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Government Expenditure Management and Control within the Framework of Ethiopian Economy

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Abstract
This paper examined the pattern, growth, impact, management and control of government expenditure within the framework of the Ethiopian Economy. This was done with the view that policy options towards effective and efficient management of the government lean resources will be proffered as. This will help in ensuring good governance, grass root development, reduction of absolute poverty, employment generation, equitable distribution of the available scare resources towards providing for the basic human need and improving the standard of living for the teaming population of Ethiopia. The paper found that government expenditure are higher than the revenue and as a result, the study recommends adoption of the 'Golden Rule' in government expenditure management and control. Government expenditure should be directed towards meeting the needs of people and the community. Issues of quality, transparency, accountability and capacity building should be entrenched in public expenditures. These measures will ensure fiscal discipline in management of scarce resources and promotion of sustainable development.

Introduction

Public expenditure is categorized into two broad areas. These are capital and recurrent expenditure. Recurrent expenditure refers to expenditure outlays necessary for the day-to-day running of government business. It is regarded as final government consumption expenditure. Capital expenditure of government implies investment outlays that increase the capital stock of the nation.

As a result of the long-term demands of economic and social development and the short-term effects of recurrent drought, the Ethiopia government expenditures have often exceeded her revenues since the 90's. In the light of the above, there is the urgent need for efficient management and control of government expenditure to ensure Pareto optimality. All government spending has to be approved by the country's legislature to ensure aggregate fiscal discipline, government agencies should be accountable for implementing the spending budget within the limit provided.

The main objectives of this study are to x-ray pattern of growth in public spending, to identify the inherent problems in public expenditure management. Finally, in this paper policy options towards efficient management of public expenditure by ensuring transparency and accountability will be put forwards.

The focus is on the public expenditure pattern of the Ethiopian government. It takes into consideration the nature of capital and recurrent (personal emolument, other changes and special expenditure) expenditure of the Ethiopian economy for the period 1990 - 2003. Therefore a comparative analysis of the trend of Ethiopian government expenditure, management and control for a decade and half is examined.

Ethiopia with a gross domestic product of about US$ 6.bn, a per capital annual income of about US$ 100 and chronic trade deficit remains one of the poorest in the worlds. The population of Ethiopia is estimate to be 70 million in 2004 with a growth rate of about 2.5%. The increase in population has outpaced the productive / carrying capacity of her agricultural sector. The service sector is the second largest component of Ethiopia economy. This includes retail trade, defense, public administration and transportation. Manufacturing and mining are in the 3rd and 4th position respectively. In terms of government budget, total expenditure has often exceeded total revenues since the early 90's. This has been due to the long-term demands of the economy's social development and short-term impact of recurrent drought. In the realms of the budget, defense expenditure has been on the high side, due to the effect of war with Eritrea between 1998 and 2001. Consequently, government budget have been in deficit over time since the late 90's. However, shortfalls are often covered by grants and loans from international lending agencies. The country relies heavily on international donor largess.

Implementation of Fiscal Policies

In most developing countries, the implementation of fiscal policy reveals poor performance of fiscal measures. This is as a result of government running huge inefficient and interventionist public sector, imposing high taxes coupled with high fiscal deficit financed by creating more money or incurring more debt. In addition to the above, there exists weak macroeconomic performance of these nations, which Ethiopia is not an exception. As a result, prudent fiscal measures directed at correcting the accumulated fiscal indiscipline became expedient in the Ethiopia economy. According to Eyasu, S.H (2003), within the Ethiopian economy the violation of fiscal discipline manifested in the following areas.

- Persistent fiscal deficit, rapidly increasing internal and external debts, extreme high income and business profit tax, a high and complex tariff structure, a narrow tax base and wide spread tax evasion, an independently increasing government expenditure, accumulation of arrears, excessive discretionary power in the hands of fiscal authorities and administrators, corruption which has been the salient features of the fiscal system.

He further opined that these problems were partly attributable to economic policy distortion and adjustment measures adopted by the relevant authorities.

