# Ethiopia

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## 1 Introduction

Ethiopia is one of the oldest countries and, unlike other African countries, was not colonized albeit the brief occupation by Italy from 1936 to 1941. The country is home to ancient civilization which is witnessed by obelisks and rock-hewn buildings, ruins of temples and other archeological findings that are well-known for their fascinating monuments, architectural artifacts, unique scripts and metal tools. Ethiopia is also the only country in Africa with its own indigenous written alphabet, the *Ge'ez*. It has its own calendar which is based on the old Alexandrian or Coptic calendar.

The country is endowed with plenty of historical, social, cultural, linguistic and religious diversities. It consists of more than 76 ethnocultural communities, which are constitutionally referred to as the "Nations, Nationalities and Peoples." According to *Ethnologue*, 88 languages exist

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in Ethiopia, of which 86 are living and 2 are extinct. The other dimension of diversity is the coexistence of different religions of significant population: Orthodox Christianity being the most numerous (43.5%) followed by Islam (33.9%) and Protestant Christianity (18.6%). Although the number of their followers are small, Catholicism (0.7%) and other traditional faiths (2.6%) are also practiced.

With an estimated population of 105 million as of 2018, Ethiopia is the second most populace country in Africa next to Nigeria (World Bank, 2019). Of these, the Oromo ethnic group accounts for 34.4%, the Amhara 27%, the Somali 6.2%, the Tigray 6.1%, the Sidama 4%, the Gurage 2.5%, the Welaita 2.3%, the Hadiya 1.7%, the Afar 1.7%, the Gamo 1.5%, the Gedeo 1.3%, the Silte 1.3%, the Kefficho 1.2% and others 8.8% (World Bank, 2019). Encompassing an area of 1.1 million Square Kilometers, it is geographically located in the north-eastern part of Africa, more exactly at 4 and 14 degrees north, 33 and 48 degrees east. It is a landlocked country bordering Sudan and South Sudan on the west, Eritrea on the north, Djibouti and Somalia on the east, and Kenya on the south.

## 2 Federalism in Ethiopia

Before the introduction of federal form of government in 1991, Ethiopia had been ruled by a tradition of an extremely centralized unitary system. The creation of the modern Ethiopian State was started by Emperor Tewodros II (1855–1868) in the 1850s and completed by Emperor Menelik II (1889–1913) through the conquest and incorporation of a large extent of territories and a wide range of ethnocultural groups of the southern, eastern and western parts of today's Ethiopia (Zewde, 2002; Markakis, 2018). This culminated in the creation of a strong centralized and oppressive new empire anchored on the assimilation and/or subordination of all Ethiopian cultural communities to one language (Amharic) and one religion (Orthodox Christianity) (Esheté, 2010; Gudina, 2007). Emperor Haile Sellassie (1930–1974) continued this process by pushing further the cultural hegemonizing and the centralization of the State to finally create a unitary Ethiopian state and establish monarchial absolutism. The *Dergue* regime (1974–1991), which came to power after a popular uprising that removed the monarchy in 1974, further sustained a centralized tyrannical Ethiopian state with entrenched centralization of administrative, political and economic powers.

Since the overthrow of the socialist government [*Dergue* regime] by the Ethiopian People's Revolutionary Democratic Front (EPRDF) in 1991, the country introduced a federal system of government. The main factor that brought about this change was the dissatisfaction of the various ethnic groups in the then existing system of government, some of whom were engaged in armed struggle for secession. Hence, the introduction of the federal form of government in 1991 was to avoid the disintegration of the country which implies that the federation in Ethiopia is the "holding together" federation. As per the 1995 constitution, the federation comprises of the Federal Government and the nine-member States[1] both of which have legislative, executive and judicial powers. Addis Ababa, the capital city of the Federal government, has been given a constitutional status of self-government. Dire Dawa, another self-governing Federal city which does not have a constitutional recognition, was also established under federal proclamation.[2]

The defining feature of the Ethiopian federal system is the right of ethnocultural communities (nations, nationalities and peoples) to self-determination. To begin with, the foundation of the federal constitutional dispensation, as clearly stated in its preamble, is the outcome of the consent of each ethnocultural community to form a shared economic and political community capable of ensuring a lasting peace, a dependable democratic order and rapid and equitable socio-economic development. This is nowhere reaffirmed other than in Article 8 of the constitution which pronounces nations, nationalities and peoples as the ultimate bearers of sovereignty. Article 39 further guarantees the unconditional right of "Nations, Nationalities and Peoples" to all aspect of self-determination. The constitution in article 39(5) defines a Nation, Nationality or People similarly to mean "a group of people who have or share a large measure of a common culture or similar custom, mutual intelligibility of language, belief in a common or related identities, a common psychological make-up, and who inhabit an identifiable, predominantly contiguous territory." But there are no clearly defined attributes that

[1] Article 47(1) of the Ethiopian Federal Constitution; Member States of the federation are Tigray, Afar, Amhara, Oromia, Somali, Benishangul Gumuz, Southern Nations, Nationalities and Peoples, Gambela and Harari.

[2] Initially, Dire Dawa was created under federal proclamation as a temporary solution to the claims made by the Oromia and Somale regional states over the city.

differentiate nations from nationalities and peoples or nationalities from the other two.

Accordingly, each nation or nationality has the right to use and develop its own language, to express and promote its culture and to preserve its history. It also has the right to establish its own self-administration within its territory, be it at local or regional level, and to be fairly and proportionately represented in state and federal governments. The scope of this right ranges from a mere preservation and exercise of cultural distinctiveness to a full measure of self-government and even unilateral secession to form an independent sovereign state. This suggests that not only the foundation but also the continuity of the Ethiopian state is at the mercy of each ethno-cultural community.

The country has experienced demand for statehood and even secession by different ethnic groups. For example, the people of Sidama have long since demanded statehood. It is, however, recently that they succeeded to create their own regional state through referendum. Following this, more than a dozen nationalities in the SNNP region have started demanding for statehood. Though there were ethno-national opposition political parties such as the Oromo Liberation Front (OLF) and the Ogaden National Liberation Front (ONLF) which pursued secession even prior to the establishment of the federation, there has hardly been any serious attempt to secede. In fact, the EPRDF has been against the exercise of the right of secession, and it has discouraged any demand of this sort both through persuasion and by the use of force.

## 3 The Structure of Government

There are two Houses at the Federal level: The House of Peoples Representatives (HoPR) and the House of Federation (HoF). The HoPR, which is composed of members representing the Ethiopian people as a whole elected for five-year terms in single-seat constituencies according to a first-past-the-post principle, is the highest authority of the federal government. It has powers to legislate in all matters that fall under federal jurisdiction. Currently, the HoPR has 547 members of which 22 seats are reserved for minorities. The maximum number of seats for elected representatives in the House of Peoples' Representatives is 550, of which at least 20 seats are reserved for representatives of minority Nationalities and Peoples. The FDRE Constitution does not define what "minority Nationalities and Peoples" mean. It was left to the HoF to define them.

