEY FINDINGS AND POLICY RECOMMENDATIONS

The “costed” scenario, which reflects either firm spending plans or extrapolations of programmes, is more closely linked to the reality of budget planning. Looking at spending in absolute terms also demonstrates that per capita spending can increase substantially in a fast-growing economy even when expenditure is declining relative to GDP or public expenditure. However, this is not an ideal basis for long-term projections, especially in a context where the future plans of development partners are not clear and expenditure by new programmes, such as CBHI, is difficult to predict.

Finally, none of the projections anticipate changes in demand for current social protection programmes or for the introduction of new programmes. Demographic, economic or environmental factors could lead to marked changes in the types of programmes provided that cannot be foreseen ex ante; the spikes in social protection spending resulting from the droughts in 2015/16 and 2016/17 might become the norm rather than the exception.

Net social protection spending gives a better sense of financing needs and sources

Chapter 3 identifies various sources of finance for social protection beyond general revenues, such as contributions, loans or in kind (including land). These different sources have different dynamics, which need to be analysed separately.

A notable result of using net social protection is that it reduces the proportion of expenditure that is financed by tax revenues, a diversification that might ease pressure on public finances. This is consistent with a universalist but graduated approach whereby individuals at any stage in the life-cycle have access to a social protection mechanism, on the basis that those with incomes above a certain level are able to finance part or all of this protection themselves.

The rapid growth in coverage by the social security arrangements for public- and private-sector employees is a long-term response to low social protection coverage among certain workers once they reach retirement age. However, it will be a major challenge to extend coverage to the entire workforce, given the high level of informality.

The difficulty of extending coverage might have two important consequences for financing social protection. First, as the population ages, pressure is likely to grow for a formal non-contributory arrangement implemented at a national level. Second, one mechanism for increasing enrolment amongst informal workers is for governments to subsidise or match their contributions, thereby reducing the associated cost for the worker. These subsidies would be financed from the tax system, thereby blurring the distinction between contributory and non-contributory arrangements.

The CBHI already operates on this basis, with the contributions of indigent households covered by sub-national government. As the example of Indonesia demonstrates, such subsidies are a critical mechanism for achieving universal health coverage, but without careful management, they can also become a major strain on government finances and the social protection budget (OECD, forthcoming[1]).

Domestic resource mobilisation needs to consider equity and efficiency

Chapters 2 and 3 demonstrate the importance of Ethiopia increasing its domestic resource mobilisation, given its low tax revenue and the decline in donor support. Progress towards the objectives set out by the Second Growth and Transformation Plan is critical for the long-term financing not only of social protection but also broader public spending.
Increasing tax revenues will require careful consideration of the efficiency and equity of different tax instruments. To ensure that the financing mechanisms for social protection are coherent with its objectives, it will be important to understand ahead of time what the impact of tax reforms will be on poor and vulnerable households.

As the fiscal incidence analysis discussed in Chapter 2 demonstrates, certain taxes have tended to aggravate poverty. Ethiopia derives a significant proportion of revenues from personal income tax but, where this was found to impose a heavy burden on the poor, a reform to shift the burden away from low-income levels became necessary.

At the same time, it is important to consider the overall impact of the fiscal framework, including the spending side. The RPSNP is highly effective at reducing poverty and, if implemented at sufficient scale, can offset the adverse income effect of taxation. Meanwhile, subsidies that benefit better-off individuals should be carefully scrutinised for possible reform or elimination.

**Donors should carefully consider the pace of withdrawal**

As noted above, the projections in Chapter 3 indicate that a step change in domestic resource mobilisation would be required for Ethiopia to finance social protection spending (at recent levels) without external support. The scenarios in Chapter 3 simulate a much more rapid reduction in donor support than is likely to happen in practice, but even a slower withdrawal by donors is likely to place a financial strain on the GoE. The better the communication, co-ordination and planning around this withdrawal with the GoE, the easier the transition will be.

The overarching context of donor-withdrawal has important implications for the implementation of the NSPS. Where new programmes proposed by the NSPS are implemented, refining them as pilots and gradually scaling them up will be important mechanisms for ensuring they are robust to the changing financial environment.

**Pursue a systemic approach to social protection and its financing**

The NSPP commits to establishing a social protection system in Ethiopia. To do so will require coherence and co-ordination across the five action areas between institutions, programmes, and information systems. Although opportunities for enhancing systematisation of social protection is beyond the scope of this study, the potential identified in Chapter 1 for the CBHI to leverage the PSNP to enhance coverage is just one example of this kind of coherence.

