Red Sur Working Paper N°12/2023

PROMOTING A PANDEMIC RECOVERY: EVIDENCE TO SUPPORT MANAGING THE GROWING DEBT CRISIS PROJECT

PROFILE OF ETHIOPIAN DEBT AND ITS INSTITUTIONAL CHALLENGES: AN EXPLORATORY ANALYSIS

Getnet Alemu
Alemayehu Geda

SUPPORT

ABOUT RED SUR

The South American Network on Applied Economics (Red Sudamericana de Economía Aplicada, Red Sur), is a policy-oriented research network integrated by public and private universities and centers of knowledge production in the region. It conducts research in the areas of economic development, productivity and innovation, natural resources, inclusive growth, employment, integration, trade and value chains.

Red Sur is interested in promoting regional socio-economic analysis for policy discussion to respond to the challenges of development. The ultimate goal is to generate useful knowledge to address the policy priorities facing the challenge of inclusive and sustainable growth in the region. On this basis, Red Sur promotes, coordinates and develops research projects from an independent perspective and based on rigorous methodologies in coordination with national, regional and international entities.

RED SUR MEMBER INSTITUTIONS

ARGENTINA

Centro de Estudios de Estado y Sociedad (CEDES)

Centro de Investigaciones para la Transformación (CENIT)

Instituto Interdisciplinario de Economía Política (IIEP-UBA-BAIRES)

Instituto Torcuato Di Tella (ITDT) Universidad de San Andrés (UDESA)

BRAZIL

Instituto de Economia, Universidade Estadual de Campinas (IE-UNICAMP) Instituto de Economia, Universidade Federal de Río de Janeiro (IE-UFRJ)

Instituto de Pesquisa Econômica Aplicada (IPEA)

Fundação Centro de Estudos do Comércio Exterior (FUNCEX)

PARAGUAY

Centro de Análisis y Difusión de Economía Paraguaya (CADEP)

Investigación para el Desarrollo (Instituto Desarrollo)

URUGUAY

Centro de Investigaciones Económicas (CINVE)

Departamento de Economía, Facultad

de Ciencias Sociales, Universidad de la República (DECON–FCS, UdelaR)

Instituto de Economía, Facultad de Ciencias Económicas y de Administración (IECON– CCEE, UdelaR)

Red Sur Working Document N°12/2023

PROFILE OF ETHIOPIAN DEBT AND ITS INSTITUTIONAL CHALLENGES: AN EXPLORATORY ANALYSIS

Getnet Alemu, Associate Professor and Director, Institute of Development and Policy Research, Addis Ababa University.

Alemayehu Geda, Professor at Economics Department, Addis Ababa University

Working Paper of the Project "*Promoting a pandemic recovery: evidence to support managing the growing debt crisis*" (IDRC - Red Sur N° 109742-001)

Luis Piera 1992, Piso 3 - Edificio Mercosur, CP 11.200, Montevideo, Uruguay Website:
www.redsudamericana.org

October, 2023

Communication and design: Damián Osta
Production: Diego García

Note from the authors: This paper is the outcome of a project on "Promoting a Pandemic Recovery: Evidence to Support Managing the Growing Debt Crisis," supported by the International Development Research Center (IDRC) in Ottawa, Canada, under grant number 109742-001. It is carried out by researchers at Institute of Development Policy Research (IDPR) and Department of Economics of the Addis Ababa University (AAU). We are grateful to the IDRC for its generous financial support of this study. We are also grateful to Arjan de Haan (IDRC) and Carolina Quintana (Red Sudamericana de Economía Aplicada/Red Sur, Montevideo, Uruguay) for their assistance with the administrative aspects of the project. However, any errors are our own. The views expressed in this study are solely ours and do not represent the views of IDRC, Red Sur, or the institutions with which we are affiliated.

CONTRIBUTIONS AND ACKNOWLEDGMENTS

This work was made possible with support from the International Development Research Centre (IDRC Canada). IDRC promotes and funds research and innovation in and with developing regions to drive global change (see more information on their website: https://idrc-crdi.ca/es).

Red Sur led the project "Promoting a pandemic recovery: evidence to support managing the growing debt crisis", aimed at restructuring public debt for socio-economic recovery and sustainability in Africa and Latin America and mobilized seven research centres from both regions.

The project was led by Fernando Lorenzo (Centro de Investigaciones Económicas, CINVE/Red Sur). The academic direction of the project and the process of elaboration of this document was carried out by Red Sur Regional Technical Coordination team, composed of Andrés López (IIEP-UBA-CONICET/Red Sur), Ramiro Albrieu (Red Sur), Luis Miguel Galindo (Universidad Nacional Autónoma de México, UNAM) and Álvaro Ons (CINVE/Red Sur).

The researchers and centres by country that made up the project's research consortium in Latin America were: the ARU Foundation of Bolivia, under the leadership of researchers Omar Velasco, Wilson Jiménez, Josué Cortez and Diego Peñaranda. The study in Honduras was led by Luis Miguel Galindo (UNAM), Gerson Urtecho and Sergio Sánchez. The study in Paraguay was conducted by Centro de Análisis y Difusión de la Economía Paraguaya (CADEP), under the leadership of Belén Servín, Juan Cresta, Fernando Masi, Fernando Ovando and Dionisio Borda.

The researchers and centres per country that made up the project's research consortium in Africa are listed below. In Nigeria: Centre for the Study of the Economies of Africa (CSEA), under the leadership of Mma Amara Ekeruche, with the participation of Chukwuka Onyekwena; Chris Heitzig; Oreoluwa Adenuga; Oludele Folarin and Kashema Bahago. In Ethiopia, Addis Ababa University - UAA and Institute of Development Policy Research (IDPR), under the leadership of Alemayehu Geda, with the participation of Addis Yimer and Getnet Alemu. In Uganda, the Economic Policy Research Centre (EPRC), under the leadership of Corti Paul Lakuma, with the participation of Sarah N. Ssewanyana; Ibrahim Kasirye; Wilson Asiimwe; Brian Sserunjogi; Rehema Kahunde; Ambrose Ogwang and Smartson Ainomugisha.

For the discussion of the project dimensions of analysis, a series of research workshops were held between December 2021 and October 2022, with the participation and inputa of Red Sur regional team, national teams and with contributions from Cecilia Alemany (UN Women), Arjan de Haan, Paul Okwi, Walter Ubal from IDRC.

The series of publications resulting from the project includes the following titles that are published as Red Sur Working Papers and Policy Briefs, available at www.redsudamericana.org:

Number	Title	Authors/Institution
Policy Brief No 1/2022	G20 Policy Brief Indonesia 2022. Policy Proposals for External Debt Management and Sustainability in Developing and Low-Income Countries TF7 - International Finance and Economic Recovery	Fernando Lorenzo (Centro de Investigaciones Económicas), Luis Miguel Galindo (Universidad Nacional Autónoma de México), Ramiro Albrieu (CIPPEC), Dionisio Borda (Centro de Análisis y Difusión de la Economía Paraguaya), Paul Lakuma (Economic Policy Research Centre), Mma Amara Ekeruche, Alemayehu Geda (Addis Ababa University), and Arjan de Haan (IDRC)
Policy Brief No 2/2023	LAC Policy Brief “Results and Policy Implications in Latin America”	Miguel Galindo (UNAM), Fernando Lorenzo (CINVE/Red Sur) and Ramiro Albrieu (Red Sur)
Policy Brief No 3/2023	Construyendo un futuro sostenible en el Sur Global	Ramiro Albrieu (Red Sur)
Policy Brief No 4/2023	Policy Brief I - Ethiopia: Profile of Ethiopian Debt and its Institutional Challenges: An Exploratory Analysis	Getnet Alemu and Alemayehu Geda (Addis Ababa University/AAU)
Policy Brief No 5/2023	Policy Brief II - Ethiopia: Fundamental and Proximate Drivers of Public Debt in Ethiopia (1980-2023)	Alemayehu Geda and Addis Yimer (Addis Ababa University/AAU)
Policy Brief No 6/2023	Policy Brief III - Ethiopia: A Two-Edged Sword: The Impact of Public Debt on Economic Growth—The Case of Ethiopia	Addis Yimer and Alemayehu Geda (Addis Ababa University/AAU)
Working Paper No 1/2023	Background Document ‘Fiscal and Financial Challenges of Climate Transition in Latin America’	Luis Miguel Galindo (UNAM) and Fernando Lorenzo (CINVE/Red Sur)
Working Paper No 2/2023	Climate Change, Fiscal Risks and Public Debt Management in Latin America	Luis Miguel Galindo (UNAM) and Fernando Lorenzo (CINVE/Red Sur)
Working Paper No 3/2023	Consumption Patterns and Environmental Taxation in Latin America	Luis Miguel Galindo (UNAM) and Fernando Lorenzo (CINVE/Red Sur)
Working Paper No 4/2023	Investment Incentives and Sustainable Productive Transformation in Latin America	Andrés López (IIEP-UBA-CONICET/Red Sur) and Alvaro Ons (CINVE/Red Sur)