In 1995, the House, with the recommendation from the National Electoral Board, defined minority nationalities as those nationalities or peoples that are too small in number to make up a constituency so as to have their own representatives in the House of Peoples Representatives (HoPR).

The HoF, a more or less non-legislative house represents the diverse ethnocultural communities,[3] is bestowed with important powers and functions pertaining to, among other things, self-determination of ethnic communities, inter-state disputes, the sharing of federal grants and proceeds from joint revenues among regional states and constitutional interpretation. The powers of the HoF in legislation are limited only to its participation in the constitutional amendment, determination of undesignated powers of taxation and initiation of laws on civil matters necessary to establish and sustain one economic community.

As per Article 73(2) of the constitution, government power is assumed by the political party or coalition of political parties that has the largest number of seats in the house of peoples' representatives. The executive is made up of the prime minister as the head of government and the council of ministers. Both are appointed by and accountable to the HoPRs, and they have collective responsibility for any decision they make together.[4] The President, who is elected in a joint session of both houses for a term of six years, only has ceremonial and symbolic powers.

Under the current Ethiopian federal system, subnational governments have four levels, i.e., State, Zonal, Woreda and Kebele governments. With the exception of the state of the Southern Nations, Nationalities and Peoples (SNNP) and a few States with more than one nationality, where they have elected cabinets, Zones do not have a legislative organ. In States with a strong majority nationality, Zones are decentralized arms of the regional government, being responsible for coordinating and monitoring the activities of Woredas.

The constitution makes only a passing reference to local governments, in that it does not specify their structures, status and powers. States, are empowered to establish their own administration "that best

[3] As per Article 61(2) of the Ethiopian Federal Constitution, each ethnocultural group is represented by at least one member, and one additional representative is guaranteed for each one million of its population.

[4] See Article 72 of the Federal constitution.

advances self-government".[5] In doing so, however, they are constitutionally required to devolve adequate powers to local governments so as to enable participatory governance. Article 39(3) of the constitution, in addition, provides each ethnocultural community the right to establish its own self-government.

In practice, states have established at most three levels of local government: Zones, Woredas and Kebeles. Woredas, arguably the most influential local government, are established under States' constitutions. The others are created through ordinary regional laws. In urban areas, city administrations are equivalent to Woredas.

Constitutionally, Ethiopia is the Federal Democratic Republic with a parliamentary form of government[6] in which the executive is accountable to the legislature. The system of government relies almost exclusively on representative democracy. There are only few elements of direct democracy whereby people make decisions through referendum. Only demands for self-government, statehood and secession by a "nation," "nationality" or "people" and settlement of border disputes between States need a referendum to come into effect. In practice, referendums were held few times. The one which is held in 2000 is to solve the question of identity of the *Silte* community. The settlement of Oromia–Somali and Oromia–SNNP border disputes also required a popular vote (Fiseha, 2012). The most recent one is the referendum that was held in 2019 to determine the statehood question by the People of Sidama that was a Zone in SNNP.

Electoral politics has remained contentious in Ethiopia. Although a series of elections have been held since 1995, none has been competitive except for the 2005 national and local elections. On the one hand, the ruling party has used the power of incumbency and its strong organizational capacity to repress the oppositions and control the results of elections (Lyons, 2010; Abbink, 2017). On the other hand, the opposition parties have not been viable enough to mobilize the people beyond the capital city and certain urban areas because of their limited resources and the intimidation of the ruling front. As a result, the EPRDF and its affiliates monopolized the politics of Ethiopia throughout the period closer to three decades of post-*Dergue* (Lyons, 2010).

[5] Articles 50(4) and 52(1) of the Ethiopian Federal Constitution.

[6] Articles 1 and 45 of the Ethiopian Federal Constitution.

Accountability of government is one of the fundamental principles of the Ethiopian constitution. Since government power can only be seized through periodic elections conducted every five years, the election is one of the mechanisms that ensure accountability. Public officials or elected representatives are held accountable if they fail in their public duties. Elected representatives can also be recalled if they lose the confidence of their electorates.[7] However, given the relative lack of electoral competition and the domination of electoral politics by a single party at all levels of government, election has not, in practice, played much role in promoting the accountability of governments.

The constitution also provides for an extensive list of fundamental rights and freedoms of citizens and groups, which impose limits on the power of the government. A Human Rights Commission and an ombudsman that are responsible for the HoPRs were established as per the constitution to ensure the protection of human rights and freedoms. Auditors-general have also been established to ensure the financial accountability of government at federal and state levels. These institutions have, however, been blamed by many to be weak and partisan, and they have fallen short of fulfilling their responsibilities.[8] The judiciary lacks independence and impartiality to protect human rights. Until recently, there has been no independent free press vibrant enough to reflect the voice of the people, and the operations of the civic society have been impaired with highly restrictive government laws and actions. Therefore, ensuring accountability has been a major challenge in Ethiopia (Makundu, 2018).

## 4 Social and Economic Development

Ethiopia has made significant progress to become one of the world's fastest growing economies in recent years. According to the World Bank (2019), the country has been growing at an average growth rate of 10.4% from 2004 to 2018. This led to significant reductions in the proportion of people living in extreme poverty from 71.7 to 27.3% in 2015. Income inequality, as measured by Gini coefficient of 39.1 in 2015, is among the

[7] Article 12 (1, 2 and 3) of the Federal Constitution.

[8] Goshu, Wondemagegn T. (2015) The Ethiopian [National] Human Rights Commission and Its Contribution to Constitutionalism. Ethiopian Constitutional Law Series 5 (2015).

lowest in the world. Despite robust economic progress, the country still remains one of the poorest nations in the world with a per capita GDP of $702 and a HDI of 0.463 in 2017, which is well below the average value of the Sub-Saharan Africa (0.537). Agriculture is the mainstay of the economy absorbing 66.02% of the total employment while contributing 31.1% of GDP. The service sector dominates the economy as its share in GDP stood at 36.5% while the contribution of industry to the GDP is slowly increasing to reach 27.3%.

Though Ethiopia has been one of the fastest growing economies for the last 10–15 years, there has been a low or lack of structural transformation of the economy. This slow or lack of structural transformation is compounded by a very slow demographic transition that impeded the nation from reaping the benefit of demographic dividend. As a result of lack of economic structural transformation and slow demographic transition, the number of jobs created every year has not been catching up with the new entrants into the labor force. Moreover, jobs created were not "quality jobs." This led to the national crisis of youth unemployment that has been threatening the socio-political stability of the country.

The government of Ethiopia has been pursuing what it refers to as Democratic Developmental State development ideology where the state plays crucial role in the economy. As a result, the state heavily intervenes in different sectors of the economy, particularly infrastructure and heavy industries. According to the Constitution, the ownership of all lands and natural resources is in the hands of the state. Despite the recent signals of privatization, postal service, telecommunication, electricity and aviation are monopolies of the state. The financial sector of the economy is dominated by government-owned financial institutions (banks and insurance). This has contributed to increased government spending, budget deficits and public debt from both domestic and foreign sources. Foreign investors are not allowed to involve in banking, insurance, microcredit and saving and broadcasting and mass media services.

