

ECONOMIC COMMISSION FOR AFRICA

WORKSHOP IN BUDGET-PLAN HARMONIZATION, TAX POLICY
AND ADMINISTRATION - Addis Ababa, Ethiopia

(19 - 31 May 1975)

(Report of a mission)

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1. The workshop was organized and conducted in response to a request to the Economic Commission for Africa from the Provisional Military Government of Ethiopia - Ministry of Finance conveyed in their letter reference 1/G4/46/337 of 7 April 1975.

2. The curriculum and schedule of the workshop was finalized in the light of the discussions held on 16 May 1975 with the Minister of State for Finance and other heads of the budget, finance and revenue departments and the Advisers attached with the Ministry of Finance.

3. The workshop was inaugurated at the National University on 19 May 1975 by H.E. Ato Negash Desta, Minister of Finance. The Finance Minister in his inaugural address emphasized the importance of the establishment of proper budgetary, financial control and tax administration policies and procedures in the light of the impact of the current changes on the country's socio-economic development. He noted that the country being in the middle of a wave of changes unheard of in its long history, national development priorities in social, economic and political fields were needed to speed up the pace of the country's progress. He said that in order to give direction and purpose to the changes a properly designed in service training such as this workshop was necessary and most appropriate.

4. The workshop was attended by over 25 participants drawn from the Ministry of Finance - revenue, taxation budget and finance departments. Some of the participants were heads of their respective departments. Advisers attached with the Government of Ethiopia and some experts from the University also participated frequently in the deliberations of the workshop. The level of participation generally was fairly high and the presentations were always followed by lively discussions. The curriculum of the workshop included the following major topics:

- I. The importance and role of budget-making and the cycle of financial administration.
- II. Budgetary procedures, problems and administration in Ethiopia.
- III. Taxation systems in socialist States based on experience of USSR, Poland and Czechoslovakia.
- IV. Relationships between planning and Government budgeting and major requisites of budget-plan harmonization.
- V. Tax system in Tanzania and the role it plays in mobilizing resources for development.
- VI. Taxation and development in Africa.
- VII. Ethiopian tax system and future development.
- VIII. Programme for tax administration improvement with particular reference to the Inland Revenue Department.
- IX. The taxation of small traders and professionals.

- X. The taxation of agricultural incomes - general considerations in the light of African developing countries.
- XI. Ethiopian experience in the taxation of agricultural incomes.
- XII. Tax appeals system with particular reference to Ethiopia.
- XIII. Customs, tariff and administration.
- XIV. Excise taxes problems and administration.
- XV. The management approach to budgeting - programme and performance budgeting, its main features, advantages implications, stages involved, structure, work load and work measurement.
- XVI. Role of public sector in planning for economic development with particular reference to public enterprises.
- XVII. General considerations for developing countries as they undertake negotiations for conclusion of Double taxation treaties with developed countries.
- XVIII. Techniques of expenditure and revenue forecasting.
- XIX. Soviet budgetary and tax assessment systems.

5. Copies of the texts of lectures on most of the above topics were supplied to all the participants. In addition the following basic reading materials were also supplied to them through the courtesy of UN ECA.

- (a) ECA manual - administration for development.
- (b) UN ECA - Survey of Economic Conditions on Africa 1973.
- (c) Compilation of lectures given at the ECA Regional training course in budget-plan harmonization 1971.
- (d) Compilation of lectures and discussion papers produced for the bilingual training workshop in tax policy, legislation and administration conducted by ECA in October 1973.
- (e) ECA Report on bilingual training workshop in tax policy, legislation and administration.

6. Towards the end of the First week the workshop was divided in two working groups to consider in depth and work out practical solutions to the problems in the fields of (i) budgetary management and (ii) tax reform planning in the context of the country's economic and social development requirements.

8. A list of participants composition of the working groups and final schedule followed are enclosed as Annexes I, II, III.

9. There was a general consensus of opinion of the workshop on the following suggestions and measures for securing budget-plan harmonization, budgetary improvements and tax reforms.

A. Budgetary reform and development

I. General Problems

9. Noting the socialist transformation of Ethiopian state and economy the workshop considered that full implication of that transformation will have profound effects on the Ethiopian budgetary system. As however this transformation has not yet been completed and will proceed by certain stages the workshop recommends the establishment of a Study Group which will implement the necessary reforms of that system as the need for them arises from political and economic decisions. The Study Group should work at two levels:

(a) at the level of the Ministry of Finance in relation to contents and form of the budget and budgetary procedures;

(b) at the interministerial level, involving also Planning Commission Office, National Bank of Ethiopia and the Ministry of National Resources Development. At this level all economic and financial aspects of the socialist transformation would be studied with special reference to such subjects as:

(i) the objective and the purposes of government expenditure;

(ii) direction and distribution of government investments;

(iii) methods of financing (i.e. mobilization of resources including taxation system and credit to government);

(iv) relationship between the central government and the socialized sector of the economy with special reference to flow of funds within the nationalized sector and between that sector and the central government;

(v) the financial structure and relationship to central government finance of sub-national units (provinces) if any;

(vi) the organizational and institutional arrangement for the comprehensive planning of the public sector as a whole.