Working Paper No 5/2023	Estudio País: Construyendo un Futuro Sostenible en Bolivia (in Spanish)	Omar Velasco, Wilson Jiménez, Josué Cortez and Diego Peñaranda (Fundación ARU)
Working Paper No 6/2023	Estudio País: Construyendo un Futuro Sostenible en Honduras (in Spanish)	Gerson Urtecho, Sergio Sánchez and Luis Miguel Galindo (UNAM)
Working Paper No 7/2023	Estudio País: Construyendo un Futuro Sostenible en Paraguay (in Spanish)	Dionisio Borda, Juan Cresta, Fernando Masi, Fernando Ovando and Belén Servin (CADEP/Red Sur)
Working Paper No 8/2023	Effects Of Gender-Inequality During Global Health Emergencies: Evidence from Nigeria	Centre for the Study of the Economies of Africa (CSEA)
Working Paper No 9/2023	Debt for Climate and Development Swaps in Nigeria	Centre for the Study of the Economies of Africa (CSEA)
Working Paper No 10/2023	Determining the Optimal Carbon Pricing for Nigeria	Centre for the Study of the Economies of Africa (CSEA)
Working Paper No 11/2023	Sustainable, Inclusive and Environmentally Responsive Debt in Uganda: Implication of COVID 19	Economic Policy Research Centre (EPRC)
Working Paper No 12/2023	Profile of Ethiopian Debt and Its Institutional Challenges: An Exploratory Analysis	Getnet Alemu and Alemayehu Geda (Addis Ababa University/AAU)
Working Paper No 13/2023	Fundamental and Proximate Drivers of Public Debt in Ethiopia	Alemayehu Geda and Addis Yimer (Addis Ababa University/AAU)
Working Paper No 14/2023	A Two-Edged Sword: The Impact of Public Debt on Economic Growth: The Case of Ethiopia	Addis Yimer, African Child Policy Forum (ACPF) and Department of Economics Addis Ababa University (AAU) and Alemayehu Geda, Addis Ababa University (AAU)

CONTENT >

Abstract

A debt burden challenges Ethiopia. It has reached a point where it must suspend servicing its debt, waiting for creditors' goodwill to restructure it. The Ethiopian debt problem is primarily a liquidity rather than a solvency problem, chiefly due to its underdeveloped export sector covering less than half of its imports. The country's debt stock is $60 billion in 2023, 53 percent of GDP, equally divided between domestic and external. The analysis in this study shows the existence of a significant debt burden and several institutional challenges of the debt problem, including its management. It has a commendable organizational framework to manage its debt, though with limited capacity or experts and proper implementations of rules and regulations. This calls for capacity building, transparency, and accountability to manage the debt burden adequately. We also argue that the institutions in charge of debt management must go beyond debt management to develop an exit strategy from persistent external aid dependency, which are debt-creating flows, for financing development by prudently managing its resource in the short run and adequately covering its spending with its resource in the medium to long term. Towards that end, we have outlined some policy directions to improve the institutional aspect of managing debt.

***Keywords**: Debt, Debt management, Ethiopia, Africa*

I. Introduction

Ethiopian debt has significantly increased in the past two decades. As a result, the country's outstanding debt has reached about USD 60 billion, which is equally divided between domestic and external debt, which is about 53 percent of GDP in 2022, a significant improvement from the 60 percent (of the GDP) rate registered in 2018. Given the low and precarious growth of exports and exceedingly high growth in imports, servicing this debt is becoming a significant challenge for the government as it claims two third of its merchandise export earnings.

The debt problem has several dimensions. We have examined in detail the major and vital dimensions of the Ethiopian debt problem in two related studies: one about the significant drivers of debt (Alemayehu and Addis, 2023a) and the other about the growth impact of debt (Addis and Alemayehu, 2023b). This paper is a companion study aimed at accomplishing two tasks. First, it provides the general profile of the Ethiopian debt – section two. Second, section three examines the institutional aspect of how the demand for debt-creating flows is created. These will be followed by section four, where an attempt to understand the process of indebtedness and its management is discussed. Section five concludes the study by identifying the main institutional challenges of indebtedness in Ethiopia and their policy implications.

II. The Nature of Ethiopian Debt

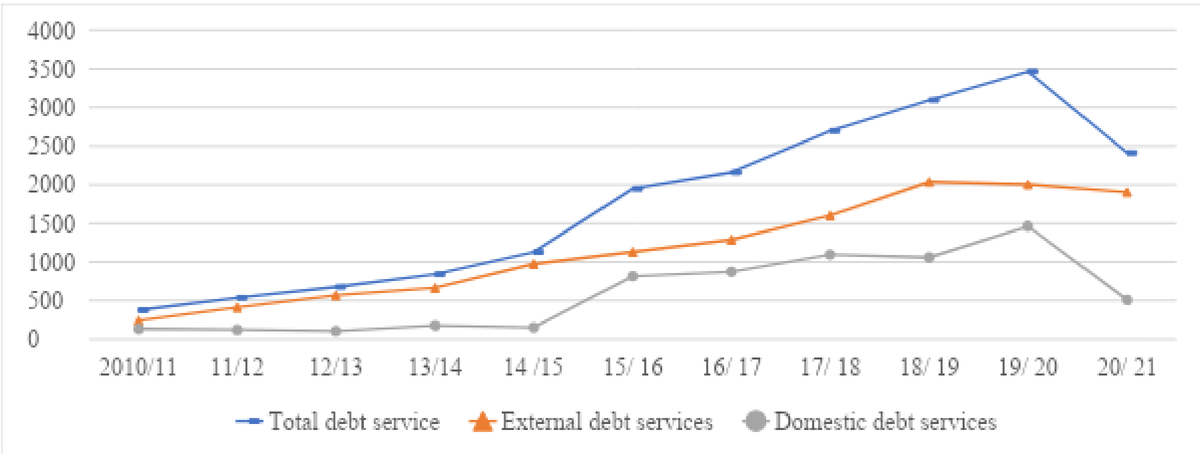
2.1 Overview of the General Picture

Ethiopian public debt[1] has consistently increased in the last ten years. It has increased nearly four times in the previous ten years alone, from USD 15 billion in 2010/11 to 58.7 billion in 2020/21 (52.8% of GDP). In relative terms, however, it has exhibited ups and downs, with a record debt-to-GDP ratio of 60.3% in 2017/18. The high figure for 2017/18 is due to the sharp decline in the rate at which GDP increased relative to debt. After 2017/18, it showed a modest decline; 56.9 percent in 2018/19, and it went down further in 2019/20 and 2020/21 to 54 and 52.8 percent, respectively. This is due to the consistent decline in the rate at which GDP increases relative to debt, the government's decision not to take non-concessional debt, and many disagreements (including the recent war in Northern Ethiopia) with lenders that hold on to their lending.

As shown in Table 1 below, the total public debt stock is nearly equally divided between external and domestic. Like that of total public debt, external debt has increased consistently over the last ten years from USD 7.8 billion in 2010/11 to USD 29.5 billion in 2020/21. However, external debt accumulation has decelerated to a single-digit growth rate in recent years, from 2018/19 to 2020/21. Like external debt, domestic debt has declined in the last two years (ending 2020/21) but picking up in 2022/23.

The total debt service has shown a steadily increasing trend in absolute and relative terms, more at the fastest rate since 2014/15. This is primarily driven by external debt servicing (see Figure 1). There was a sharp decline in total debt service in 2020/21. As seen in Figure 1, the primary driver for this was the domestic debt service. The sharp decline in domestic debt service was due to 'various reform programs and the introduction of the "Liability Asset Management Corporation" (LAMC) that absorbed the State-Owned Enterprises) (SOEs') debt, which led to a decrease in SOEs' debt service payments to CBE. The modest decline in external debt service was also due to the Debt Service Suspension Initiative (DSSI), by which the government 'suspended all debt service payments of the central government to its bilateral creditors.[2]

Figure 1: Debt service (in millions of USD)



Source: Table 1

[1] ' Public debt includes central government external debt, government-guaranteed external debt, non-guaranteed external debt, and domestic debt.