The state-led policies have indeed contributed for the abovementioned socio-economic progress registered over the last few years. The progress, nevertheless, seems to reach its limit mirrored in the declining growth rate and the corresponding challenges of high unemployment, soaring inflation, foreign exchange shortage and increasing foreign debt burden. The distortions and inefficiencies resulting from excessive government interventions hampered the development of the private sector and hence the economy. Ethiopia is one of the low-income countries that have a relatively high public investment rate with the lowest estimated marginal returns. In contrary, its rate of private investment is relatively too low (World Bank, 2016).

## 5 Allocation of Expenditure Responsibilities

Ethiopia adopted a dual federal system in which most of the executive powers of each level of government coincide with its legislative powers. The Constitution assigns expenditure and regulatory responsibilities to the federal government and the regional states, leaving the residual powers with the latter. The division of powers set out in the constitution[9] favors the Federal government in legislation and policy-making. Consistent with the traditional theory of public finance, the Constitution of the FDRE puts the stabilization functions, authority concerning monetary and fiscal policies, under the federal government's sphere of influence. The federal government is also mandated with the formulation and implementation of policies for national social and economic development, strategies and plans. The responsibility to establish national standards and basic policy criteria for health, education and science and technology are also among the mandates of the federal government. States can also develop and implement policies, strategies and plans within their respective geographic jurisdictions given that they do not contradict with the general policy directions and standards set by the federal government.

Nevertheless, no regional policies or strategies have yet been devised and implemented. Rather, States have been implementing the policies and plans developed by the federal government. These policy documents and development plans cover areas of competence that are constitutionally assigned to the regional governments (Fiseha, 2005). The replication of federal policies at the regional levels is mainly due to the dominance of a single party, the EPRDF, which was a coalition of four ethnic/regional parties, i.e., the Oromo Democratic Party (ODP), the Amhara Democratic Party (ADP), the Southern Ethiopia Peoples Democratic Movement (SEPDM) and Tigray Peoples Liberation Front (TPLF). Since the adoption of the federal system in 1995, this coalition has controlled power at all levels. On the surface, the EPRDF looked like a

[9] See Articles 51, 52 and 55 of the Ethiopian Federal Constitution.

decentralized party. But practically, it functioned in a centralized manner with its *democratic centralism* as a principle of internal organization. As a result, central government hegemony in policy-making over the States has prevailed since the introduction of the federal system.

On a legislative sphere, States have constitutional power in areas of labor, commercial and penal codes, as well as civil laws except on matters that the HoF believes require uniform provisions.[10] While the power to legislate on land and natural resources is reserved for the federal government, the administration as per federal law is States' power.

The assignment of allocative functions basically follows the *subsidiarity* principle. Given the fact that residual powers reside in them, States are responsible for the provision of basic social services. The provision of primary education, health care and drinking water is administered by local governments. Local governments in urban areas have wider responsibilities, including such municipal functions as local roads, slaughter houses, recreational centers, fire protection, public libraries, street lighting, waste management, sewerage and urban land administration (Garcia and Rajkumar, 2008).

The federal government is entrusted only with those public services with a significant degree of non-excludability like national defense and foreign affairs. It provides services with significant economies of scale and that promote the consolidation of one economic community such as air, rail and water transport and major roads linking two or more States and postal and telecommunication services. Furthermore, the federal government also has a regulatory power over inter-state commerce, foreign exchange and money supply, which is crucial for the preservation of internal common market (Table 1).

The division of expenditure assignment lacks clarity as to the specific limits of the framework powers assigned to both levels. Moreover, there is significant overlaps, concurrency and sharing are observed in the division of powers. However, the mechanism of intergovernmental relations (IGRs) in Ethiopia does not have adequate constitutional foundation and is practically weak and poorly institutionalized. As a result, there is no effective mechanism to deal with these overlapping and concurrency issues. The relations tend to be dominated by the federal government and

[10] Article 55 sub 3, 4, 5 and 6 the Ethiopian Federal Constitution.

**Table 1** Legislative and executive responsibilities of different levels of government

| *Powers/Responsibilities* | *Legislation* | *Execution* |
|---|---|---|
| Foreign relations | Federal | Federal |
| Economic, social and development policy | Federal and State | Federal and State |
| Inter-state and foreign trade | Federal | Federal |
| Defense | Federal | Federal |
| Police and public security | Federal and State | Federal and State |
| Monetary and financial policy | Federal | Federal |
| Education and health | Federal | State |
| Land and natural resources | Federal | State |
| Water-bodies and rivers linking more than one state | Federal | Federal |
| Citizenship, immigration, refuge and asylum | Federal | Federal |
| Political parties and election | Federal | Federal |
| Air, rail, water and sea transport | Federal | Federal |
| National roads | Federal | Federal |
| Labor, commercial and penal laws | Federal | Federal and State |
| Civil law | Federal and State | Federal and State |
| Civil service | Federal and State | Federal and State |
| Patents and copyrights | Federal | Federal |
| Possession and bearing of arms | Federal | Federal |
| Residual powers | State | State |

*Source* The Constitution of the FDRE

violate some of the most important principles of intergovernmental relations of equality, partnership and mutual consent. The hitherto endeavors made to strengthen intergovernmental relations are by far gloomy. The fact that most intergovernmental concerns and issues are dealt with through the party channel has undermined the need to institutionalize IGRs. The recent initiative on the development of IGRs law seems, however, to be a positive step in consolidating the system.

The Ethiopian constitution gives much emphasis to equity, equality and pluralism. These principles are reflected both in the political and economic realms, and they are embodied in the institutions of the federal system. Equality among individuals, groups including gender and cultural communities are guaranteed.[11] In addition to having equal rights with

[11] See the preamble and Articles 41(3 and 5) and 89(1, 2, 4 and 7) of the Federal Constitution.

men, women are constitutionally entitled to affirmative measures with the aim to rectify the inequality and discrimination they have suffered from. Two key examples of areas where such affirmative measures have been applied are education and public employment. In addition to getting special support when they join universities, women are required lower scores in nationally administered high school and university entrance exams. Though there is no imposed obligation on the private sector, the Federal Civil Service Proclamation No. 1064/2017 provides a preferential treatment for women candidates over male candidates in recruitment, promotion, transfer, redeployment, education and training (See article 48/2). The constitution also imposes an obligation on the government to provide special assistance to the disabled, elderly, children and those ethnocultural communities least advantaged in socio-economic development. The government at all levels is also constitutionally obliged to ensure that all Ethiopians have equal opportunity to and equitable benefit from the country's development.[12]

The constitution gives wider space for the government to play an active role in the socio-economic life of the people. In addition to the provision of basic public services such as education and health, governments at different levels are required to create employment opportunities, eliminate poverty in its different forms and promote economic growth.[13] Anchored on its socialist background, the policies of the ruling government also affirmed this constitutional provision of government involvement to the extent of determining the pace and direction of the country's development. Guided by the above values and principles, state policies and plans are geared towards agricultural development, poverty reduction and promotion of equitable basic services, all of which have objectives of ensuring equity. This has, indeed, hampered the development of the private sector. Recently, the government took a bold decision towards broadening the participation of the private sector. Apart from planning to privatize key state-owned enterprises, a Public–Private Partnership (PPP) Framework was provided to promote semi or purely private

[12] Article 89 of the Federal Constitution.