10. The workshop stressed the need in a Socialist economy for comprehensive planning for the public sector. It was felt that the development planning should start as soon as possible. Specifically the workshop considered that government and eventually integrated public sector budget has to be based on the overall economic and social plan, with which it has to be harmonized. More than that, the workshop considered that for the purpose of utilizing the budget as an effective instrument of government action in implementing development plan, an Annual Plan should be produced as the basis for the national budget.

11. The harmonization of the Budget and the Plan is an absolute necessity. This not only implies that a Plan has to exist but also that organizational and procedural arrangements for such harmonization process must be endorsed by the highest authority of the State, to be strictly adhered to and enforceable. The preparation of the Plan involves not only the Ministry of Finance and the Planning Commission Office but all ministries and agencies of the government. The planning and budgetary discipline both at the preparation stage of the plan and the budget and at the implementation stage is a necessary pre-requisite of success.

12. In view of the fact that the socialist transformation of Ethiopia is in progress, and the fundamental necessity for an Annual Plan, the workshop considered that in the transition period a series of short-term plans (annual and/or plans covering two or three years) may be more appropriate than medium or long-term plans. This device has been successfully tried in other countries in transition periods. Eventually longer-term plans should be produced.

13. The workshop paid considerable attention to the concept of the "planning-programming-budgetary" system or programme and performance budgeting as a means for improving the quality of budgeting. The workshop noted however that attempts at their introduction in developing countries met only with a very qualified success, due to basic weaknesses in the financial administration of those countries. Without under-estimating the value of these techniques the Group felt that a very realistic approach should be adopted to this problem. Adoption of these techniques involves much more than a change in presentation or structure of the budget. The whole process has to start within the operating units of the government (ministries and agencies) and involves re-assessment and/or formulation of objectives, responsibilities, organizational structure, nature of managerial information, standards for performance, monitoring etc., all of which have to be done first at operating units level. The workshop felt nevertheless that the Ministry of Finance should take the initiative of gradual introduction of these techniques, over a period of several years on a selective basis mainly in the ministries and agencies where these techniques are most suitable and their introduction most advantageous. To this and the workshop recommends that:

- (i) a special unit, composed of 3-4 professionals would be established in the Budget Preparation Dept. Ministry of Finance or in the Ministry of Finance and the Planning Commission Office, jointly, as a Consulting Group to undertake the introduction of these techniques within and in co-operation with units concerned. The members of that group would not be involved in any administrative duties or day-to-day activity;
- (ii) the ECA in courses on budgetary management and techniques would introduce additional material consisting of case studies, especially relating to developing countries. Such case studies in practical application or attempts at application of these techniques would help considerably in their introduction in other developing countries, including Ethiopia.

II. Publication and distribution of "Financial Regulations"

14. The workshop noted with dismay the delays in publication and distribution of "Financial Regulations". The workshop considered that non-availability of these Regulations hampers smooth financial administration and contributes significantly to existing problems and undermines administrative efficiency. The role which "Financial Regulations" must play in any training or upgrading of skills is further elaborated in the section of this Report dealing with training. The workshop therefore re-commends that the translation into Amharic, printing and distribution to all personnel of the Government involved in financial administration of the "Financial Regulations" is effected without further delay. Any amendments if and when necessary may be made later.

III. Formulation of the budget

15. To underline the basic unity of the budget (recurrent and capital), the preparation of which is at present divided between two agencies of the Government, the workshop recommends that the "Call for budget proposals" should be issued by the Minister of Finance, on the same date in respect of both the recurrent and capital budget, instead of the present practice, whereby two separate calls are issued, on different dates, by the Minister of Finance in respect of the recurrent budget and by the Head of the Planning Commission Office in respect of capital budget.

16. In addition to budget call, shortly after its issue, that is at the very beginning of the budget cycle a meeting should be held under the chairmanship of the Minister of Finance on the general framework of the budget, preliminary assessment of resources, Annual Plan and some guidelines on government policy. The workshop considered that a very important point should be stressed in this connection, namely that the budget proposal is presented by the Head of the organization concerned and not the Budget Unit which provides technical and administrative service. Consequently the meeting recommended above should be attended by Permanent Secretaries of Ministries and Chief Administrations (General Managers of other organizations concerned).

17. Strict adherence to time-table and compliance with the instructions relating to information which shall be provided in the budget proposals (for both recurrent and capital budgets) is necessary.

18. Arrangements between the Planning Commission Office and the Ministry of Finance for ensuring harmonization between recurrent and capital budget, such as joint hearings, should be strictly adhered to. Both these agencies should ensure that appropriate time-table is worked out so that there is no conflict.

19. As the budget proposals are the proposals of heads of ministries or organizations concerned they should attend the budget hearings (together with heads of departments or project managers) and not leave this important task to junior officials.