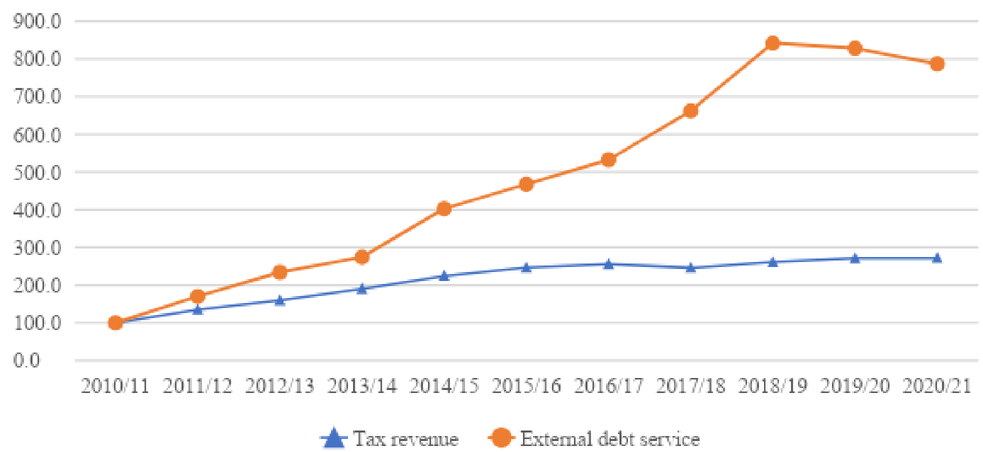
[2] MoF, Debt Management Directorate, (2021:7), Annual Public Sector Debt Portfolio Analysis for the year 2020/21, No. 22, Addis Ababa.

The increase in the external debt service, especially the increasing rate, is worrisome. This rate is higher than the rate at which export earning grows (see Table 1). Liquidity risk is embedded in the debt service indicators, which is currently challenging the government.

As a result, the external debt burden, measured by the debt services to export of goods and services ratio, increased consistently and reached 26.8% in 2018/19, just from 4.5% in 2010/11. In the last two years, the debt burden has shown a modest decline but is still above the recommended IMF ceiling of 15 percent for the debt servicing ratio. Given the small export base, the high debt service adversely affects the availability of foreign currency for investment, which triggers further external indebtedness. The small export base, overvalued exchange rate and, continuous depreciation, high external debt has pushed the country to an increased risk of debt distress.

The growth rate of debt services is also much higher than the rate at which the tax revenue and general government expenditure are increasing (see Figure 2). Growing debt servicing costs can affect the economy, adversely weakening tax revenue collection. Ethiopia's debt service was as small as 6.6% of its tax revenue in 2010/11. This has increased unabatedly and reached 19.1 percent in 2020/21. This leads to further borrowing as increasing tax revenue through expanding the tax base is difficult to achieve quickly. As an accumulation of debt means more debt servicing costs, more and more of the limited tax collected and foreign exchange of the country is generating will be used for debt servicing. As argued above, this constrains government expenditure and leads to a shortage of foreign exchange for investment with a feedback effect on low tax revenue.

Figure 2: Trends in External debt service and tax revenue (index, 2010/11=100%)



Source: Ministry of Finance (MoF) Debt Statistics Bulletin and NBE Annual Report, various issues

External debt as a percentage of export of goods and services stood at 356.4 percent in 2020/21, well above the threshold level of 180 percent. The external debt service to export ratio also stood at around 22.5 percent (53 percent as a share of export of goods), again more than the threshold level of sustainability, which is 15 percent (Table 1). These indicators show the country's debt distress level is at elevated risk. All the above figures have shown an improvement in 2020/21 relative to the preceding years because of a reduction in non-concessional borrowing by SOEs, improvement in the export sector, and continuous GDP growth. MoF (2021:8) also noted that the high increase in the external debt stock, its services, and poor export performance is shifting the country's debt distress level from moderate to high risk.

Given the distressing level of debt and debt servicing, it is imperative to reduce external debt servicing needs to achieve a moderate risk debt distress rating. To this end, the government is attempting to re-profiling its external loans, mainly bilateral. This may not be enough, and debt management practices must be further strengthened.

Table 1: Total public debt outstanding (in millions of USD and share in %)

	2010/11	11/12	12/13	13/14	14 /15	15/ 16	16/ 17	17/ 18	18/ 19	19/ 20	20/ 21
Total public debt	15,048	17,907	22,291	25,994	34,830	39,840	46,417	50,801	54,611	58,169	58,716
External debt	7,808	8,889	11,223	14,005	19,053	21,275	23,348	25,812	27,068	28,849	29,486
Domestic debt	7,240	9,018	11,068	11,988	15,777	18,565	23,069	24,988	27,542	29,320	29,230
Total debt service (TDS)	377	536	676	841	1,129	1,947	2,160	2,698	3,096	3,466	2,413
External debt services (EDS)	242	412	567	664	975	1,131	1,288	1,602	2,036	2,003	1,903
Domestic debt services (DDS)	135	124.4	108.3	177.5	153.8	816.2	872.4	1096.4	1059.7	1462.8	509.7
GDP at current market prices	32,795	44,450	48,672	57,072	66,282	74,297	81,771	84,269	95,912	107,673	111,271
Export of goods	2,750	3,166	3,098	3,296	3,007	2,869	2,908	2,837	2,667	2,988	3,597
Export of goods and services (EXP)	5339	5947	5914	6466	6046	5806	6239	7061	7608	7633	8449
Total public debt/GDP	45.9	40.0	45.8	45.5	52.5	53.6	56.8	60.3	56.9	54.0	52.8
External debt/GDP	23.8	20.0	23.1	24.5	28.7	28.6	28.6	30.6	28.2	26.8	26.5
Domestic debt/GDP	22.1	20.3	22.7	21.0	23.8	25.0	28.2	29.7	28.7	27.2	26.3
Total public debt/export of goods	547.2	561.5	719.6	788.7	1158.2	1388.8	1596.4	1790.6	2048.0	1946.9	1632.6
Total public debt/export of G&S	281.9	301.1	376.9	402.0	576.1	686.2	744.0	719.5	717.8	762.1	694.9
External debt/export of goods and services	161.4	151.0	197.8	211.0	312.6	357.4	380.6	370.7	358.9	374.4	356.4
	146.2	149.5	189.8	216.6	315.1	366.4	374.2	365.6	355.8	378.0	349.0
TDS /Export of goods	13.7	16.9	21.8	25.5	37.5	67.9	74.3	95.1	116.1	116.0	67.1
TDS/Export of goods and services	7.8	9.1	11.9	12.7	18.5	32.7	35.2	38.7	41.1	45.0	29.2
	7.1	9.0	11.4	13.0	18.7	33.5	34.6	38.2	40.7	45.4	28.6
EDS/export of goods	8.8	13.0	18.3	20.1	32.4	39.4	44.3	56.5	76.4	67.1	52.9
EDS/export of goods and services	4.5	6.9	9.6	10.3	16.1	19.5	20.6	22.7	26.8	26.2	22.5
DDS/export of goods	4.9	3.9	3.5	5.4	5.1	28.5	30.0	38.6	39.7	49.0	14.2
DDS/export of goods and services	2.5	2.1	1.8	2.7	2.5	14.1	14.0	15.5	13.9	19.2	6.0

Source: MoF Debt Statistics Bulletin and NBE Annual Report, various issues

2.2 Domestic Debt: Nature, Composition, Debtors, Creditor, and Destination Sectors

Total domestic debt is comprised of the central government's and SOEs' debt. The central government loans are composed of direct advance (DA), treasury bills (TBs), government bonds[3] and recently issued treasury notes (TNs).[4] SOEs borrow from domestic sources by issuing corporate bonds and long-term loans from CBE and/or DBE. Total domestic debt outstanding increased from Birr 156 billion in 2011/12 million to 1,176 billion in 2020/21, about 7.5 times higher in nine years (see Table 2). Domestic debt is equally split between the central government's and SOEs' debt, SOEs' debt is a little more than 50 percent except for the 2011/12 and 2020/21 fiscal years, which was below 50%.