[13] See Articles 89(8) and 90(1) of the Federal Constitution.

solutions to the development of public infrastructures as an alternative to public provision.[14]

The excessive emphasis on equity at times brought tradeoffs with efficiency. For example, the unconditional nature of most of the federal transfers has promoted equity but only at the expense of efficiency in utilizing the funds. Since no strings have been attached to the transfers, there has not been accountability on the part of the receiving States in reducing infrastructural deficit and improving service delivery (Shah and Fesehatsion, 2015). Crucial services such as telecommunication and electricity have been provided by the federal government based on the principle of equal access sacrificing the effectiveness and competitiveness of the sectors.

There are a number of channels through which the federal government influences subnational expenditure decisions. Being the major and most powerful one, the party channel has been used to guarantee uniform policies and development plans across the levels of government. Complementary but equally important are the federal policy documents which cover areas which are purely the jurisdiction of subnational governments. Although they have not been as influential as the abovementioned two channels, certain specific-purpose federal transfers such as Millennium Development Goals/Sustainable Development Goal (MDG/SDG) grants have also been used to influence subnational policies and actions. The other channel is the now Ministry of Peace which was formerly known as the Ministry of Federal Affairs. This Ministry which grew out of the office for Regional Affairs within the Prime Minister's office, though mandated to bring the four emerging States on par with the others, had served to control these States until 2001. This might prove the existence of some degree of *de jure* asymmetry among subnational jurisdictions during the early years of the federal experiment though the constitution, as per Article 47(4), provides them with equal powers and rights.

The Ethiopian Constitution does provide a mechanism for addressing intergovernmental disputes. It is the House of the Federation, as the final interpreter of the constitution, which has the power to resolve interstate or Federal-State government disputes and misunderstandings. The legal

[14] A Proclamation to provide for the Public Private Partnership, Proclamation no 1076/2018, *Negatit Gazeta* 24th year, No. 28. Addis Ababa, February 22, 2018.

framework[15] provides a room for the conflicting parties to resolve their conflicts by themselves through peaceful means and discussion before the case is presented to the House for a final decision. Until now, intergovernmental dispute over constitutional division of powers is rare. The only case in this regard is the dispute between the federal government and the State of Oromia over the power to levy and collect tax on proceeds from the sale of property and proceeds from renting properties such as house, which was then solved through discussion with the help of the House.

## 6 Taxation Powers

The tax assignment in Ethiopia is largely in accordance with the economic principles of fiscal federalism and common practices of other federations. There are, however, marked differences in some respect. In comparison to other federations, the constitution gives much more detailed provisions regarding the division of power of taxation. It clearly specifies which layer of government has what tax powers. This helps a great deal in reducing potential intergovernmental disputes over tax powers.

The division of taxation powers is mainly structured according to the categories of taxpayers or particular things as sources of revenue; in that, the two levels divide tax sources rather than the tax bases. The only exceptions are custom duties over which the federal government has exclusive control and land-use fees, which is the sole domain of States. Generally, the constitution provides three categories of taxation powers: exclusive federal, exclusive state and concurrent taxation powers (Article 96, 97 and 98). Each level of government has legislative as well as administrative powers over sources exclusively allocated to it. Revenues derived from concurrent sources of taxation powers were to be levied and collected jointly by the two levels of government until the power to levy and administer the taxes was given to the Federal government through a constitutional amendment.

States levy and collect taxes from farmers, cooperatives, enterprises they own, employees of State and private companies, small-scale mining operators and State services. On the other hand, the Federal government has taxation powers over importers and exporters, employees of Federal

[15] Consolidation of the House of the Federation and the Definition of its Powers and Responsibilities Proclamation, Proclamation no. 251/2001, Article 24, *Negarit Gazeta*, 7th Year, No. 41, Addis Ababa, July 6, 2001.

and International Organizations, properties and enterprises owned by the Federal government, lotteries and other games of chance, air, rail and sea transport, federal services and monopolies. Corporations, enterprises owned jointly by the federal and State governments, and any gas, petroleum and large-scale mining operators are made to be concurrent revenue sources.

The lucrative sources of revenue are assigned to be either exclusive federal powers or concurrent. For instance, the revenue of the federal government from customs, taxes and charges on imports and exports, constitute about 34.3% of total federal revenue in 2016/17. The other major sources of federal revenue are profit, VAT and excise taxes on enterprises owned by federal government. The residual powers of taxation are not given to either of the two levels of government. Rather, taxes that are not designated should be determined by the two-thirds majority vote in a joint session of the House of the Federation and the House of Peoples' Representatives (Article 99) (Table 2).

The designation of levying power over Value Added Tax (VAT) to the Federal government reveals serious practical problems in the assignment of undesignated taxation powers. The name VAT does not appear in the constitutional division of powers of taxation. In substance, it is similar to sales tax which is designated to the federal government and States according to the categories of the taxpayers. This is also confirmed in the federal VAT proclamation, which considers VAT as a replacement of sales tax. Though the decision of the joint houses mentions nothing regarding administration and sharing revenues, the Federal government, by treating just like one other source of concurrent power, administers and shares the revenues to the States based on the formula determined by the HoF. It delegated the States to collect and utilize the proceeds of VAT collected from individual traders. Furthermore, the states quitted collecting sales tax from eligible individual traders since the introduction of VAT. These all suggest that, contrary to the understanding of the two houses at the time of their decision, the VAT and sales are practically taken as similar taxes (Lencho, 2012).

Though both the Federal government and States enjoy legislative as well as executive powers over revenue sources reserved to them, the legislative sphere has been held sway by the former. Not only the exclusive federal sources but also the concurrent ones fall under the federal legislative jurisdiction. At times, the legislative power of the federal government

**Table 2** Tax assignment in Ethiopia

| *Tax types/Sources* | *Legislation* | *Collection* | *Revenue sharing* |
|---|---|---|---|
| Custom | Federal | Federal | Federal |
| Payroll tax | | | |
| *Employees of State and private enterprises* | State | State and Local | State and Local |
| *Employees of Federal Government and International Organizations* | Federal | Federal | Federal |
| Income tax (corporate and personal) | | | |
| *Private companies and Company Patent Rights* | Federal | Federal | Federal and States |
| *Bank Deposit Interest Earnings and Federal Companies* | Federal | Federal | Federal |
| *Small-scale Mining Operators, Individual Traders, State Companies, Private Properties and Individual Patent Rights* | State | State | State |
| Royalties | | | |
| *Large Scale Mining, Gas and Petroleum Operators* | Federal | Federal | Federal, State and Local |
| *Small scale Mining Operators* | State | State and Local | State and Local |
| VAT and turnover | | | |
| *Exports and Imports, Federal Enterprises* | Federal | Federal | Federal |
| *Companies* | Federal | Federal | Federal and State |
| *State Enterprises and Individual Traders* | State | State and Local | State and Local |
| Excise | | | |
| *Exports and Imports, Federal Enterprises* | Federal | Federal | Federal |
| *Companies* | Federal | Federal | Federal and State |
| *State Enterprises and Individual Traders* | State | State and Local | State and Local |
| Fees and charges | | | |
| *Federal Services* | Federal | Federal | Federal |
| *State Services and Land Use* | State | State and Local | State and Local |

*Source* The FDRE Constitution and Minutes of the Decisions of the Joint Sessions of the Two Houses even extends to the exclusive taxation powers of States. VAT and income tax proclamations are good examples in this regard.