Financing is a critical component of systematisation. Resources should be allocated across the system to maximise the value-for-money and impact of social protection through a constant process of reprioritisation. This is a way to safeguard the overall allocation to social protection. In contexts where reprioritisation does not happen in a regular and timely manner, ministries of finance are apt to shift funds from non-performing programmes to whatever aspect of public spending needs additional support, social protection or otherwise.

Policy makers also need to anticipate (as far as possible) demographic, social, economic or environmental changes that might affect demand for different social protection programmes. Shifting resources across the social protection system ahead of time to areas of spending that are likely to come under pressure is important for maintaining the long-term sustainability and effectiveness of a social protection system.
Humanitarian relief and social protection should be considered together

Excluding humanitarian relief from social protection expenditure generates a very different set of results in this study than when emergency assistance is included. Average spending drops from 2.8% of GDP to 1.4% of GDP and absorbs a much smaller proportion of public expenditure. Under this scenario, it would be more feasible for Ethiopia to become self-reliant for its social protection spending.

As Chapter 1 explains, humanitarian relief can be significantly more expensive than ex ante measures (including cash transfers) to enhance the resilience of residents of food insecure households, as the RPSNP has been shown to do. Beyond the financial benefits, there are also developmental impacts from such an approach, related to social protection’s capacity to enhance human capital and break the inter-generational transmission of poverty.

A long-term strategy for shifting away from emergency assistance and towards social protection programmes would therefore appear to be the most promising source of fiscal space for enacting the NSPS. However, as Chapter 1 also notes, such a transition is not straightforward. Social protection systems need to operate at a certain scale and with a specific infrastructure if they are to react with greater efficacy than agencies specialising in disaster response.

Financing for programmes such as the scale-up safety nets envisaged by Ethiopia is also a critical issue. Budgeting for natural disasters is difficult since it is often impossible to know exactly how much a crisis will cost until after it has passed. Precautionary saving and contingency budgets are a challenge in countries with low levels of domestic resource mobilisation, such as Ethiopia, given long-term unmet demand for public services (Phaup and Kirschner, 2010[2]).

As climate change becomes an ever-more critical threat, increasing global attention is devoted to the most appropriate financing mechanisms for protecting the most vulnerable countries. Although developments in this area are beyond the scope of this paper, it appears that the mechanisms most likely to prove effective in this area will leverage both external and domestic resources over the long term (World Bank, 2017[3]).

A transition from ex post to ex ante disaster response is likely to be gradual and indefinite. However, a clear delineation of financing responsibilities throughout this process is important. Kenya’s Hunger Safety Net Programme (HSNP), which is proving highly effective at scaling up in response to droughts in the north of the country, provides a useful model. The experience of the HSNP suggests that the GoE should prioritise up-front investment in systems and information architecture and take responsibility for core caseloads of its safety net programmes while development partners take responsibility for financing needs that arise when climate shocks occur (Gardner et al., 2017[4]).

Notes

1 A tool for assessing national social protection systems, the Social Protection System Review (SPSR) has been developed by the European Union Social Protection Systems Programme. SPSRs have been conducted in Cambodia (OECD, 2017[5]), Indonesia (OECD, forthcoming[1]) and Kyrgyzstan (OECD, 2018[6]). A toolkit for countries to implement the SPSR is freely available (OECD, 2018[8]).
References


### Annex A. Ethiopian national accounts

#### Annex Table A.1. Federal government expenditure by sector (2011-16)

ETB billion at 2010/11 real prices

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Source: Authors’ calculations based on data provided by MoFEC.
Annex Table A.2. Federal government revenue by type (2010-16)

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<th>Average</th>
<th>Average growth (%)</th>
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Source: Authors’ calculations based on data provided by MoFEC.
## Annex A. Ethiopian National Accounts

### Annex Table A.3. Regional government revenue by type (2011-15)

ETB billion at 2010/11 real prices

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<th>2013/14</th>
<th>2014/15</th>
<th>Average</th>
<th>Average growth (%)</th>
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Source: Authors’ calculations based on data provided by MoFEC.
## Annex Table A.4. External assistance and loans by source (2012-16)