Table 2: Public sector domestic debt outstanding by holders (in millions of ETB)

	2011/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
Grand Total	156013	202542	228,978	317,121	391,714	519,530	642,646	773,540	918,954	1,175,939
Central Govt. Total	78252	93168	107,473	137,215	167,232	238,473	300,919	361,888	432,394	600,575
Banks	68260	80225	86,577	108,526	123,195	178,417	219,621	254,720	295,157	417,214
NBE	55562	64510	73,304	92,175	109,080	135,633	160,129	194,685	230,238	281,863
CBE	2623	2572	1,765	1,362	846	26,968	26,696	26,590	26,522	68,990
DBE	7840	9814	11,507	14,989	13,269	15,817	32,797	32,795	32,793	53,811
Other Banks	2234	3328	-	-		-	0	650	5,604	12,550
Non-Banks	9992	12943	20,896	28,689	44,037	60,056	81,298	107,168	137,237	183,362
POSSA&PSSA	6819	10270	18,323	26,371	41,749	57,620	78,262	103,857	133,931	181,681
Others	3173	2673	2,573	2,318	2,288	2,436	3,036	3,311	3,306	1,681
SOEs (Bonds & Loans)	77761	109374	121,505	179,906	224,482	281,057	341,728	411,652	486,560	575,364
Banks	77761	109374	121,505	179,906	224,482	281,057	341,728	411,652	486,560	575,364
DBE long term loans				2,567	2,698	1,845	1,741	1,692	1,692	1,692
CBE	77761	109374	121,505	177,338	221,784	279,212	339,986	409,960	484,868	573,672
CBE corporate bonds				128,100	160,100	195,000	241,149	302,755	363,600	146,582
CBE long term loans				49,238	61,684	84,212	93,787	105,185	121,268	28,395
Transferred to LAMC[5]										398,695
Share of SOEs from total	49.8	54.0	53.1	56.3	56.9	53.9	52.6	53.0	52.8	48.9

[3] Government bond is issued for a specific purpose, such as converting short-term central government instruments into long-term instruments or acquiring bad debt from SOE during privatization.

[4] The TN was introduced in 2019/20 to ease the transition from TBs to Market Determined TBs by converting the stock of existing TBs into three-year TNs.

[5] LAMC is Liability Asset Management Corporation established by the government following the restructuring of SOEs debt to transfer SOEs debt to LAMC.

CBE Short-Term Loans						0	5,050	2,020	0	0

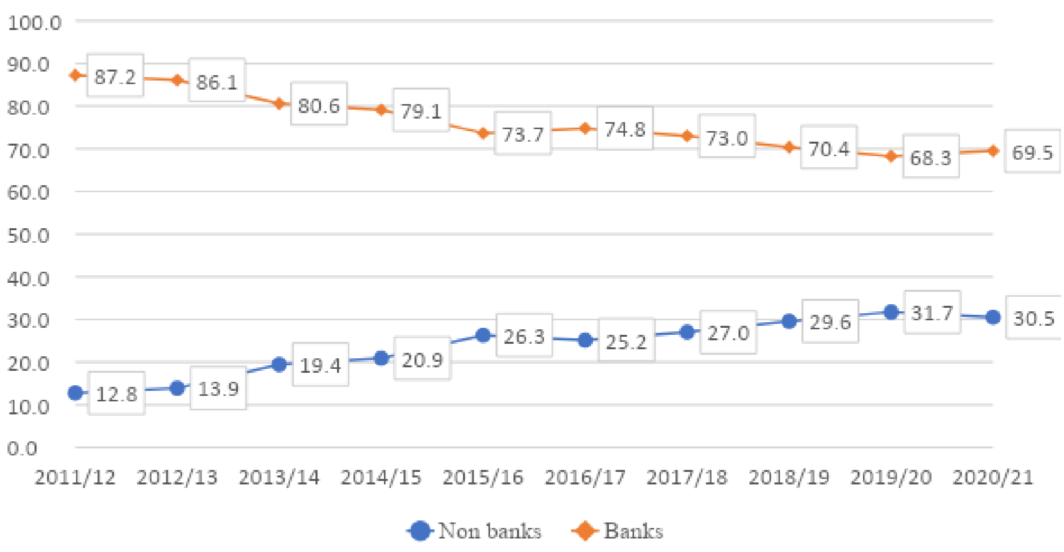
Source: MoF Debt Statistics Bulletin and NBE Annual Report, various issues

The primary sources for the central government's domestic debt are the central bank through its direct advance from NBE and other commercial banks, and non-bank entities (using Treasury Bills/TBs and Treasury Notes/TNs procured by insurance companies, the social security agencies of public employees and private employees, and other non-financial public institutions). The major lenders to the central government are the NBE and other commercial banks that account for more than 68% of the government's total debt (ranging between 68.3% and 87.2) in the period under analysis (Table 2). The NBE is the most critical source of government debt accounting for 67.6 to 88.5% of the total government debt from all banking sectors. Although the relative share of loans from NBE and other banks has exhibited a modest decline, it is increasing in absolute terms from year to year (Figure 3). The fiscal deficit, particularly as of 2014/15, has grown tremendously and forced the NBE to fill the deficit in the form of direct advances as other means of financing are not yet well developed.

The significant role of government borrowing from the NBE in building up the domestic debt is partly related to scraping off the legal limit on government borrowing following the significant change enacted in the 2008 NBE establishment proclamation that changed some of the crucial provisions in the 1994 NBE establishment proclamation that are related to the monetization of government deficit. The 2008 proclamation scrapped the following constraints to government borrowing that were provided in the 1994 proclamation: (a) limiting the direct advances to the government to 15 percent of the past 3 -year average annual ordinary revenue of the government; (b) limiting the total amount of (short -term) Treasury Bills purchased and held as security by the NBE and those purchased by banks and other financial institutions to 25 percent of the past 3 -year average annual ordinary revenue of the government; and (c) limiting the total amount of (longer -term) government bonds held by the NBE and by banks and other financial institutions to 50 percent of the past 3 -year average annual ordinary revenue of the government. This shift in policy began in the early 2000s, primarily driven by the government's posture as a "developmental state" of the East Asian type, where the developmental banking role of central and commercial banks was prominent in their strategy (Alemayehu, 2021; 2023a). Similarly, the 2008 Proclamation also authorized the NBE to issue its debt and payment instruments (Article 5.3)[6].

[6] See NBE Establishment Proclamation No. 83/1994 and Proclamation No. 591/2008. Though not well articulated as in the 1994 proclamation, the NBE recently (August 2023) has decided to limit the growth rate of its direct advance to the government to a third of its growth rate of the last fiscal years, 2021/22 (the 2021/22' s growth rate was about 96%).

Figure 3: Central government domestic outstanding loan by source



Source: MoF Debt Statistics Bulletin and NBE Annual Report, various issues

The single most important source for SOEs's debt is the loan from CBE, which accounts for nearly all, with other banks holding less than 1%. Decomposing SOEs' debt by borrowers revealed that Ethiopian Electric Corporation (EEC) is the primary client[7], accounting for more than 60 percent of the SOEs debt throughout 2011/12-2020/21 (Table 3). Ethiopian Sugar Corporation's debt follows this at a distance. The stock of SOEs debt is recently transferred to the Liability Asset Management Corporation (LAMC), which was established by the Council of Minister's regulation in February 2021.

It was learnt that SOEs could not service their external and domestic debt. Some are nearly on the verge of default. The government could not also absorb the SOE's debt as it will increase its fiscal deficit, which is already bordering the limit. As part of the "homegrown" economic reform, the government cognizant of the high risk coming from SOE's debt, was forced to restructure the debt. For this purpose, it created one entity named Liability Asset Management Corporation (LAMC) to absorb the SOEs debt. LAMC has absorbed 100% of railway and sugar corporations, 40% of power and some proportion of other SOEs' like Ethiopian Investment Group, previously known as Metals and Engineering Corporation (METEC), which used to have more than fourteen industries. The assumption is that LAMC will be able to manage the debt with the following sources of revenue. These are: proceeds from privatization (the major expectation was the 40% privatization of telecom which is not yet realized), dividends of SOEs that should have been paid to the government, budget from the government, properties of SOEs that are not in use, revenues generated from liquidation of SOEs and the like. LAMC is responsible for both domestic and external SOEs debt (except Ethiopian Airlines and Ethio Telecom). However, since negotiations with external creditors are not yet completed, SOEs' external debts are not transferred to LAMC yet.

[7] Notice the weaknesses of the standard international debt reporting system about SOE's debt which shows only the liability side of EEC borrowing but not the asset side (i.e.., what EEC did with the money such as financing the Grand Ethiopian Renaissance Dam). See Alemayehu and Addis (2023) for details about this accounting system and its critics.