In a similar fashion to the assignment of expenditure responsibilities, the division of taxation powers is limited only to the federal government and the regional states. The Federal constitution does not assign any taxing power to the local governments for their fiscal powers are left to be determined by the States. However, local governments are assigned almost no taxation powers in the constitutions of the States. The only power they have is to collect payroll tax, land-use fees and agricultural-income taxes on behalf of the States. However, they are not allowed to use the revenues they collected to finance their expenditure responsibilities until they get them back in the form of transfer from States. The case of urban local governments is to some extent different since these entities have several revenue sources, which include rents from and sales of municipal property, urban land-lease fees, charges and fees from municipal services and penalties (Aytenew and Tesfaye, 2012). In some big cities, these revenue sources cover up to 66% of the total expenditures of the local governments (Werner and Nguyen-Thanh, 2007).

From the discussion on the allocation of expenditure and tax powers to the local level, it can be evidently concluded that local governments have hardly had the authority and resources to effectively engage in democratic self-rule. They were to a large extent administrative organs over which regional authorities had a strong controlling power. The expenditure responsibilities of the local governments are limited mainly to the administration of States' social services. Despite the constitutional commitment to empower local governments, one can, therefore, argue that the practice of decentralization has failed to bring about genuine self-rule at a local level.

## 7 Intergovernmental Fiscal Transfer and Revenue Sharing

Ethiopia's fiscal federalism is characterized by a high degree of vertical as well as horizontal fiscal imbalances. This is in fact an inherent challenge faced in every federation. But the problem is much more severe in Ethiopia and is vividly seen in the intergovernmental fiscal relations between the federal government and the States. During the period 2012/13–2016/17, the share of the revenues collected by the States in the total national government revenue collection was 21% while their share in total national public expenditures was 44.04%. The ratio of the revenue collected by the States from their own revenue sources to total actual expenditure on average was only 23.81% over the same period. This shows that, on average, more than 76% of the expenditures of the States were covered by transfers from the federal government (Table 3).

There is a high level of heterogeneity among the States in Ethiopia in terms of population, geographical size, level of development, natural resource endowment etc. For example, the largest state both in terms of population and area is Oromia with a population of 36.5 million and 359.6 thousand square kilometers while the smallest one is Harari which has a population of 251 thousand and an area of 0.34 thousand square kilometers. In terms of the level of development, the four states of Afar, Benishangul Gumuz, Gambella and Somali are, relatively, less developed. As a result, the fiscal capacity of the States differs considerably. The per capita own revenue collected by the strongest state is more than 6 times that of the weakest. The States with the highest per capital own revenue are Dire Dawa City Administration and Harari, owing mainly to their urban nature. Tigray State, with a relatively small population size and better revenue collection effort, has been collecting relatively high per capita revenue. Those States that have large population size such as Oromia, Amhara and SNNP have low per capital revenue collection (Table 4).

**Table 3** Intergovernmental budgetary relations (2012/13–2016/17)

| *Year* | *National government revenue* | | *National government expenditure* | | *States own revenue as percentage of their expenditure* | |
|---|---|---|---|---|---|---|
| | *States share* | *Federal share* | *States share* | *Federal share* | *Excluding Addis Ababa* | *Including Addis Ababa* |
| 2012/13 | 18.14 | 81.86 | 42.70 | 57.3 | 20.70 | 36.90 |
| 2013/14 | 20.34 | 79.66 | 44.66 | 55.34 | 21.68 | 39.78 |
| 2014/15 | 22.47 | 77.53 | 43.73 | 56.27 | 22.57 | 39.77 |
| 2015/16 | 22.1 | 77.9 | 43.12 | 56.88 | 24.48 | 42.85 |
| 2016/17 | 21.95 | 78.05 | 45.99 | 54.01 | 29.64 | 52.21 |
| **Average** | **21.00** | **79.00** | **44.04** | **55.96** | **23.81** | **42.30** |

*Source* MoFEC, Fiscal Policy Directorate

**Table 4** Per capita revenue collection by states in Ethiopian Birr, 2016/17

| *Regions* | *Tigray* | *Afar* | *Amhara* | *Oromia* | *Somali* | *BG* | *SNNP* | *Gambella* | *Dire Dawa* | *Harari* |
|---|---|---|---|---|---|---|---|---|---|---|
| PC revenue | 895.3 | 372.3 | 423.3 | 320.8 | 394.4 | 556.3 | 356.3 | 850.7 | 1,943.4 | 2,005.6 |

*Source* MoFEC and CSA

Recognizing the inevitability of fiscal imbalances, the Constitution lays down legal basis for intergovernmental fiscal transfers. There are two fundamental provisions that are directly related to intergovernmental fiscal transfers. Article 94 states that the federal government may provide states with grants in the form of assistance or loan, so long as it does not deter the balanced development of States. The other provision is related to the concurrent powers of taxation. As stipulated in Article 98, there are certain revenue sources that are owned jointly by the two levels of government. The mechanism used to distribute both joint revenues and federal grants among the levels of government is determined by the House of Federation.

The constitution does not specify any principle, specific criteria or guiding procedure for the design of the grant. The HoF, therefore, seems to have complete freedom and flexibility in designing the grant scheme. For the last 25 years, the dominant transfer mechanism used to address both the vertical and horizontal imbalances has been the Federal General-Purpose Grant (FGPG). The FGPG is a formula-based equalization grant which aims at equalizing the fiscal capacities of States so that they are enabled to provide comparable level of public services to their electorates. The transfer system is strongly influenced by the experience of the Australian federation as it considers both expenditure needs and fiscal capacity of States.