20. The workshop felt once again that many of the problems of budget formulation as of other stages of the budget cycle (execution, accounting) would disappear if the "Financial Regulations" were published as they contain detailed description of requirements and procedures.

21. The workshop felt that proper evaluation of budget proposals is hampered by inadequate or even misleading or inaccurate information by requesting organizations, failure to provide additional information required and late submission of proposals.

22. The workshop considered that procedures for estimation of revenues available in the budget year, an important factor in the formulation of recommendations for expenditure, should be improved. This improvement would be achieved by:

- (i) properly maintained and timely produced statistics within tax collecting departments not only on collection but on the base of relevant taxes (such as taxable incomes, estimates of production of excisable commodities etc.);
- (ii) introduction of improved revenue estimation techniques;
- (iii) arrangements for consultation between the parties concerned both within and outside the Ministry of Finance.

23. In the past most of the requirements for purchases abroad of goods and services requiring payment in foreign currencies (at least for capital projects) were covered by external loans. However, the purchase in foreign currencies not covered by foreign loans show a tendency to increase. The workshop therefore recommends that the budget proposals must show the foreign currency requirements not covered by external credits and loans. The importance of this is also increased in an integrated public sector budget.

IV. Budget execution

24. In the field of the budget execution the workshop commented on the chronic under-utilization of the appropriations in the capital budget. This has been attributed to several factors such as:

- (i) poor preparation of projects;
- (ii) lack of projects prepared in advance of budget proposals;
- (iii) unrealistic assessment of capabilities of the organization concerned within the relevant time-span;
- (iv) unrealistic scheduling of the implementation stage;
- (v) lack of clearly defined work programme;
- (vi) lack of managerial supervision and follow-up of work;
- (vii) failure to utilize proper management techniques such as Critical Path Analysis.

The workshop considered that concentration on remedying these weaknesses is a most important task immediately facing the organisations concerned. Failure to do so will invalidate the efforts of planning and rational budgeting.

25. The workshop considered that improving the reporting system on implementation of capital projects is also of paramount importance. The existing system of Quarterly Progress Reports on Capital Projects must be reactivated. Specifically:

- (i) Quarterly Progress Reports must be submitted regularly by all project managers, at times specified;
- (ii) All information requested must be provided;
- (iii) All information must be consolidated in the Planning Commission Office and submitted in the prescribed form of higher authorities.

26. Following up the physical implementation of the capital projects, as distinct from following up the financial side, is difficult because of the absence of the physical indicators in the budget for capital projects and consequently their absence in the Quarterly Progress Reports. It is therefore recommended that such physical indicators should be developed and included in both.

27. Absence of physical indicators of the implementation of the recurrent budget is even more pronounced and in many cases not practical. However, wherever such physical indicators are appropriate they should be used both in the budget and in implementation reports. Programme budgeting for selected organizations may be the answer.

28. Two specific problems of the budget execution were raised in the working Group and the workshop.

- (i) Opinions were often expressed that quarterly allotments of budgetary funds should be made instead of monthly allotments. Clearly it cannot apply to allotments for salaries, where it would not serve any useful purpose. In respect of operating expenses (including capitalized recurrent expenditure in capital projects) allotments are made monthly in advance; in respect of non-recurrent items allotments are made when required. It is therefore difficult to see why the system of allotments at present operating should hinder implementation of capital projects. No hard evidence was ever produced that it is so; on the contrary evidence shows that bank balances on projects accounts are in most cases excessive. However, this problem may require further investigation;
- (ii) An unnecessarily cumbersome procedure exists in practice (certainly not in Financial Regulations) in the Budget execution and Central Treasury in cases of payments to bank accounts of budgetary units. These payments are apparently effected by a letter to the National Bank, letter which goes to and fro between the Budget Execution and Central Treasury. A simple payment by crossed cheque credited to recipient's bank account should suffice. In this connection the workshop recommends that Central Treasury represents an unnecessary stage in payment procedure, and should be abolished. Its functions should be distributed between the Budget Execution and the Central Accounting Office, its main function i.e. receiving and paying out cash should be transferred to the National Bank as the Government banker.

V. Accounting

29. In the field of accounting the workshop recommends:

- (i) the flow of accounting returns to the Central Accounting office both from provincial and awraja finance offices and from ministries and agencies concerned must improve;
- (ii) the requirements of "Financial Regulations" in respect of accounting procedures and accounting returns must be enforced;
- (iii) the recipients of external technical assistance must follow-up the status of such assistance and provide the necessary reports.

30. A number of internal reports required for the purposes of budget formulation and cash management and control are still produced manually, thus with long delays and irregularly which reduces their usefulness. They could and should be produced on the computer speedily and regularly. In the view of the Central Accounting office the capacity of the computer at present rented (6 years old) is insufficient. For over a year renting of a new computer, of a greater capacity (and at a lower rent) has been under consideration. The workshop recommends that the final decision in this respect is reached as soon as possible.