ETB million at 2010/11 real prices

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<th>2014/15</th>
<th>2015/16</th>
<th>Average</th>
<th>Average growth (%)</th>
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<td>184.34</td>
<td>0</td>
<td>152.38</td>
<td>-24.74</td>
</tr>
<tr>
<td>Others</td>
<td>3 166.60</td>
<td>1 789.02</td>
<td>2 079.38</td>
<td>2 523.96</td>
<td>2 389.74</td>
<td>10.95</td>
</tr>
<tr>
<td>Bilateral assistance</td>
<td>3 835.15</td>
<td>4 089.09</td>
<td>2 137.65</td>
<td>3 194.58</td>
<td>3 314.12</td>
<td>2.78</td>
</tr>
<tr>
<td>Germany (KFW)</td>
<td>266.74</td>
<td>167.03</td>
<td>117.41</td>
<td>116.24</td>
<td>166.85</td>
<td>-22.69</td>
</tr>
<tr>
<td>Italy</td>
<td>116.84</td>
<td>0.92</td>
<td>86.48</td>
<td>195.49</td>
<td>99.93</td>
<td>68.76</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3 160.90</td>
<td>2 688.65</td>
<td>1 481.38</td>
<td>2 482.88</td>
<td>2 465.95</td>
<td>2.63</td>
</tr>
<tr>
<td>Others</td>
<td>290.68</td>
<td>1 222.49</td>
<td>452.37</td>
<td>399.97</td>
<td>591.38</td>
<td>-2.94</td>
</tr>
<tr>
<td>External loans</td>
<td>13 960.90</td>
<td>13 612.20</td>
<td>12 655.50</td>
<td>15 852.35</td>
<td>14 022.76</td>
<td>5.24</td>
</tr>
<tr>
<td>Multilateral institution loans</td>
<td>12 171.70</td>
<td>12 031.70</td>
<td>9 810.46</td>
<td>14 309.75</td>
<td>12 080.92</td>
<td>8.75</td>
</tr>
<tr>
<td>African Development Bank</td>
<td>2 192.38</td>
<td>1 844.42</td>
<td>1 959.27</td>
<td>2 059.21</td>
<td>2 013.62</td>
<td>-1.51</td>
</tr>
<tr>
<td>International Development Association</td>
<td>9 305.77</td>
<td>9 883.45</td>
<td>7 154.12</td>
<td>11 488.35</td>
<td>9 457.92</td>
<td>13.06</td>
</tr>
<tr>
<td>International Fund for Agricultural Development</td>
<td>141.15</td>
<td>124.78</td>
<td>96.77</td>
<td>286.6</td>
<td>162.33</td>
<td>54.04</td>
</tr>
<tr>
<td>Organization of Petroleum Exporting Countries</td>
<td>119.76</td>
<td>38.84</td>
<td>17.09</td>
<td>192.15</td>
<td>91.96</td>
<td>300.35</td>
</tr>
<tr>
<td>World Bank</td>
<td>217.08</td>
<td>89.91</td>
<td>573.76</td>
<td>205.92</td>
<td>271.67</td>
<td>138.49</td>
</tr>
<tr>
<td>Others</td>
<td>195.63</td>
<td>50.29</td>
<td>9.46</td>
<td>77.51</td>
<td>83.22</td>
<td>-6.46</td>
</tr>
<tr>
<td>Bilateral loans</td>
<td>1 789.17</td>
<td>1 580.48</td>
<td>2 855.10</td>
<td>1 542.60</td>
<td>1 941.84</td>
<td>7.67</td>
</tr>
<tr>
<td>China</td>
<td>1 672.28</td>
<td>1 545.85</td>
<td>2 558.94</td>
<td>957.55</td>
<td>1 683.65</td>
<td>-1.53</td>
</tr>
<tr>
<td>Kuwait Fund</td>
<td>107.87</td>
<td>34.35</td>
<td>167.96</td>
<td>83.11</td>
<td>98.32</td>
<td>90.12</td>
</tr>
<tr>
<td>Saudi Fund</td>
<td>9.02</td>
<td>0.29</td>
<td>0</td>
<td>144.05</td>
<td>38.34</td>
<td>-24.74</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>0</td>
<td>128.2</td>
<td>357.89</td>
<td>121.52</td>
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</table>

Source: Authors’ calculations based on data provided by MoFEC.
## Annex B. Social protection financing

### Annex Table B.1. Number of clients and the costs of financing the Urban Productive Safety Net Programme from donors and federal government sources