The grant pool is solely determined by the federal government. Upon the recommendation of the Ministry of Finance, the Council of Ministers every year decides upon the total pool and presents it as part of the federal government budget to the House of the People's Representatives for approval. Over the period 1996/97–2018/19, the total pool for the FGPG nominally shows an increasing trend. The only exception is the year 1999/00 where, because of the Ethio-Eritrean war, the federal grant decreased significantly. As can be seen from Table 5, the total pool of

**Table 5** FGPG as percentage of total federal government budget

| *Fiscal year* | *2014/15* | *2015/16* | *2016/17* | *2017/18* | *2018/19* | *2019/2020* |
|---|---|---|---|---|---|---|
| FGPG (in '000,000 Et. Birr) | 51,520.40 | 76,808.64 | 87,871.71 | 115,624.59 | 135,604.73 | 138,140.86 |
| Total Federal Budget (in '000,000 Eth Birr) | 178,565.91 | 223,397.82 | 274,373.20 | 320,803.60 | 354,481.67 | 386,954.97 |
| % of Grant | **28.85** | **34.38** | **32.03** | **36.04** | **38.25** | **35.70** |

*Source* MoFEC Data Base

FGPG has shown an increasing trend in nominal terms over the period 2014/15–2019/20, though the trend has been unstable when measured as a share of federal budget.

The FGPG formula is designed by the Secretariat of the HoF with technical support from external consultants, and it is approved by the HoF periodically. Once approved, the formula serves for three to five years. The existing grant formula was adopted by the HoF in 2017 to serve for three consecutive years (2017/18—2019/20). The formula uses a relative fiscal gap-filling approach to distribute the federal grant where the total pool is distributed based on the relative fiscal gap of States. The relative fiscal gap is measured as a ratio of fiscal gap of each state relative to the sum total of fiscal gap of all states. The formula is developed based on the estimation of relative fiscal gaps, which involves the estimation of the relative revenue capacities and expenditure needs of States. The representative tax system (RTS) and representative expenditure system (RES) were used to assess States' revenue capacities and expenditure needs. Fiscal gap calculations are used to determine relative fiscal gaps of the States to distribute the available pool of resources. The FGPG Formula places greater emphasis on equity as the primary concern in the system is to provide all Ethiopian nationals equal access to publicly funded social services as clearly stated in Article 41(3) of the constitution.

In addition to the general-purpose unconditional grant, the country has experiences of specific-purpose conditional transfers. One of such grants is the Millennium Development Goals (MDGs) specific-purpose grant (Legesse et al., 2016). Similar to the FGPG, this grant is allocated to all the nine regions and Dire Dawa City Administration since 2011. The transfer is made using the FGPG formula. The grant was earmarked for capital expenditures in six selected sectors, i.e., rural roads, water (drinking water and irrigation), health, education, agriculture and small and medium enterprise development. And it aimed at contributing to the achievement of Millennium Development Goals. The MDGs grant design exhibits six key features: its amount is discretionary; its spatial allocation is formula-driven; its usage is partially earmarked; it is monitored by the Federal government on a project by project basis; it is accompanied by a rigorous reporting and the key role is played by regions, not Woredas (Legesse et al., 2016). The evaluation by the World Bank confirms that it was a very successful program.

Starting from 2014/15, the MDGS grant was changed into Sustainable Development Goals (SDGs) grant and its amount is decreasing over time. Previously, the SDG grant was to finance projects in water, education, health, agricultural development and rural road sectors. Eventually, however, the States, more specifically the four relatively developed ones, are instructed to use the grant for the development of integrated agro-industry parks. During the past eight years (2012–2020), the FGPG and MDG/SDG grants have been the two most dominant transfers. The relative size of the latter on average was about 18.6% of the total transfer, excluding other specific-purpose transfers, while the remaining 81.4% of the total transfer came from the former.

In addition to the MDGs/SDGs grant, Ethiopia has been using other specific-purpose transfers. The major ones include the Road Fund, Productive Safety Net Program (PSNP), Urban Safety Net Program (USNP), General Education Quality Improvement Program (GEQIP) and Urban Local Government Development Program (ULGDP) (Desisa, 2014). Most of these programs allocate the grant using the FGPG formula. But few developed their own formula for the allocation. All the specific-purpose grants have been implemented without the knowledge and involvement of the House of Federation. Since the FGPG does not take the MDG and other specific-purpose transfers into consideration, there is a lack of integration among the different grant programs.

Shared revenue from joint tax sources is the other source of subnational finance. Sharing revenues from joint revenue sources is one of the salient characteristics of intergovernmental fiscal relations in Ethiopia. The House of Federation approved the first and only revenue sharing formula in 1997 and the decision to implement it was made in March 2003. All the revenues derived from such joint sources are allocated among the levels of government on a derivation basis (origin principle). Since the constitution (Art. 98) gives the power of concurrent taxation to the federal government and regional states, there is no reference to local governments as the formula considers the Federal government and States as the only sharing parties.

Recently, a revision is made both on the formula and the administrative mechanisms of joint revenues. In the revised system, an equalization element is introduced in the sharing of revenues from indirect taxes such as VAT and excise while the revenues from direct taxes are still to be allocated on a derivative basis. The share of States from such tax bases is now distributed among themselves using the FGPG formula. The share of States from such taxes is made to be increased from 30 to 50% of the total proceed. There is also an increase in the share of revenues from royalties from 40 to 50%. Local governments are also to share from the royalties derived from oil, petroleum and large-scale mining operations to compensate for any negative externalities. The main change brought about by this revision is, however, in making the system of concurrent revenue sharing more transparent, principles-based and simple (HoF, 2019) (Table 6).

Despite the revision, there are still serious concerns on the sharing of revenues derived from oil, petroleum and large-scale mining operations. In fact, currently, Ethiopia does not earn noticeable revenue from extraction of high-value natural resources relative to the size of the economy. The available data show that the share of this subsector is less than 1% of the GDP and is dominated by the export earnings from gold (which covers more than 60%) (Moore Stephens, 2018). However, the future of the nation in terms of natural resource revenues seems bright given the country's potential in this regard and the advances in exploration and extraction technologies.

The current and revised share of States from such revenues (50%), therefore, is so big to expose the country to different challenges. Since the tax bases for such revenues are unevenly distributed, favoring States in the allocation will definitely lead to fiscal inequities, and hence unbalanced development, among States. Due to the volatile nature of the revenues

**Table 6** The existing joint revenue distribution formula

| | *Tax sources* | *Types of tax* | *Share of federal government* | *Share of regional government* |
|---|---|---|---|---|
| 1 | Enterprises jointly owned by the federal and regional governments | a. Profit taxes | Share in capital | Share in capital |
| | | b. Personal income tax from employees | 50% | 50% |
| | | c. Sales tax (VAT), service and excise taxes | 70% | 30% |
| 2 | Private share companies (corporations) | a. Profit tax | 50% | 50% |
| | | b. Sales tax (VAT), service and excise taxes | 70% | 30% |
| | | c. Taxes from dividends due to shareholders | 50% | 50% |
| 3 | Large-scale mining and petroleum and gas operations | a. Profit tax | 50% | 50% |
| | | b. Royalties | 60% | 40% |

*Source* House of Federation (2019)

derived from these resources, high dependence on resource revenue will expose States to macroeconomic instability. What is more, the lack of absorption capacity of States will also cause substantial efficiency losses as a result of misspending.

Since woredas, with the exception of few urban areas, do not have any taxing powers, the major source of their budget has been State-local transfers, which cover about three-fourth of woredas' expenditures. States have been allocating about half of their budget to the local governments to ensure sustainable delivery of local public services. For example, for the period between 2011/12 and 2016/17, States on average transferred 44.5% of their budget to local governments. Most States use similar approaches to local fiscal transfers. The transfer is a general-purpose equalization transfer which aims at the financial capacities of local governments to provide comparable level of local public services.