Eyasu, S.H. (2003), stated that the adoption of an active fiscal policy in the 1960's replaced a more conservative fiscal stance of the Ethiopian government. As a result government expenditure increase slowly until it, began to grow in leaps and bounds since the mid 70's. Government expenditure pattern has been on the increase resulting in two fiscal developments.

Firstly, government expenditure grew faster than the growth of its revenue. This resulted in persistent fiscal deficits. Consequently, government had to borrow from both internal and external sources. The effect of this was the accumulation of public debt.

Secondly, government expenditure grew faster than the national economy. Government therefore, managed to control and owns an increasing size of the national income, output and resources. The impact of frequent interventionist posture crowded out the private sector.

Expenditure Management:

The impacts of a growing deficit among others are exaction of pressure on macroeconomic stability and current account balance. The need for efficient management of available revenue to ensure improved economy performance arises.

To ensure fiscal discipline, any government spending has to be approved by the country's legislature. The cost, allocative efficiency, and operational efficiency of government expenditure packages and related policies are as a result subjected to scrutiny that tends to be detail in many countries. The spending packages are to be made open to the public before the budget could be approved for implementation and execution.

In promoting aggregate fiscal discipline government agencies should be accountable for implementing their spending within their limits for delivering certain output and result for incurred expenditure. According to Nnanna O.J (2007), in development nations and in an increasing number of advanced nations, the basic macroeconomic objective is to ensure a fiscal adjustment, which reduces chronic fiscal imbalances. As a result, the relationship between decentralization and structure fiscal deficits becomes prominent.

In most third world nations, the sub national governments are likely to contribute significantly to exacerbate macroeconomic imbalance. In most cases, sub national government spend more than the revenue they generate leading to debt increase. Ethiopia's economy is not an exception, for example, it is only recently that Addis Ababa administration covers about 85% of her budget on her own while other regional government covers about 50%-75% of theirs from the federal subsidy. Political forces often compel sub national governments spending on a higher level. Nnanna, O.J (2002) opined that this trend aggregated by poor public expenditure management system creates difficulty in controlling spending. Consequently, to ensure effective and efficient control of government spending Jhingan, M.L. (2000) opined that maximum social advantage, economy, sanction, flexibility, equality, productivity, neutrality should be inbuilt in the expenditure process. In addition, Nnanna, O.J (2002), states that equity, transparency, accountability and capacity building should be entrenched in expenditure management systems.

Methodology

The study employs a comparative historical analysis of the trend of Ethiopian government expenditure management and centred for about a decade and half. The study utilized secondary data gathered from Ministry of Finance and Economic Development (MOFED) in the African Economist 2003/2004 year book, MOFED – Department of Policy Analysis – Staff Computation in Ayele K. (2006: 60-65), Central Statistical Agency CSA (2002).

In Comparing the Scenario of Ethiopian government expenditure and revenue management of over the years the percentage statistic technique was used in the analysis. Consequently, expenditure and revenue analysis in percentage of the Gross Domestic Product of the Ethiopian Economy were employed. Therefore a comparative analysis of the data on the trend of government expenditure and revenue for about a decade and half were used in the study. In the light of the above finding and conclusion were made.

Discussion of Results

Fiscal performance of consolidated general government Expenditure and Revenue in % of GDP

From the table 1, it is obvious that the percentage composition of revenue to the GDP portrays a declining trend since the early 90's. it only had marginal increase in 1994 and 1995 with a 3% and 1.3% increase respectively.
However, the percentage share of government expenditure in GDP over the period under review has also been on the downward trend. It attained a peak of 46.6% recurrent and capital expenditure in 1990, declined progressively to 29.2% in 1992/93 increased to 34.3% and 37.7% in 93/94 and 94/95 before nose diving to 25.4% in 95/96.