VI. Training and up-grading of skills

31. The workshop considers that one of the most important factors (in addition to clear set of regulations) affecting the efficiency of the financial administration is the quality of personnel, its skills and commitments to allotted tasks. Provision of proper training schemes is therefore of utmost importance. The workshop considers that as far as financial administration is concerned it is the proper task of the Ministry of Finance to provide such training both to its own staff and to the staff of other ministries and agencies.

32. Such training should be provided both on-the-job and in more formalized in-service training. Such training should be tailored to the level of skills required at any given level of authority and responsibility.

33. Two basic types of courses should be given:

- (i) for Ministry of Finance staff at awraja level and lower level staff in other ministries; these courses should be basically confined to training in application of "Financial Regulations";
- (ii) courses for middle level officials of the government and professionals; these courses would be of a much wider scope, basically practical, but possibly with some academic contents. These courses might be connected with some internal examinations and certification, which may be made condition for promotion.

34. The workshop recommends that all Heads of Provincial Finance Offices (bejironds) Chief Accountants and Heads of Divisions and above in all ministries (including Ministry of Finance) are given a short induction course on appointment.

15. The workshop recommends that an Annual Conference of Heads of Provincial Finance Offices and their Chief Accountants is held at the Ministry of Finance headquarters.

36. A Training Division should be established in the Ministry of Finance to organize and administer the Training Courses. The contents and programmes of all courses shall be approved by an Inter-departmental Training Committee, composed of Heads of functional departments of the Ministry of Finance.

B. Tax reform and development

Introduction

37. The workshop considered the lines on which reform and development of the Ethiopian fiscal system should proceed firstly in order to conform with the principles of Ethiopian Socialism, with its emphasis on equity and social justice and the public ownership of the means of production in the most important sectors of the national economy, and secondly to generate the additional revenues which are required to achieve a more satisfactory rate of development than in the past.

38. In general the workshop believes that reform should concentrate on four main objectives viz:

(i) improving the revenue elasticity of the system

that is, ensuring that the fastest growing sectors of the national economy contribute proportionately or more than proportionately to national revenues;

(ii) improving the effectiveness of the system

that is removing unnecessary complexities or duplications of fiscal effort and reconcentrating the tax burden at those points, activities or flows of income where it can be most easily and effectively assessed and collected;

(iii) improving the equity of the system

that is, ensuring as far as possible that burden of tax is borne mainly on those with above average incomes and falls as lightly as possible (compatible with the raising of essential revenue needs) on those with lower incomes;

(iv) improving the economic impact of the system

that is, reviewing the system to ensure that in general it influences economic and social development in directions compatible with national policy.

39. The workshop realizes that, in the very short time available, they cannot hope to produce a comprehensive and detailed plan of tax reform and development, but they hope that in what follows they will be able at least to sketch the outline of some of the principal features, and also indicate areas where further study or research is required.

40. Finally they would urge that any reform programme should be undertaken as an integrated exercise embracing all the major elements in both the direct and indirect tax systems so that wherever possible the various taxes interlock or reinforce each other, but without duplication of effort.

Taxes on land and agriculture

41. Although agriculture has accounted for between 45 - 50 per cent of gross national product it has not in the past made any commensurate contribution to national revenue, even when allowance is made for the very low incomes and low or negligible taxable capacity of the poorest sections of the rural community. Thus work done by the World Bank suggests that in FY 1960 total direct and indirect taxes derived from agriculture were only around 4 per cent of agricultural GDP and although this situation seems to have improved in recent years, this was mainly attributable to increased yield of the coffee surtax, and even so the total tax "cut" was still, almost certainly, below half the estimated yield, of around 14 per cent achieved in relation to GDP in the non-agricultural sector. This situation was mainly due to failure to enforce effectively the progressive agricultural income on larger agricultural incomes, particularly those from rent.

42. The workshop believes that the new programme of land reform provides an opportunity to remedy this situation and it recommends that a Study Group be established jointly by the Ministries of Finance and Land Reform to prepare a programme for the mobilization of government revenue from the agrarian sector. Without wishing to prejudice in any way the finding of this Study Group, it is suggested that it might consider some of the following:

- (a) whether since the individual farmer has now been relieved of the crushing burden of rent, often amounting to a third or more of his product, he might now be reasonably required to pay a smaller sum by way of land tax or rent on his occupancy;
- (b) whether it would be possible to introduce a system whereby farmers associations or co-operatives would help to finance the development of local economic and social services by voluntary levies on their output;
- (c) the establishment of national marketing schemes for selected staple products whereby prices would be established at a remunerative level to the producers without exploitation of the consumers, and in effect a small turnover tax collected for the benefit of the public revenues.