The equalization formulae were developed largely on the basis of local expenditure needs. Only three states tried to assess the fiscal capacity of local governments. The expenditure needs of local government were assessed using average unit cost approach based upon historical expenditures. Though the States exerted much effort in designing the formulae using quantitative data and rigorous analysis, a number of drawbacks that are related to efficiency, equity and accountability were observed. The approach they used treats urban and rural woredas as well as large and small municipalities in the same way. The expenditure needs assessment did not comprehensively cover important local services. No transfer is available for capital expenditures while covering almost all recurrent expenditures. Since they did not provide any incentives for efficient and effective budget utilization, they failed to ensure results-based accountability.

## 8 Macroeconomic Management

The stabilization functions are mostly under federal control. This follows from the fact that the expenditure levels of regional states are dependent heavily on the grants from federal government and monetary policy is the mandate of the federal government. The federal government has complete authority over monetary policy. The National Bank of Ethiopia is entrusted with the power to develop and implement the country's monetary policy in a way that ensures price and exchange rate stability and healthy financial system. It is, therefore, in charge of printing money, setting the official interest rate, controlling the nation's entire money supply, managing the country's foreign exchange, gold reserves and government bonds and licensing and supervising banks, insurances and other financial institutions.

The National Bank of Ethiopia, being accountable to the Prime Minister, is not an independent institution. The independence of the central bank is also compromised due to the fact that appointments of its management and board of directors are made by the prime minister, without the approval of the parliament. As a result, the bank has been operating under the direct rule of the federal executive. The federal government's misguided monetary policies are, in part, blamed for the high and increasing rates of inflation that eroded the gains on poverty reduction.

In the monetary policy framework of the National Bank of Ethiopia and national economic plans, it is emphasized that the primary goal of monetary policy has been maintaining price and exchange rate stability in a way that creates a conducive macroeconomic environment for rapid and sustainable growth. The target is indicated to be maintaining inflation within a single digit and ensuring a stable exchange rate that encourages export growth. The direction has been to maintain the growth of broad money on a par with the growth of nominal GDP, to keep the interest rate paid on deposits at the minimum at equal or slightly higher than the annual rate of inflation (positive or zero real interest rate on deposits) and to hold an adequate level of foreign reserves (NPC, 2016: 14). However, the nominal rate paid on deposits is about half the inflation rate making the real interest rate on deposits negative for many years. This, in part, explains the poor saving mobilization in the country (PSI, 2019).

Since the largest proportion of the budgets of the States is dependent on the grant from the federal government, the role of the States in influencing the macroeconomic conditions of the country is practically negligible. This, as indicated earlier, is the consequence of centralizing trend of Ethiopia's fiscal federalism. Not only do the most important sources of revenue belong to the Federal government, but States' spending is also largely dependent on non-compulsory Federal transfers. The transfer pool is simply determined by the federal government, and there is no any legislative or regulatory rule guiding the determination of the total pool. Furthermore, the States' borrowing rights are limited to internal sources and are subject to preconditions set by the federal government. The federal government has provided, by law, the terms and conditions under which States can borrow. It is the Ministry of Finance that determines the amounts to be borrowed by individual States taking into account the national fiscal policy and macroeconomic stability. States are required to provide the Ministry with all the necessary information required.

In practice, there has not yet been significant divergence between federal and State tax laws. This may be due to the tax harmonization provision in the Federal Financial Administration Law which requires the Federal government and State to harmonize their tax policies and systems. The Ministry of Finance is responsible to lead, coordinate and ensure the tax harmonization. In fact, this does not have a constitutional basis so that it may not be binding upon regions if they adopt divergent tax policies which, in effect, adversely affect the macroeconomic stability. The other reason, which is more appealing, is the smooth relationship between the two levels which is primarily facilitated by the party channel.

The Federal government, at least at plan level, pursues a prudent fiscal policy primarily aimed at ensuring macroeconomic stability for sustainable economic growth through financing expenditures mainly from tax revenues and maintaining budget deficit below 3% of GDP to be financed without compromising macroeconomic stability. The objective of the fiscal policy extends beyond achieving macroeconomic targets of price stability and sustained growth to shaping the political economy of the country by supporting inclusive development and productive investments.

The framework for debt management is established through the fiscal policy and financial administration laws of the federal government. No bond can be issued without the authorization of the House of Peoples' Representatives and all loan agreements are required to be approved by the House of Peoples' Representatives. Each loan is issued in the country's *Negarit Gazeta,* the official federal government Gazette, to ensure transparency and accountability in debt management.

One area that can show macroeconomic instability is the overall fiscal operation of the government. During the last five years (2013/14–2017/18), the average annual gross domestic investment and saving have been 38.62% and 22.46% of GDP, respectively. This has led to a huge annual saving gap. The federal government has been using external and domestic borrowing to fill the resource gap. As a result, the country's debt has risen significantly. Ethiopia is now at high risk of debt distress. Government debt to GDP ratio, which had been 47.2% on average between 2007 and 2017, reached an all-time high of 61.8% in 2018 (IMF, 2019). As debt servicing obligations are posing very high risks, the government has decided to refrain from financing new projects with non-concessional debt in 2018/19. The growth of broad money has also remained strong registering 26.12 for the last decade (National Bank of Ethiopia, 2018). This has been one of the major reasons for soaring inflation which stood above a single-digit target at about 13% in 2018.

The level of public expenditure has also been significantly higher than domestic resource mobilization. For example, in 2016/17 government expenditure and revenue to GDP ratios were 18.2 and 14.9, respectively. This gave rise to an overall budget deficit of 3.3% of GDP which is against the fiscal rule of the government which set the fiscal deficit not to exceed 3% (IMF, 2019). The external trade is also characterized by large trade deficit owing to both poor performance of exports and continued high levels of imports. In 2018, Ethiopia exported $7.1 billion and imported

$19.2 billion, resulting in a negative trade balance of $12.2 billion (World Bank, 2019).

## 9 The Ethiopian Federal System and Response to Pandemics: Lessons from Coronavirus

Powers related to health and health-care matters are shared between the federal government and regions. The constitution in its article 51(2) clearly empowers the federal government to develop and implement national healthcare policy, strategy and plans. The Federal government is also entrusted with the power to set and implement national standards and basic policy criteria for public health (see Article 51 sub 3). Apart from following up and coordinating the implementation of health programs across the nation, the Federal government provides technical, material and financial support to States. Despite the constitutionality, the powers and functions of the federal government as specified by federal laws include establishment and administration of federal hospitals, control and supervision of the proper execution of food, medicine and health-care administration and regulatory functions, promotion and coordination of research activities and prevention and controlling of epidemic and communicable diseases and coordination of measures tackling the problem.[16]

On the other hand, States are mandated with the powers of formulating and executing their own health policies and strategies (Article 52[2c]). All health-related powers which are not given to the Federal Government are also reserved to the states as per Article 52(1). States are therefore mainly responsible for the provision of both preventive and curative health services. They have practically been very active in these areas.