ETB million at 2010/11 real prices

<table>
<thead>
<tr>
<th>Programme client types</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
<th>2018/19</th>
<th>2019/20</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public works clients</td>
<td>159 800</td>
<td>319 200</td>
<td>488 880</td>
<td>329 260</td>
<td>169 680</td>
<td></td>
</tr>
<tr>
<td>Direct support clients</td>
<td>30 400</td>
<td>60 800</td>
<td>93 120</td>
<td>93 120</td>
<td>93 120</td>
<td></td>
</tr>
<tr>
<td>Total programme clients</td>
<td>190 000</td>
<td>380 000</td>
<td>582 000</td>
<td>422 400</td>
<td>262 800</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Budget</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Component 1: Safety nets</td>
<td>869</td>
<td>1 752</td>
<td>2 347</td>
<td>1 439</td>
<td>828</td>
</tr>
<tr>
<td>Public works transfers</td>
<td>478</td>
<td>1 023</td>
<td>1 266</td>
<td>640</td>
<td>217</td>
</tr>
<tr>
<td>Direct support transfers</td>
<td>63</td>
<td>132</td>
<td>203</td>
<td>203</td>
<td>203</td>
</tr>
<tr>
<td>Capital budget for public works</td>
<td>289</td>
<td>517</td>
<td>658</td>
<td>377</td>
<td>188</td>
</tr>
<tr>
<td>Sub-contracts for clients with special needs</td>
<td>38</td>
<td>80</td>
<td>220</td>
<td>220</td>
<td>220</td>
</tr>
<tr>
<td>Component 2: Livelihoods</td>
<td>83</td>
<td>483</td>
<td>576</td>
<td>88</td>
<td>93</td>
</tr>
<tr>
<td>Livelihood skills training, mentoring and coaching</td>
<td>83</td>
<td>88</td>
<td>181</td>
<td>88</td>
<td>93</td>
</tr>
<tr>
<td>Livelihoods transfer</td>
<td>395</td>
<td>395</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Component 3: Programme management and institutional strengthening | 128 | 44 | 58 | 33 | 32 | 295 |
| Project preparation facility                     | 70  |    |    |    |    | 70  |
| Targeting and management information system development | 32  | 5  | 5  |    |    | 42  |
| Evaluation and audit                             | 14  | 14 | 6  | 6  | 14 | 62  |
| Citizens engagement and social accountability    | 12  | 25 | 38 | 28 | 17 | 121 |
| Capacity building, safeguard monitoring and implementation | 34  | 21 | 21 | 21 | 21 | 117 |
| City administration budget                       | 29  | 52 | 66 | 38 | 19 | 203 |
| Regional and federal management budgets          | 19  | 34 | 44 | 25 | 13 | 135 |
| Grand total                                      | 1 162 | 2 386 | 3 111 | 1 644 | 1 006 | 8 519 |
| GoE operational expenditure (in kind)            | 105  | 198 | 264 | 176  | 88  | 831  |
| Total programme costs                            | 1 266 | 2 584 | 3 375 | 1 820 | 1 094 | 9 349 |
| International Development Association contribution | 849 | 1 727 | 2 451 | 1 049 | 235 | 6 555 |
| Government contribution (cash and in kind)       | 523  | 858 | 924 | 771  | 858 | 4 109 |
| GoE contribution in total programme cost (%)     | 41   | 33  | 27  | 42   | 78  |      |

Annex Table B.2. Resource mobilisation and utilisation by the HIV/AIDS secretariat

<table>
<thead>
<tr>
<th>Source</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Collected and transferred from the previous budget year</td>
<td>Money utilised in the year</td>
<td>Total collection in the year and transferred from the previous budget year</td>
</tr>
<tr>
<td>Government</td>
<td>5.08</td>
<td>-</td>
<td>5.04</td>
</tr>
<tr>
<td>Global fund</td>
<td>2 532.38</td>
<td>-</td>
<td>1 970.98</td>
</tr>
<tr>
<td>UNICEF and UNFPA</td>
<td>3.08</td>
<td>-</td>
<td>3.75</td>
</tr>
<tr>
<td>IGAD/IRRAP</td>
<td>1.32</td>
<td>-</td>
<td>5.24</td>
</tr>
<tr>
<td>CDC special fund</td>
<td>6.97</td>
<td>-</td>
<td>9.03</td>
</tr>
<tr>
<td>WFP Fund</td>
<td>0</td>
<td>-</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>2 548.83</td>
<td>-</td>
<td>1 990.06</td>
</tr>
</tbody>
</table>

Source: HAPCO annual reports.