Table 3: SOEs' domestic outstanding debt, including arrears (in millions ETB)

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Berhanena Selam Printing				7	29	47	35	12		
Const. Works Corp.						9,621	9,621	9,621	11,892	14,767
Eth. Railway Corp		1,100	5,300	13,000	17,000	19,800	28,877	42,632	61,064	7,825
Eth. Elec. Corp	46,100	62,300	84,300	112,300	140,300	172,400	209,500	255,800	298,717	139,464
Eth. Elec. Utility	2,800	2,800	2,800	2,800	2,800	2,773	2,746	4,164	3,761	
Eth. Shipping Lines	1,534	1,388	1,374	1,311	1,032	776	351	72		
Eth. Sugar Corp.	9,895	15,690	25,986	42,727	53,722	57,013	68,330	77,102	89,120	14,563
METEC	500	3,638	3,638	3,589	3,534	11,500	11,476	11,476	11,476	
National Alcohol			81	74	54	39	23			
National Chemical Corp		10,295	10,295	10,295	10,295	10,453	10,768	10,773	10,531	50
LAMC										398,695
TOTAL	60,829	97,211	133,774	186,103	228,766	284,423	341,728	411,652	486,560	575,364

Source: MoF Debt Statistics Bulletin and NBE Annual Report, various issues

2.3 External debt: Nature, Composition, Sector, Creditor, Debtors, Terms of Debt

Ethiopia's external debt can be decomposed into three categories: central government borrowing, SOEs' borrowing through government guarantee (mainly from commercial sources)[8], and other SOEs (non-government guaranteed borrowing by Ethiopian Airlines (EAL) and Ethio-Telecom). External debt has almost quadrupled over the last decade since 2010 (see Table 4). The central government's external debt accounted for 59 percent of the total external debt outstanding in the last decade. In the first four years since 2010/11, this external debt was somehow stable; but as of 2014/15, the share of the central government's debt in the country's external debt has increased consistently while that of SOEs' debt has remained constant in absolute terms. This increased indebtedness is strongly associated with the increase in fiscal deficit. Put differently, the budgetary deficit was one of the main drivers of external debt in the last six years (Table 4).

Table 4: External debt outstanding (In millions of USD)

	2010/11	11/12	12/13	13/14	14 /15	15/ 16	16/ 17	17/ 18	18/ 19	19/ 20	20/ 21
Total Public Debt	15,048	17,777	22,291	25,994	34,830	39,840	46,417	50,801	54,611	58,169	58,716
External Debt	7,808	8,889	11,223	14,005	19,053	21,275	23,348	25,812	27,068	28,849	29,486
Central Government	4,725	5,469	6,832	8,422	9,984	11,581	12,987	14,752	15,966	17,992	19,485
SOEs	3,083	3,419	4,391	5,583	9,069	9,695	10,360	11,061	11,102	10,857	10,001
Government guaranteed	2,042	2,111	2,624	3,289	4,187	3,596	3,424	3,497	3,812	3,615	3,335
Non-gov't Guaranteed*	1,040	1,308	1,767	2,295	4,881	6,099	6,937	7,564	7,290	7,242	6,665

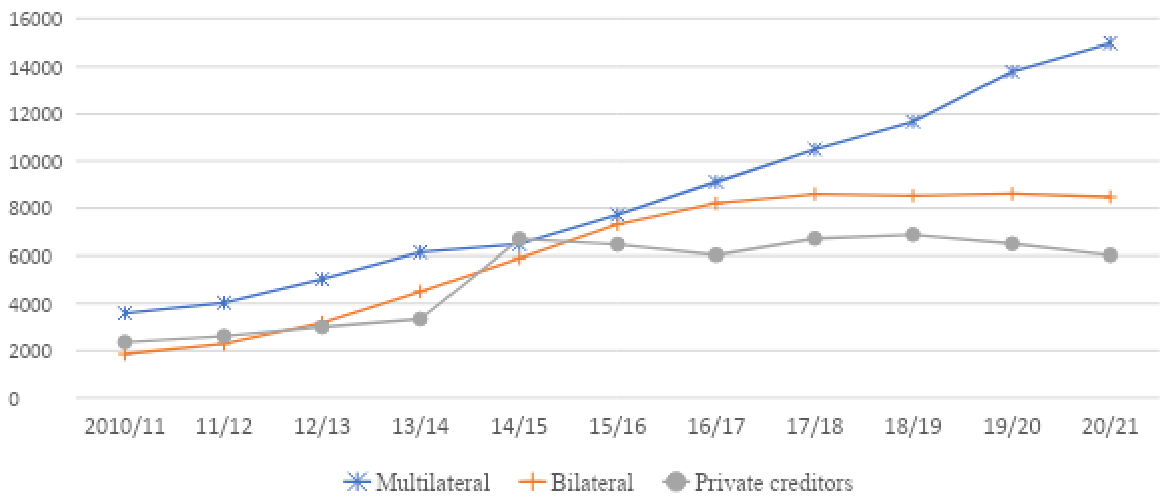
Source: MoF Debt Statistics Bulletin and NBE Annual Report, various issues

* These are Ethiopian Airlines and Ethio-Telecom

[8] This is borrowing by Ethiopian Railway Corporation (ERC), Ethiopian Sugar Corporation (ESC), and Ethiopian Electric Power (EEP), and others.

As can be read from Figure 4 and Table 5, the primary sources of Ethiopian external debt are multilateral lenders, followed by bilateral lenders. In the last decade (2010/11-2020/21), multilateral debt accounted for more than 42.8% of the total external debt, while bilateral debt accounted for 31.1. Private creditors accounted for the rest, 26.1% of the total. Of Ethiopia's total external debt outstanding in 2020/21, multilateral agencies, which provide a highly concessional loan, held about 50.8 percent of the total, while bilateral creditors have a 28.7 percent share of the total external loan. The remaining debt is owed to private creditors. Among private creditors, commercial banks and suppliers held about 12 and 5 percent of total external debt, respectively, while Eurobond held by the government accounts for 3.4 percent of the total (see Table 5).

Figure 4: Trends in external debt by source



Source: MoF Debt Statistics Bulletin and NBE Annual Report, various issues

Two essential features stand out from Tables 4 and 5, and Figure 4. First, loans from multilateral lenders have significantly increased over time. On the other hand, the stock of external debt from bilateral and private creditors was not growing as much. Instead, the stock of debt owed to private creditors has declined since 2014/15, and that of bilateral remains essentially constant since 2016/17. Within the multilateral lending sources, the share of IDA, which is the concessional wing of the WB lending, has increased significantly, from 58 percent in 2010/11 to 75% in 2020/21 - indicating the shift from non-concessional to concessional loans.

The second important feature is that the composition of external debt has also shifted from SOEs to central government debt. The main driving force for both shifts is the government's decision to limit its non-concessional borrowing, particularly the non-concessional loan by SOEs. As MoF (2021:14) noted,[9] SOEs borrowing has declined owing to the limitation on new borrowings by the government.

[9] MoF, Debt Management Directorate, (2021), Annual Public Sector Debt Portfolio Analysis for the year 2020/21, No. 22, Addis Ababa.

Table 5: External debt outstanding by lenders (in millions USD)

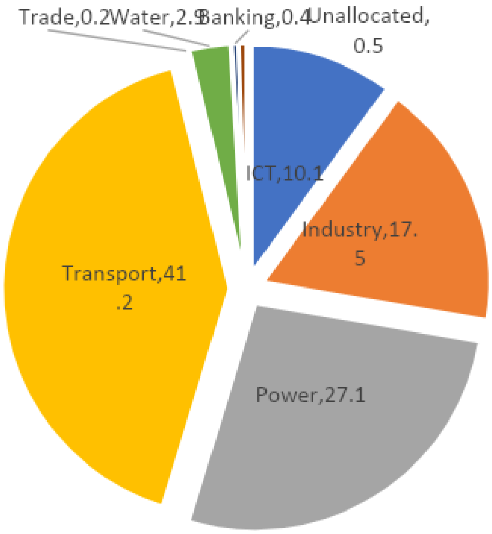
	2010/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21
Grand total	**7808**	**8935**	**11223**	**14005**	**19092**	**21511**	**23350**	**25811**	**27076**	**28890**	**29486**
Official creditor	**5445**	**6320**	**8221**	**10660**	**12390**	**15038**	**17316**	**19094**	**20196**	**22390**	**23455**
Multilateral	***3590***	***4033***	***5028***	***6155***	***6485***	***7720***	***9111***	***10496***	***11670***	***13784***	***14981***
AfDB	8	4					159	146	144	160	168
AfDF	735	794	1004	1183	1288	1495	1697	1908	1986	2048	2111
BADEA	57	62	68	69	69	76	87	92	95	97	96
EIB	155	127	121	112	80	75	71	72	76	72	125
IDA	2092	2522	3256	4185	4515	5560	6564	7754	8848	10154	11207
IFAD	157	157	213	234	216	234	274	306	358	367	386
IMF	298	283	281	289	244	195	142	91	38	729	749
NDF	37	34	34	34	30	29	28	28	26	25	25
OFID	51	49	52	48	44	56	88	100	99	97	86
PTA							-	-	-	36	29
Bilateral	***1855***	***2287***	***3192***	***4505***	***5905***	***7318***	***8206***	***8598***	***8526***	***8607***	***8473***
Paris Club	469	408	401	391	400	390	627	661	717	813	921
Non - Paris Club	1386	1879	2791	4114	5505	6928	7578	7936	7809	7794	7552
Private creditors	**2363**	**2615**	**3002**	**3345**	**6702**	**6473**	**6034**	**6717**	**6879**	**6500**	**6031**
Commercial Banks	926	1214	1636	2028	2597	2570	2523	3440	3919	3791	3602
Suppliers	1437	1402	1366	1318	3105	2903	2510	2277	1960	1709	1429