A critical examination of the share of revenue to total expenditure shows that government expenditure over the period under review has always exceeded her revenue. It is pertinent to note that the share of total revenue not only felt short of total expenditure but that for a decade there was a progressive decline of revenue. Consequently, expenditure has continued to grow over revenue. The implication of this is that the government of Ethiopia had obviously relied on foreign assistance to make up for the short falls.
According to Eyasu, S.H (2003), government expenditure growth could be attributed to a lot of interrelated variables. These are as a result of the adoption of socialism, embracing a strong state economy, large scale resource transfer from private to public sector via nationalization, adoption of

a new system of sate machinery and the phenomenal expansion of the existing bureaucracy, government investment in economic and social infrastructure, and of being the sole employer of skilled labor, political instability, boarder conflict and civil war.

The revenue generation within the economy has been bedeviled by the narrow base of the economy, low-income levels, dominance of the primary sector, low monetization and urbanization. These constrained the federal government from generating and increasing its revenue from taxes. Consequently, government fiscal measure concentrated on few areas with high distortive tax rates and employed implicit tax to raise revenue.

However, Federal Research Division (2005), reveals that government revenue has been increasing steadily since the late 90's, reflecting in addition to other measures the recently improved tax collection method and adoption of value added tax in Jan. 2005. In addition, government spending has shifted from funding of defense to economic and social activities since 2000 and at the end of war with Eritrea.

Economic scenario shows that in 2003-04 revenue and foreign grant were estimated to be US$ 1.7 bn from ca. US1.5 bn in 2001 / 02. Government expenditure was also estimated ca. US2.2 bn from ca. US$2 bn in 2001/02. In 2004/05, revenue was projected to increase by 20%, while expenditure is expected to grow by 14% due to increase in spending from regional administration on infrastructure and poverty alleviation. Deficit spending for 2003/04 and 2004/05 we estimated at ca. US $ 500, 000.

Federal Research Division (2000), further reported that generally, the adopted reform process so far has been beneficial, government revenue has increased, expenditure has also been redirected from defense to education, health and infrastructure. Economic performance still suffers from hindrance, e.g public ownership of farmlands, low level of investment, corruption in high places and dependence on foreign finance. The failure of government revenue to cover government spending resulted in persistent and growing fiscal deficit.

Conclusion

To improve the state of Ethiopia government expenditure performance there is the urgent needs to adopt positive fiscal rule. These include, The 'Golden

rule', which implies that over the economic cycle government, will only borrow to invest and not borrow to fund current expenditure. The 'Public debt rule' should be adopted. This implies that the ratio of public debt to national income should be held over the economic cycle at a stable and prudent level.
Government expenditure should be directed at meeting the immediate society needs, to increase both agricultural and industrial essential consumer goods production.

The spending government should ensure regional balance by diversifying industries in backward and less developed areas of the country.
To promote sustainable economy growth, reform measures in taxation in addition to public spending allocation for basic education, health and infrastructural development should be adopted.

There is also the urgent need to expand the tax base, by identifying and adequately promoting potential investment areas. Government should equally created investment friendly and generous incentive to intending investors. Regional states should focus on the informal sector where more people are engaged.

It also required strengthening the operational system of tax regulatory agencies, check corrupt and fraudulent tendencies among tax officials and among the citizenry. According to Tanzi, V. (1988), as a result of the uncertainties related to the effects of fiscal policies, nations need to be cautious in their use of demand management. A better model of international policy coordination in terms of the fiscal area is one which encourages countries to pursue policies that over the medium term put their fiscal accounts in order while paying adequate recognition to the pace of changes.

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Table 1: Fiscal performance of consolidated general government Expenditure and Revenue in % of GDP

Fiscal Year	Revenue	Recurrent expenditure	Capital expenditure	Share of revenue to total exp.
1988/89	29.3	28.9	12.3	0.70
89/90	31.4	31	15.6	0.67
90/91	24.9	34	11.2	0.55
91/92	19.8	27.4	8.9	0.55
92/93	15.6	22.5	6.7	0.53
93/94	17.6	22.1	12.2	0.51
94/95	18.9	22.5	15.2	0.50
95/96	11.1	14.7	10.70	0.69

Source: Mofed in Africa Economist 2003/2004 year book.