Direct taxes

43. The workshop recommendations under this heading fall into two divisions: improvements in the existing system, and new innovations. Here too the working Group thought that it would be useful to have an expert inter-disciplinary survey e.g. by a group of economists, lawyers, managers and administrators of the existing system but without waiting for this the Group has in mind the following developments:

- (i) in view of the increase in cost-of-living since the introduction of income tax, the starting point of \$25 per month for personal tax on employment income might be reviewed upwards;
- (ii) whether it would be possible (in conjunction with the introduction of a unitary system of tax) to introduce allowances which would distinguish between the family obligations (or otherwise) of the individual taxpayer;
- (iii) the need for more effective measures to collect the income tax due from Ethiopian employees of diplomatic missions, and whether it would be possible, in this present time of national reform and development, to secure some revenue contribution from those Ethiopians who are employed locally by international agencies and enjoy above average tax-exempt incomes;
- (iv) the introduction of a system of self assessment for individual taxpayers to be applied particularly to those who have income from more than one source;
- (v) in the case of rental income, the abolition of the three year exemption period, the reduction of the 25 per cent maintenance and depreciation allowance, and the introduction of a new step or steps of taxable income below the existing first step of \$30 per annum.

44. The workshop also considers that the existing schedular system of tax should be phased out in favour of a unified system under which a taxpayer would be assessed to tax, at progressive rates, on his income from all sources.

45. In the case of business and similar enterprises now in public ownership the workshop inclines to the view that these should in principle pay over to the Treasury in future all their net profits over and above what they are permitted to retain in accordance with approved plans and policies for reserves. If this policy was adopted then there would be no need for income tax in these cases and the Inland Revenue staff now engaged on the collection of this tax could be freed to concentrate more effectively on taxation of the private sector.

46. Turning to new developments, the workshop considers that the Government should give favourable consideration to entering into double taxation agreements with the country's principal foreign trading partners overseas in order to reduce tax evasion and generally to maximize revenue from foreign investments. In this connection consideration should be given to imposing a withholding tax on dividends paid abroad and to a reform of the arrangements relating to the taxation of interest payable abroad on approved foreign loans of a developmental character received from private sector institutions.

Training levy

47. In order to restrain any tendency to employ expatriate personnel beyond what is strictly technically necessary, and to provide a means for encouraging their replacement by Ethiopian personnel, it is suggested that consideration be given to the introduction of a training levy on that part of any payroll which goes to foreign employees.

Social security

48. Although perhaps not falling strictly under Direct Taxes, the Group also considers that the time is overdue for the introduction of a national scheme of social security based on wage-related contributions by both employers and employees to a National Social Security scheme or fund from which pensions would be assured to the great mass of the working population on retirement or permanent disablement etc. The Group notes however, that before this can be done the existing fiscal discrimination against non-government workers in the treatment of pensions contributions by employers and in the subsequent pension must be removed.1/

Administration: the case of small traders etc.

49. Both Inland Revenue and Excise find great difficulty in locating and taxing small traders, many hundreds or even thousands of whom manage to escape the tax net altogether. As a first step towards the remedying of this situation it is urged that no Municipality or other public body should issue or renew any trading or professional business licence unless the applicant produces evidence that he is registered with the Inland Revenue and Excise Tax Department (in the case of those who produce excisable articles).

50. In addition legal provisions should be made to facilitate the introduction of simple standard assessments for small traders and professionals, drawing on the experience of other countries such as Ghana; and a specially trained cadre of Inspectors should be assigned to this work.

Stamp duties

51. The Stamp Duties law should be reviewed with the object of eliminating these duties on activities or objects which are difficult or costly to collect in relation to the revenue obtained and concentrating them on objects which are reasonably easy to administer and bring in substantial revenue.

Indirect taxes

52. With certain exceptions, indirect taxes have been less revenue elastic in relation to growth of GDP than direct taxes; they also exhibit a very heavy reliance on import duties which in 1966 accounted for over \$150mn compared with about \$180 mn from all domestic indirect taxes. Last but not least they exhibit many administrative complications (e.g. imported goods may be subject to as many as six separate levies, excluding cesses and charges for the declaration forms) and, in the particular case of Turn-over Tax encounter great difficulties in enforcement. Given the tendency, and evident need, to develop the domestic economy as opposed to the foreign trade sector, and the gathering of the greater part of the industrial

1/ The revenue implications of a Social Security schemes are that, with a young and growing work force it can be expected to make a major contribution to Government revenues.

sector under the Governments control, it would seem opportune to simplify the system of indirect taxation and shift its impact somewhat more towards expenditure on domestic production as opposed to imports - all of course without inviting any loss of revenue overall.

Customs etc. duties

53. Customs are responsible for the collection of Customs, Excise, Regie, Transaction and Municipal Taxes on imports, as well as any "cesses"; in addition imports are subject to Statistical Taxes, Stamp Duties and charges for the declarations forms of which ten are required for most imports. Procedures are also unnecessarily complicated, and the indulgence whereby importers are permitted to keep goods without paying duty for up to six months in the customs sheds is a positive encouragement to congestion at the ports of entry.

54. The workshop considers that there are important opportunities for improving efficiency in these fields. On the revenue side it recommends that the number of different duties levied at the time of importation should be reduced e.g. the Statistical Fees, 1 per cent Municipal import duty, and stamp duties on import declarations could all be abolished and the revenue recovered by a relatively small increase in the basic Customs duty rates. (Some machinery would be required for handing over the corresponding revenue, in lieu of Municipal import duty, to the local authorities concerned but this should not present any difficulty once the principle was accepted). Investigations should also be put in hand to see whether the number of declaration forms could be reduced in order to save paper and paperwork.