Source: MoF Debt Statistics Bulletin and NBE Annual Report, various issues

Among bilateral lenders, creditors of Non-Paris club members are the dominant ones -their share in the outstanding loan being a cumulative average of more than 90% in the last decade. Over the previous three years (see Table 5), the average stock of debt owed to Non-Paris club lenders has shown a declining trend due '… to a minor number of fresh disbursements and more repayment for the non-Paris club creditors for Ethiopian Railway Corporation (ERC), Ethiopian Sugar Corporation (ESC), and Ethiopian Electric Power (EEP), among other,' lenders (See MoF, 2021:13).

China (see Figure 5) is Ethiopia's single most important Non-Paris club creditor, accounting for 86 of the total Non-Paris sources of lending (i.e., 21.5% of the country's total external debt) in 2021 (MoF, 2021a). The sectoral distribution of China's debt over the last 20 years shows it has focused on the transport sector (41.2 percent) followed by the power (27.1 percent) sector. The third important sector is industry (17.5 percent). (Figure 5).

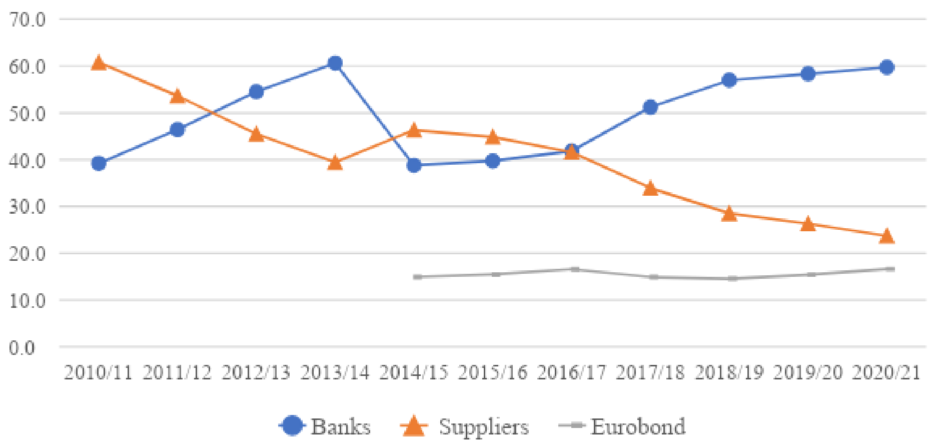
Figure 5: Cumulative distribution of China's loan by sector (2009-2018)



Source: MoF Debt Statistics Bulletin and NBE Annual Report, various issues

Periodic swings of have characterized the stock of external debt owed to private creditors. It also declined in recent years because only Ethiopian Airlines has been the only borrower, and other borrowers, such as Ethio-Telecom, ERC, ESC, and EEP, have only repaid their debt service to their creditors (MoF 2021). Within this creditor group, commercial banks are dominant both in the volume of credit they extended and their share in the total such credit, particularly after 2016/17 (see Table 5 and Figure 6). Suppliers' credit, except for the year 2014/15, has steadily declined over the years.

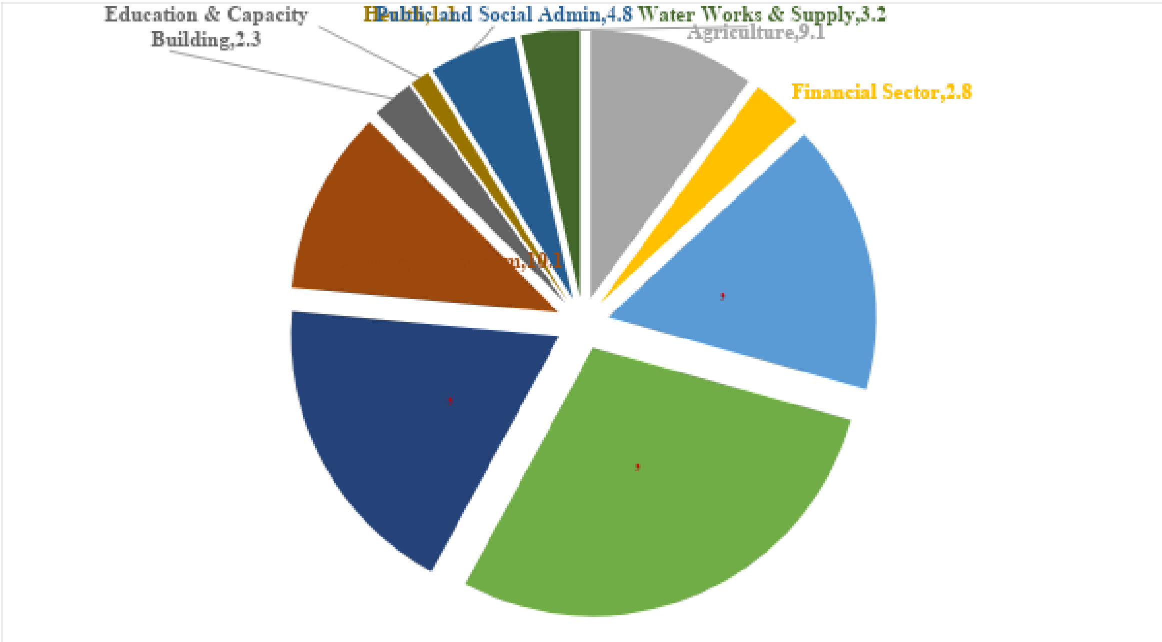
Figure 6: Trends in private creditors (share in total private credit, %)



Source: MoF Debt Statistics Bulletin and NBE Annual Report, various issues

The sectoral distribution of outstanding external debt (depicted in Figures 6 and 7) reveals the government's focus areas and its dynamics (shift in focus over time). Infrastructure-related (highway and railway) debt accounted for the bulk of borrowing, ranging from 23.5 to 28.2 percent of the total between 2015/16-2020/21. The second important sector with the highest share was "electricity, gas and steam," which accounted for 16.2 to 18.1 percent during the same period. Although there was an increase in the stock of outstanding debt in absolute terms for all sectors, there was a shift in relative share. Thus, the share of sectors which account for about three-fourths of the total debt outstanding (infrastructure, electricity, gas, and steam; transport and communication; industry and tourism) exhibited a consistently declining trend, from 73.3 percent in 2015/16 to 61 percent in 2020/21. On the other hand, the shares of agriculture, “public and social administration,” and “education and capacity building” sectors have shown an increasing trend, accounting for 13 in 2015/16 that grew to 19.3% percent in 2020/21 (see Figure 7).

