EEA / EEPRI
Bolstering regional revenue potential

The *Ethiopian Economics Association* (EEA) undertook a collaborative initiative to improve domestic tax revenue and succeeded in influencing regional policy.

**SETTING THE SCENE** —Ethiopia’s 81 million citizens face some of the highest levels of poverty in the Horn of Africa. The country’s *2010-2015 Growth and Transformation Plan* aims to foster economic and social development, particularly through infrastructural development and, ambitiously, to make Ethiopia a middle-income country by 2025. Funds are, of course, required for this purpose, and the bulk of them must come from domestic sources - a major source of which is domestic tax revenue.

The Southern Nations, Nationalities and People’s (SNNP) Regional State is one of the country’s resource rich regions. However, its tax revenue is low. As a result, its authorities identified a need to improve its domestic revenue mobilization capacity. Believing that revenue collection efforts should be guided by sound and credible research, the region’s Revenue Authority asked the Ethiopian Economics Association (EEA) to undertake a rigorous study on tax revenue generating potential.

**WHAT EEA DID** —EEA is a non-profit organization established in 1991 with the objective of contributing to the economic advancement of the country. The association created the Ethiopian Economic Policy Research Institute (EEPRI) as its research, publication and training arm in July 2000 and EEPRI is the first independent economic policy research think tank in Ethiopia. EEA frequently collaborates with both federal and regional level offices on projects, and in this case joined in a collaborative project arising from a need identified by the SNNP Regional State.

For this particular study, the Revenue Authority outlined the following objectives: assess and determine the revenue potential of the region at different administrative levels, identify the tax gap in the region under the existing national and regional tax laws, assess the efficacy of the tax administration system, and recommend possible mechanisms to narrow the tax gap and increase tax revenues from new sources. Overall, it specified that the analysis and findings of the study needed to provide a starting point for discussions and revisions of regional tax policy, demonstrating a clear potential for policy influence.

EEA’s study involved a literature review and interviews with relevant policymakers and economic actors in the region. At each stage of the research project, consultation workshops were organized with an expert group drawn mostly from the Revenue Authority and the Bureau of Finance and Economic Development of the
Regional State. Training was also organized for staff from the Revenue Authority in order to build capacity and develop important skills on the projections of the tax revenue potential using statistical software. This enabled researchers and policymakers in the Revenue Authority to effectively use the database that was delivered upon completion of the project by EEA.

EEA’s findings uncovered untapped revenue potential. In particular, EEA found that the existing tax rate levied on the agricultural sector, the major economic activity in the region, was not optimal. It demonstrated how the total revenue potential of the region could be increased with the revision of the existing tax laws and underscored the importance of accurately recording data. Based on these findings, the study proposed two major recommendations: (1) create a system whereby reliable data is collected by all sectors and a perpetual electronic identification of taxpayers by economic activity is ensured, and (2) institutionalize a progressive tax system, particularly for the agricultural sector, with appropriate considerations for the poorest segment of the population.

**THE OUTCOME** — As this project was a collaborative effort with the SNNP, the regional government adopted the study’s results to inform its current policies. Great efforts were also made to share these findings with broader audiences. EEA’s proposal was presented twice to an expert group from various regional bureaus as well as representatives from the Federal Revenue and Customs Authority, officials from the Ministry of Finance and Economic Development, and regional Heads of Bureaus of Finance and Economic Development. In addition, the proposal was shared at a conference of representatives from academia, civil society organizations, and the private sector to solicit ideas from a wider audience residing in the region. Press releases about the outcome of the collaborative project effectively achieved media coverage.

The study was completed in May 2011 and policy and administrative measures have already been undertaken based on its recommendations. The region’s Revenue Authority used the results of the study to prepare its 2011/12 plan and for monitoring and evaluation purposes. In addition, the Bureau of Finance and Economic Development used the revenue potential estimates to set its regional annual revenue target. There is also evidence of spin-off effects: the study has stimulated interest among other regions to undertake their own revenue potential assessments, and the Federal Revenue and Custom Authority has approached EEA to sign a Memorandum of Understanding for collaboration in related research, training, and advisory services.

For more information on EEA visit [www.eeaecon.org](http://www.eeaecon.org)

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