Similarly, both levels of government are responsible for the public health emergency response (See Article 89(3) of the constitution). They have the duty to manage any kind of disaster and to provide appropriate support to those affected by the disaster. In times of epidemic or other

[16] See Proclamation No. 1097/2018, Definition of Powers and Duties of the Executive Organs of the Federal Democratic Republic of Ethiopia Proclamation, *Federal Negarit Gazeta*, 25th Year No. 8 (November 2018); and Regulation No. No. 301/2013 Ethiopian Public Health Institute Establishment Council of Ministers Regulation, *Federal Negarit Gazeta*, 20th Year No. 10 (January 2014).

kind of emergency such as the current Covid-19, the power of the federal government goes beyond what is mentioned above. The Federal Government, as per Article 94(2) of the constitution, has a spending power in the sense that it can provide States with emergency assistance and loans. It also has a constitutional power to declare State of Emergency (SoE) either nationally or in some parts of the country (See Articles 51(16), 77(10) and 93). In this regard, the federal government can take all necessary measures "to protect the country's peace and sovereignty, and to maintain public security, law and order." It can also suspend or limit basic human and democratic rights enshrined in the Constitution with the exception of changing the nomenclature of the State and restricting right of nationalities to cultural liberty, right to equality and freedom from inhuman treatment. According to the constitution, states are also allowed to declare SoE within their respective geographical jurisdiction.

What one can learn from the above division of powers is that powers on matters of health services fall under framework powers where the federal government are entrusted to formulate a nationwide framework policies and legislations, broad enough to leave adequate rooms for the States to develop and implement their own specific policies that fit their local circumstances. There is also a lack of clarity and specifics in the division of powers. There are a wide range of gray areas where it is impossible to make demarcations on the specific boundaries of each level's jurisdiction. The proper implementation of these powers, therefore, requires effective intergovernmental interactions, coordination and collaboration.

To the contrary, however, there have never been well-established processes and institutions to facilitate intergovernmental relations (IGRs) in the health sector. Coordination and collaboration among the levels of government using proper channels of IGRs have been rare and weak. This is what has been witnessed in the government's response against the Covid-19 pandemic. Since the outbreak, the government of Ethiopia at different levels took measures to prevent and contain its spread. At the federal level, a National Ministerial Committee (NMC) was established to mobilize coordinated response to Covid-19 and agreed on certain cautionary and preventive measures even before the confirmation of the first case in Ethiopia. Following the occurrence of cases in the country, the federal government resorted to more powerful actions such as closing schools and nightclubs, shutting all land borders, suspending flights to highly affected countries, instructing civil servants to work from home and university students to take their courses virtually and banning large gatherings including religious events. To prevent importation, all travelers entering Ethiopia are now required to spend 14 days in quarantine.

On the contrary, States' response, and of local governments, came very late. Initially, their effort was limited to creating awareness. They have later on started to take serious measures to the extent of banning inter- and intra-state movement of people, though the legal basis for the former action is questionable as inter-state travel seems to be the jurisdiction of the federal government. Tigray regional state went even further to declare state-wide SoE. Coffee houses, bars, nightclubs, large markets and billiard halls have been closed. Selected social activities such as a wedding have also been banned.

Though the hitherto response made by the federal government has been relatively robust there is a lack of effective coordination and cooperation among the levels of government. This can be evidenced by differences in the measures taken by the federal and state governments and the absence of States in the national committee. No IGR platform has been formed yet to coordinate the response against coronavirus. One single effort that can ever be mentioned in this regard is the discussion among federal and state communication heads and officers that was held at the office of the prime minister on how to effectively create public awareness about the pandemic.

Allocating about $150 million to finance activities aimed at tackling the pandemic, the federal government has been strengthening its surveillance, diagnostics and medical care capacity. In an effort to combat the outbreak at subnational level, it has provided States with medical supplies and equipment including testing kits. It has also been mobilizing additional funds from both internal and external sources. However, there has not yet been any special fiscal transfer planned or effected to the regions as part of the effort to fight the spread of the virus.

## 10 Concluding Remarks

By any standard, Ethiopia is a highly centralized federation. It is so both in design and practice. The division of powers greatly favors the federal government. It is, however, in practice that the federal government has grown so forcefully even to the extent of undermining the roles and status of the States and local governments. Ethiopia's experiment with ethnic federalism has not yet faced a more practical challenge. The major reason for this is the hitherto one-party political dominance across the nation.

The fact that the ruling coalition, the EPRDF, together with its satellite allies in some of the regions has seized power both at the federal and State level ever since the introduction of the federal system makes it difficult to fully put the federal dispensation into practice thereby judge its workability thereof. The party, with its organizing principle of democratic centralism, has ruled the country in an extremely centralized manner.

Currently, the ruling coalition is in deep crisis. The crisis started with friction over the distribution of power within the party and hence the state, after losing its center of gravity following the death of the late Prime Minister Meles Zewawi. The popular protest and uprising that had prevailed in States of Oromia and Amhara during the pre-reform period also exacerbated the internal fissures. The root cause of the protest was the long-standing grievances related with land, administrative boundaries, governance and the perceived inequity in opportunities and distribution of infrastructure.

The recent change in the leadership of EPRDF brought with it a massive wave of reforms with some relevance to fiscal federalism. Pertinent in this regard is the change in the inter-party power relations within the ruling coalition and the widening of the political space. The loosening of democratic centralism means member parties of the coalition and the States they ruled will become more assertive of their interests and autonomy. The weakening of the coalition as a result of the continuity of power struggle within the ruling party is already undermining the power of the center. The widening political space has also encouraged people to express their demands more freely than ever. Demands for statehood have already flourished in the ethnically diverse State of the Southern Nations, Nationalities and Peoples. Many pan-Ethiopian nationalist opposition parties are also pushing for constitutional amendments.

The increasing demand for statehood according to the provision in the constitution will have significant implications on the fiscal relationship among the different tiers of governments. Currently, regional states cover, on average, only about 20% of their expenditure from their own revenues. That is, on average about 80% of the expenditures of the regional states is covered by the grants from the federal government. More importantly, the largest proportion of the expenditure of the regional states is recurrent. The smaller regions barely cover their recurrent budgets and sometimes borrow from through the federal government to cover basic recurrent expenditures towards the end of the budget year. With the proliferation of statehood in different parts of the country, particularly in SNNP, will lead to many small states that cannot cover their expenditure on basic services. This, in turn, leads to the increasing development gap between the larger and smaller regions which fuels internal frictions.

These all indeed have direct implications on the intergovernmental power relations between the federal and State governments. The move towards a more open democratic space will most probably bring a more devolved federal arrangement against the previously centralized practice. It may end the dominance of the federal government. However, no one can be certain about the nature and extent of the change in the federal system. Only time will tell as to what will happen to the Ethiopian centralized fiscal federalism.

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