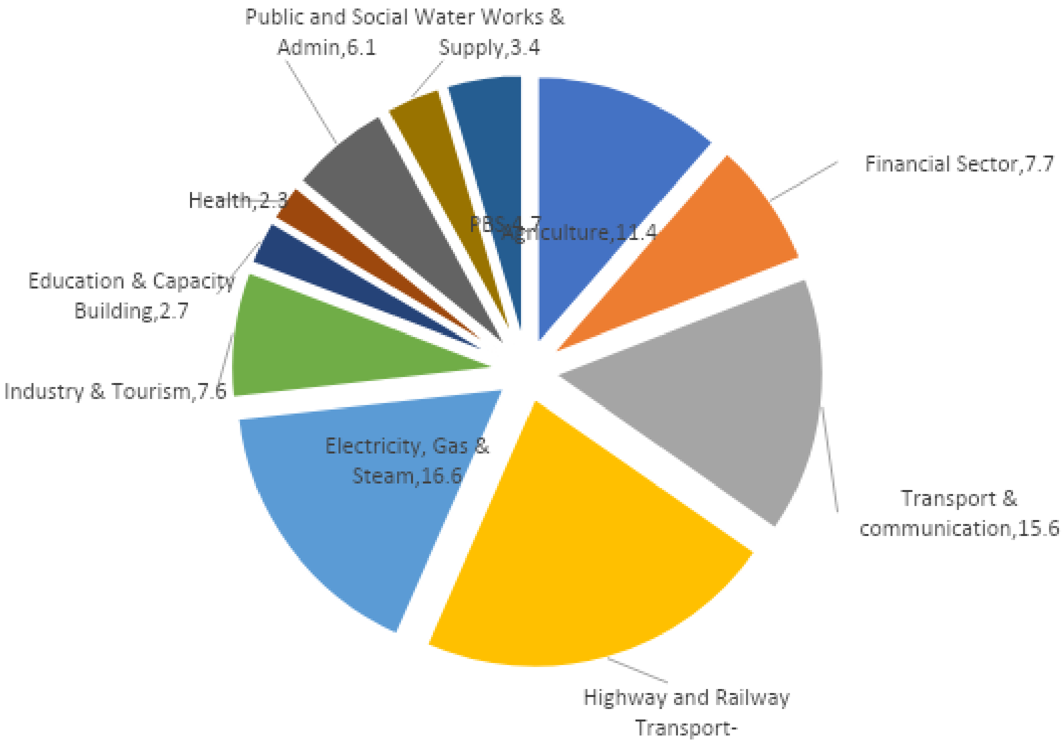
Figure 7: Distribution of public sector external debt outstanding by sector (2015/16-20/21, in %)



Source: MoF Debt Statistics Bulletin and NBE Annual Report, various issues

Unlike the sectoral distribution of public sector external debt outstanding, the sectoral distribution of public sector external debt disbursement, which shows the recent pattern of indebtedness, had followed a different pattern in absolute terms. The total disbursement of debt has no clear pattern in absolute terms, characterized by significant volatility. Most sectors have exhibited neither increasing nor a decline. Only the highway and railway infrastructure sector has shown a steady declining trend over the period under analysis. In both external debt outstanding and disbursement (see Figures 7 and 8), infrastructure (highway and railway); “electricity, gas and steam”; and “transport and communication”, in order of importance, were the three top sectors in terms of sectoral share of the debt.

Figure 8: Distribution of public sector external debt disbursement by sector (2015/16-2020/21, in %)



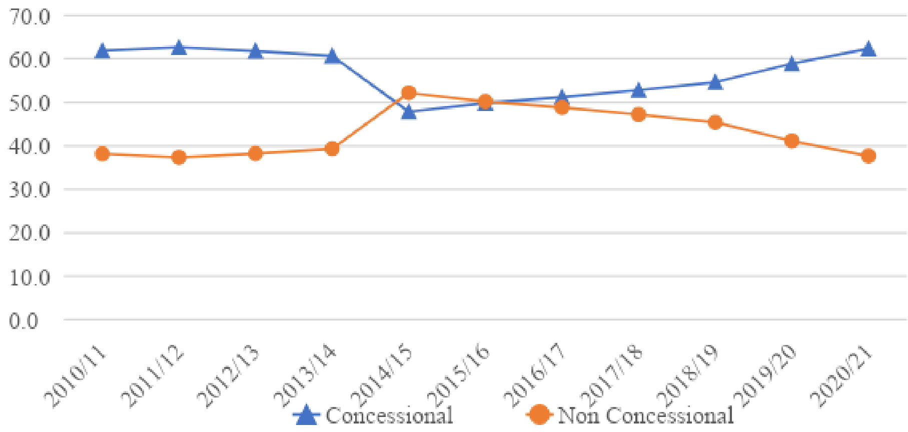
Source: MoF Debt Statistics Bulletin and NBE Annual Report, various issues

We may conclude this brief exposition of the profile of Ethiopian debt by briefly noting the borrowing terms that include the maturity period, grace period, and interest rate of the loan contracted by Ethiopia. These three borrowing terms determine the concessionality of a loan as they are used to determine what is known as the grant element of the loan[10]. Figure 9 shows the evolution of concessional and non-concessional external debt outstanding.

Except for 2014/15 and 2015/16, the share of concessional loans is much higher than non-concessional loans (Figure 9). Since 2014/15, there has been a clear shift in the evolution of the concessional and non-concessional shares in total debt outstanding. After the sharp decline in 2014/15, the relative share of concessional debt bounced back to recover, while the non-concessional debt continued to decline (see Figure 9). Currently (2020/21), concessional loans account for 62.3 percent of total external public debt outstanding. This is due to the government's effort to reduce borrowing from non-concessional sources in the past few years, especially by SOEs.

[10] Formally, the measure of concessionality of a loan (grant element), is calculated as the difference between the face value of the loan and the sum of the discounted future debt service payments to be made by the borrower expressed as percentage of the face value of the loan (MoF Debt Statistics).

Figure 9: Trends in public sector external debt outstanding by concessionality (in %)



Source: MoF Debt Statistics Bulletin and NBE Annual Report, various issues

III. The Institutional Aspect of Debt, Growth, and the Planning Process

The strong desire to transform their economies into an industrial-based economy has pushed many developing countries to use economic planning to achieve this goal. Planning is believed to be an effective means of mobilizing resources and allocating them into priority areas of development which would help to break out of the vicious circle of poverty. Ethiopia is one of those countries that have attempted to practice economic planning since 1950s. Development plans deployed in the country in the last two decades include the Sustainable Development and Poverty Reduction Program (SDPRP), Plan for Accelerated and Sustained Development to End Poverty (PASDEP), Growth and Transformation Plans I (2010/11-2014/15) and II (2015/16-2019/20) (GTP I and GTP II), and the recently introduced ten-years perspective development plan, termed "The Pathway to Prosperity" (2021-2030). These plans were ambitious, and their financing assumed significant public funding, including public debt. The Ministry of Planning and Development (MoPD) is the leading and coordinating institution for preparing the country's development plan. Assessing the experience of the process and the financing plan behind these development plans in Ethiopia is an interesting issue for researchers and policymakers.

As noted, public debt is one of the financing instruments of the plans. Ethiopian sovereign debt includes all obligations contracted from domestic and foreign creditors through issuances of securities, direct loans, and guarantees issued by the Federal Government of Ethiopia[11]. It also has non-guaranteed debts of the SOEs. The MoF is the only authorized institution to contract debt or issue securities directly and provide guarantees for loans on behalf of the Federal Government of Ethiopia. However, MoF may also delegate other offices of the Federal Government to sign loan agreements on behalf of the Federal Government.

[11] As per the Financial Administration Proclamation no. 648/2009 of the Federal Government of Ethiopia.

The Ministry also has a full mandate to contract a new debt for redeeming already maturing debt previously contracted either through the issuance of securities or direct advances, converting the same to another instrument before maturing, or consolidating various loans. The Ministry can also decide which financial instrument to use (whether to use securities or direct borrowings) to contract a specified debt. Moreover, the Ministry is mandated to decide on the terms of the loans it contracts (interest rate, length of maturity, selling of the securities, on-lending the loans, etc.). The MoF is also mandated to carry on public debt management functions of the Government of Ethiopia by law. The MoF organized the Debt Administration Directorate in its organizational structure to adequately discharge these responsibilities (Figure 10). The first debt management department was organized in 1958 under the then MoF with broader responsibilities, including project management and external resource mobilization. It evolved to its current status with specific responsibility for debt management functions. Assessing how these functions are being executed in practice is essential to see the existing gaps, considering the expectations stipulated in the current legal frameworks and good international practices.

Therefore, this part of the study attempts to assess the existing institutional practices of the process and financing experience of the development plan as well as the practices of the debt management functions and institutional arrangements of the Ethiopian public debt.

3.1 The Growth and Development Planning Process

The common goals of the countrywide economic plans implemented since early 2002 were to reduce the country's rampant rural and urban poverty, register fast and equitable economic growth, maintain macroeconomic stability, and achieve middle-income status. The successive plans implemented covered five years, except for the first SDPRP plan, a three-year plan. The current plan under implementation, The Pathway to Prosperity, is a ten-year perspective plan (PPTPP), while it also sets targets for the first five years. The point of departure of this latest plan from the previous plans is the shift from a public investment-driven development model to a private investment-driven one.