55. On this basis imports would be subject first to Customs duties which would be reviewed, both to take into account the introduction of the new Brussels tariff (which is discussed below) and to recoup any revenue lost by the abolition of the other charges mentioned above. The role of Customs duties would thus be firstly to provide whatever was considered to be the necessary margin of protection to local industries (which in itself is in need of review) and secondly to levy a tax on the expenditure of foreign exchange on non-essentials.

56. In association with this, the new Brussels Tariff nomenclature should be introduced without delay, together with the related system of valuation. These reforms alone should simplify considerably the processes of customs clearance and reduce the number of disputes about the duty payable. They will also provide a more scientific basis for revenue forecasting and tariff review.

57. Next the existing warehousing system should be reviewed. The period during which newly imported goods may be held duty free in the Customs sheds should be sharply curtailed and new warehousing provided for storage proper, including bonded warehouses - all charging fees on a paying basis. The possibility of developing the use of container traffic should also be studied. A further possibility - in the interest of speeding up the customs clearance process - is a study of the introduction of the pre-entry system whereby importers may pay duties in advance of examination against documents.

The taxation of domestic expenditure

58. Before considering the review of the Customs Tariff itself, consideration must be given to the future shape of the whole system of indirect taxation. In effect this is a system of taxation of domestic expenditure consisting, in addition to the duties already mentioned on imports, of Excise and Transaction Taxes on locally manufactured goods, Turnover Tax and Construction Tax. Excise taxes are mostly at specific rates and are always levied at the same rates on imported goods as the locally manufactured item. But the Transaction Tax on locally manufactured goods is only at 5 per cent compared with 15 per cent on imports, there by incorporating a flat 10 per cent margin of protection. The Turnover Tax at 2 per cent is intended to be levied as a multi-stage tax on all transactions at wholesale and retail level but is very imperfectly enforced owing to the difficulty of assessing small and rural traders.

59. The workshop suggests that this system should be re-examined with a view to reform on the following lines:

- (a) Excise duties should be examined to see whether the existing rates are appropriate on revenue and other grounds; where it is considered that they should be applied on a percentage ad valorem basis they should be transferred to the reformed Transaction Tax system mentioned below;
- (b) The existing flat rate 5 per cent Transaction Tax on local manufactures should be replaced by a structure in which all manufactured products would be classified and taxed at different rates according to their revenue-bearing capacity, social desirability, essentiality etc. Thus we might have TT rates of say 0.5 per cent, 10 per cent, 20 per cent and so on;
- (c) As part of this process the existing Turnover Tax would be abolished and the revenue recovered by adding a margin to all the new TT rates in order to ensure that there is no loss of revenue;
- (d) As at present, Excise duties would be collected on imports at the same rates as on the locally manufactured item and the same would henceforth apply to Transaction Tax;
- (e) Concurrently with this process, the rates of Customs duty (on the new Brussels nomenclature) would be reviewed by a Tariff Commission, who apart from the general considerations appropriate to their task would take care of such matters as the recovery of any revenue lost by abolition of Municipal Tax, Stamp and Statistical Tax etc. and by the elimination of the existing 10 per cent protective margin in the Transaction Tax structure.

60. On the administrative level, licensing and other procedures would be introduced with the object of gradually reducing and in the long run eliminating those small producers of highly taxed consumers goods who habitually evade Excise and other similar taxes despite all the efforts of the revenue administration. This is particularly important for example in the case of the small domestic producer of tej and talla.

61. These reforms would result in a system whereby imports would pay only two or three levies (i.e. Customs, Excise and TT) while local manufactures would pay Excise and TT. There would be provision to eliminate the duplication of Excise and TT and transfers between factories either by a credit system or by remitting those taxes on inter-factory transfers. The system as a whole would be designed to bring in more revenue than the existing one and to be more revenue elastic, with a relatively greater burden of the tax effort concentrated on less essentials.

62. Possibly a small Retail Sales Tax might be introduced but administered strictly as a local retail sales tax only (i.e. single stage). In view of the difficulties of administration this might perhaps best be considered as a source of revenue for the local (municipal etc.) authority. Certain utilities, e.g. electricity and telecommunications, might be brought within the scope of the new transaction Tax structure. Regie tax would be merged with Customs duty.

Training

63. Last but by no means least the workshop attaches high importance to the planned development of training facilities in all revenue raising departments. Customs, Excise and Inland Revenue should all be regarded as professional departments requiring a high standard of technical training and competence, and entrants to these departments, regardless of their initial level, should have prospects before them of receiving such training and, subject to satisfactory performance, progressing up the scale towards senior appointments. Only if these departments can offer satisfactory career prospects will they attract good recruits who will also be more disposed on that account to resist any temptations to corruption.

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Annex I

List of participants (in the budget-plan harmonization, tax policy, legislation and administration workshop

19 - 31 May 1975

Name	Qualification	Present Appointment	No. years served
1. Ato Hamid Said Mohammed	BA(Accounting)	Assistant Programmer Central Accounting	2 years
2. Ato Michael Fasil	LLB	Research Officer Revenue Department	8 "
3. " Tilahun Melaku	BA(Management)	Junior Exp rt Budget Preparation	2½ "
4. " Debebe Hailu	BA(Management)	Revenue Unit Head Revenue Department	2½ "
5. " Yadesa Kano	MA(Management)	Economic Service Div. Head Budget Preparation	2½ "
6. " Tekle Haimanot Argaw	MA(Philosophy)	Customs Head Office	10 "
7. " Abate Kebede	BA(Economics)	Alcohol Tax Division Acting Head Excise Tax Department	4 "
8. " Yihdegu Araya	LLB Excise Tax Dept.	7 "
9. " Legesse Tesema	MA(Economics)	Research Officer Revenue Dept.	3 "
10. " Kifle Tesfaye	BA(Economics)	Research Worker Revenue Dept.	2 "
11. " Wesenyelah Abebe	MA(Economics)	Tax Exemption Division Head Revenue Dept.	6 "
12. Woizerit Yeshi Kelkle	BA(Management)	Senior Auditor and Supervisor Inland Revenue Dept.	4 "
13. Ato Tesema Ayele	Business School Diploma Inland Revenue Department	5 "
14. " Bizuneh G/Selassie	" " "	" " "	14 "

	Name	Qualification	Present Appointment	No. years served
15.	Ato Berhane Baraki	BA(Economics) Finance & Credit Department	2 years
16.	" Workalemahu Tesfa	BA(Economics)	" "	2 "
17.	" Balihi Badi	" "	" "	3 "
18.	" Israel Kidane Mariam	" "	Customs Office	3 "
19.	" Feseha Fre	B. Com.	Customs Office	8 "
20.	" Tesfaye Brehane	LLB	Division Head Inland Revenue Dept.	
21.	" Lakew G/Mariam	Diploma	Branch Head Inland Revenue Dept.	15 "
22.	" Tewelde Habte Michael	BA(Economics)	Land and Agriculture Taxation Dept.	
23.	" Asrat Kelemework		Budget Preparation Department	
24.	Woizerit Elsa Tekle	BA(Economics)	" "	2 "
25.	Ato Haile Wolde "	BA(Economics)	Junior Economist Research and Planning Dept.	2 "
26.	" Afework Tekleab	BA(Economics)	Budget preparation Department	2 "

Annex II

Composition of the working groups

I. Working Group on Budgetary Reform and Development

Chairman: Ato Yadessa Keno, Budget Preparation Department

V. Chairman: Tilahun Melaku

Rapporteur: Workalemahu Tesfa
Berhane Beraki
Hamid Seyed Mohammed
Asrat Kelemework
Afeworki Kebreab
Elsa Teklemariam
Belihu Madi
Haile Wolde

II. Working Group on Tax Reform and Development

Chairman: Israel Kidane Mariam

Rapporteur: Tesfaye Berhane

SUB-GROUPS

I. Customs Department

1. Ato Israel Kidane Mariam
2. Ato Fisseha Fire
3. Ato Teklehaymanot Argaw

II. Inland Revenue Department

1. Ato Tesfaye Berhane
2. " Lakew G/Mariam
3. " Bizuneh G/Selassie
4. W/t Yeshi Kelkilie
5. Ato Tessema

III. Agricultural Income Tax Department

1. Ato Tewolde
2. " Kifle

IV. Excise Department

1. Ato Yehdego
2. " Abate
3. " Debele

MEMORANDUM FOR THE RECORD

On 10/10/50, the following information was received from the [redacted] office regarding the [redacted] case. The [redacted] advised that [redacted] had been [redacted] and [redacted] had been [redacted]. The [redacted] further stated that [redacted] had been [redacted] and [redacted] had been [redacted]. The [redacted] also mentioned that [redacted] had been [redacted] and [redacted] had been [redacted].

RECOMMENDATION

It is recommended that the [redacted] be [redacted] and [redacted] be [redacted]. The [redacted] should be [redacted] and [redacted] should be [redacted]. The [redacted] should be [redacted] and [redacted] should be [redacted]. The [redacted] should be [redacted] and [redacted] should be [redacted]. The [redacted] should be [redacted] and [redacted] should be [redacted].

Annex III

Final Schedule

First Week

19 - 24 May 1975

Date	Time	Subjects for presentation and discussion	Conductor	Remark
Monday 19.5.75	9:30-10:00	Inauguration of the Workshop by H.E. Ato Negash Desta Minister of Finance.		
	10:00-10:30	Presentation of the Workshop curriculum and programme of work etc.,	Ato Paulos Nuramo	Liaison Officer
	10:30-10:45	Break.		
	10:45-12:45	The importance and role of the budget-making and the cycle of financial administration.	Mr. I.A. Malik	ECA, Regional Adviser in Public Finance & Budgetary Management
Tuesday 20.5.75	9:30-11:00	Budgetary procedures problems and administration in Ethiopia I.	Mr. W. Pomykaj	Budget Advisor, Ministry of Finance.
	11:00-11:15	Break.		
	11:15-12:45	Budgetary procedures problems and administration in Ethiopia II.		
Wednesday 21.5.75	9:30-11:00	Taxation systems in Socialist States based on experience of USSR.	Mr. I.A. Malik	ECA Regional Adviser
	11:00-11:15	Break.		
	11:15-12:45	Taxation systems of Poland and Czechoslovakia with conclusions on the main features of the Socialist tax systems.	Mr. I.A. Malik	ECA Regional Adviser

Date	Time	Subjects for presentation and discussion	Conductor	Remark
Thursday 22.5.75	9:30-10:30	(1) Tax system in Tanzania and the role it plays in mobilizing resources for development.	Mr. I.A. Malik	ECA Regional Adviser
	10:30-10:45	Break.		
	10:45-12:45	Programme for tax administration improvement with particular references to the Inland Revenue Dept. I	Mr. J.R. Harmon	Tax adviser Inland Revenue Dept.
	11:45-12:45	- do - II	"	" "
Friday 23.5.75	9:30-10:30	Taxation and development in Africa.	Mr. I.A. Malik	ECA Regional Adviser
	10:30-10:45	Break.		
	10:45-11:45	Ethiopian Tax System and future development.	Mr. O.A. Spencer	Financial Adviser, Ministry of Finance
	11:45-12:45	Tax appeals systems.	At. Abebe Rumicho	Infra- structure Division Head, MOF
Saturday 24.5.75	9:30-10:30	The taxation of agricultural income I.	Mr. I.A. Malik	ECA Regional Adviser
	10:30-10:45	Break.		
	10:45-11:45	The taxation of agricultural incomes II (Ethiopian experience).	H.E. Ato Eshetu H. Giorgis	Vice Minister Legal Insp. Dept.
	11:45-12:45	Formation of two working groups on (i) budgetary reform and development; and (ii) tax reform and development and election of office bearers and consideration of programme of work.	Mr. I.A. Malik	ECA Regional Adviser

Second week

26-31 May 1975

Date	Time	Subjects for presentation and discussion	Conductor	Remark
Monday 26.5.75	9:30-11:00	Customs, tariff and administration.	Mr. Stanley Quinton	BTN Advisor, Customs Head Office
	11:00-11:15	Break.		
	11:15-12:15	Excise taxes problems and administration.	Ato Kebede Abera	Excise Dept.
	12:15-13:00	Programme and performance budgeting. Introduction of the subject and distribution of texts of lectures on: (a) PPBS - Management approach to budgeting - its main features, advantages and implications; (b) structuring the budget for programme and performance budgeting; (c) performance budgeting for capital projects; (d) work load and work measurement system. (e) stages involved in introducing the system	Mr. I.A. Malik	ECA Regional Advisor
	Afternoon and evening	Meetings of the working groups.	Respective Chairmen	
Tuesday 27.5.75	9:30-11:00	Considerations involved in negotiating double taxation treaties with developed countries.	Prof. Charles R. Irish	ECA Consultant
	11:00-11:15	Break.		
	11:15-12:45	Meetings of the working groups.	Respective Chairmen	

Date	Time	Subjects for presentation and discussion	Conductor	Remark
Wednesday 28.5.75	9:30-12:45	Meetings of the working groups.	Respective Chairmen	
		Presentations to working groups on:		
		(i) relationship of budget-plan and major requisites of budget plan harmonization - working group on budgetary reforms.	Mr. I.A. Malik	ECA Regional Advisor
		(ii) taxation of small traders and professionals working group on tax reforms.	" "	"
Thursday 29.5.75	9:30-11:00	Soviet budgetary and tax assessment systems.	Prof. Alshina	National University and Soviet Embassy
	11:00-12:45	Meetings of the working groups.	Respective Chairmen	
Friday 30.5.75	9:30-12:45	Meetings of the working groups to finalize reports.	Respective Chairmen	
	15:30-16:00	The scope for policy intervention in plan implementation.	Text of paper prepared by Dr. Douri Mohammed distributed to the participants	Academic Vice President National University
	16:00-16:45	Role of public sector in planning for economic development.	Mr. I.A. Malik	ECA Regional Advisor
	16:45-18:15	Presentation considera- tion and adoption of the reports of the working groups by the workshop as a whole.	Respective Chairmen of the Groups and Mr. I.A. Malik	

Date	Time	Subjects for presentation and discussion	Conductor	Remark
Saturday 31.5.75	10:00-11:30	Symposium on conclusion and findings of the workshop	Presided by Ato Eshetu H. Giorgis	Vice Minister Legal & Inspection Department
	11:30-12:00	Closing address	H.E. Ato Fantaye Wolde Yohannes	Minister of State in Ministry of Finance