The implementation of the growth/development plans at the government level is carried out through two channels: the annual budget and the activities of SOEs. The annual budget is the most important avenue for implementing the growth/ development plans at federal and regional states and city administrations. On the other hand, the government provides policy support to ensure the efficient and effective implementation of the plan that is carried out by the private sector. It is worth looking at the major processes involved in the development plan and its financing in Ethiopia to learn about the implications of this process for indebtedness.

The preparation of the long-term economic plan in Ethiopia is participatory in that it involves all federal and regional public institutions, civil society and charity organizations, business associations, and citizens at large. There is, however, strong criticism that participation is not meaningful. The foremost actors in developing the plans are the MoPD, MoF, and the NBE. The MoPD is leading and coordinating the preparation of the long-term economic plans of the country. The MoF and NBE are critical partners in macroeconomic management. While this is the top-down process, federal sector ministries and regional counterparts are also crucial in presenting their key priorities, the expenditure needs of these priorities, and the underlying assumptions through the bottom-up process.

The top-down process of the plan preparation involves the preparation of consistent macroeconomic projections, including the gross domestic product (GDP) and its components (both in real and nominal terms), the monetary and Balance of Payment (BoP) forecasts, and ultimately, the fiscal projections. There are attempts to develop and utilize macroeconomic models to ensure the consistencies and accuracies of these projections, though not perfect and sustainable. Making consistent and accurate macroeconomic projections without a full-fledged comprehensive macroeconomic model remains one of the critical challenges in the economic plan preparation process. The financial programming model developed by the International Monetary Fund (IMF) is widely used to make these projections[12]. In most cases, there are controversies around the economic growth projections in preparing all these plans, as the projections are considered ambitious and inconsistent by multilateral institutions such as IMF and World Bank. The growth target seems to be decided politically. The technical process of arriving at that target growth rate is unknown.

The BoP projection considers all the inflows and outflows resulting from the assumed investments (including the import needs of the public projects), Foreign Direct Investment (FDI), remittances, official transfers (grants & loans), export receipts, and all payments to the rest of the world employing the standard international methodologies.

Estimating the government resources from domestic and external sources during the plan period is one of the vital fiscal projections for the top-down planning process. Budgetary resource projections capture all resources from such sources as tax revenue, non-tax revenue, external grant, and concessional loans. The external grant and concessional loan projections depend on the commitments of development partners.[13] They do not depend on macroeconomic projections. On the other hand, the tax and non-tax revenue projections are based on a simplified model-based projection of nominal GDP, import values, exchange rate, and tax elasticities. In particular, the tax revenue being the primary source of the government budgetary resource for financing public expenditure in Ethiopia (covering 60-70% of the total financing of the government spending), its projections are crucial and take the impact of new tax measures and administration reforms into account.

The bottom-up planning process also defines the budgetary institutions' government spending needs, including the regional bureaus' needs. This, of course, will be adjusted downward as the top-down-based resource projection sets the limit to the level of spending. In addition, the fiscal deficit level to be tolerated in the budget year will be decided politically. The latter also limits the level of public expenditure. To this end, sectoral entities will be consulted on which spending to include and exclude in their planned spending wishes. Apart from these needs, non-discretionary spending needs, such as central government debt service needs, will also be included in the spending projection. Once the resource projection is made and accepted, and the total spending to consider is known, the fiscal deficit will be determined based on the monetary projections and policy objectives in discussion with the NBE, which is usually taken as responsible for consideration of

---

12 See Alemayehu (2023, Ch 4, forthcoming) for the theory and algebraic derivation of the IMF Financial programming model (as well as the World Bank Model used with the Financial Programing Model; and Easterly (2002) for its critique.

13 Ethiopia's development partners include World Bank, European Union, African Development Bank, and other multilateral and bilateral institutions.

macroeconomic stability and minimizing the crowding out effect of public credit on the private sector access to credit.

After the level of the fiscal deficit is decided, in due course, how to mobilize the financing needed using the existing debt instruments will also be determined. Two challenges generally emerge in this process. First, financing the fiscal deficit using primally the direct advance from NBE could be inflationary. Second, given the underdeveloped nature of the financial market, there is a limitation in raising adequate financing using other financing instruments such as Treasury bills (TBills) and Bonds. In addition, these challenges also push the government to rely on external debt when such debt-creating flows are available.

Similarly, the SOEs present their investment needs, along with their financing plan, to MoPD. This planned investment demand is usually ambitious, which is difficult to accommodate within the macroeconomic framework-based projections of resources, including local and foreign currency-based projections. The NBE also reviews these financing needs in light of the monetary and BoP projections for the planned period to make the required adjustment. The NBE reviews also consider the forex level expected to be generated from the investment projects assumed to be carried out during the planning period. Similar reviews and adjustments will also be made regarding the foreign exchange required to finance the budgetary spending needs of the government.

However, this exercise is not straightforward. It involves various imperfections (from the market's weakness to that of the projections) and uncertainties which pose a challenge at the implementation stage. The financing need of SOEs may require external borrowing to finance their investment needs. Thus, in the past two decades, significant commercial debt has been contracted to finance the SOEs' investment needs. Some of these debts were more than the amount in the plan document, indicating coordination failure and a lack of discipline in implementing the national plan. The decision on how much external loan needs to be contracted to finance the overall fiscal gap usually requires checking how the proposed loan can affect the country's debt situation and its sustainability. However, this principle is not generally followed adequately due to the ambitious public investment program of the SOEs.

The other major difficulty of realizing the planned programs relates to managing the private sector part of the plan. Private investment is included in GDP projection using its past trends. Similarly, the import projections also consider the import and forex needs of the private sector. However, the accuracy and consistency of projections are a challenge for the government. As has been revealed in the current ten-year perspective plan, the major shortcoming of the previous successive plans was the little consideration provided to the private sector participation, which was reflected in both policies and financing aspects.

In terms of the contents of the development plans, apart from outlining their objectives and goals, they also include general policies, strategies, and development priorities. They also set targets to measure progress in implementing the plans in achieving the overall and specific objectives. The targets include economic growth, per capita income, poverty measures, etc. One of the significant weaknesses of the growth projection is its limitations in considering the consequences of the planned spending, such as raising the demand for foreign exchange and wage goods (food supply) such growth will create and what to do about that (say in terms of investment). The latter is one of the major factors behind the macroeconomic instability (such as inflation and forex shortage) witnessed in the last five years.

The core objectives of all these plans were reducing poverty and registering equitable growth, which ultimately aims to improve the income of the population at large. As a result, poverty has been significantly reduced, and per capita, income has increased, as the official progress reports of implementing these plans have shown. However, the number of people living below the poverty line is still huge. This contradictory picture is partly related to the official poverty line used for such progress reports, which is very low. The poverty level will be significantly higher (about three times higher, about 70 percent) if an international poverty line, such as a daily poverty line of $3.20 at PPP, is used instead.

There is also a plan preparation guideline to direct the process, indicating: the responsibilities of various state organs, when and how consultations must be made, setting a program of actions, etc. Regarding the preparation process of the plan, discussions and consultations occur at the higher government level first, where the Prime Minister is chairing the event, and cabinet ministers and regional state presidents are present. Similar discussions and consultations also occur with parliament members in a separate arrangement. Such forums are meant to review the preparation of the plan at various stages and provide policy guidance and decisions as required. The preparation of the plan passes through multiple stages, including the preparatory, analytical, adjustment and directives, plan elaboration, plan adoption, and plan implementation stages. At the plan adoption stage, the Council of Ministers (CoMs) and Parliament will discuss and endorse the economic plan document. This latter stage indicates that the plan document is a commitment document of the ruling government.

3.2 Financing the Growth and Development Plans

The financing of the development plan is guided by the Macroeconomic and Fiscal Framework (MEFF)[14]. The MEFF is a medium-term (five years) rolling budget planning tool prepared annually. The primary purpose of the framework is to set major fiscal targets that will guide the preparation of the following year's detailed annual budget[15]. It provides a ceiling on the resource envelope, recurrent and capital spending of the Federal Government, regional subsidies, and the ceiling on the budget deficit to be used for the detailed annual budget preparation. Based on the MEFF, the federal government's financing of the planned annual budget consists of different procedures such as issuing the budget ceiling figures to the budgetary units, conducting a budget hearing, preparing detailed budget and budget documents, and budget approval processes. A legally endorsed Financial Calendar guides all these processes. These budget processes are mandatory according to the financial

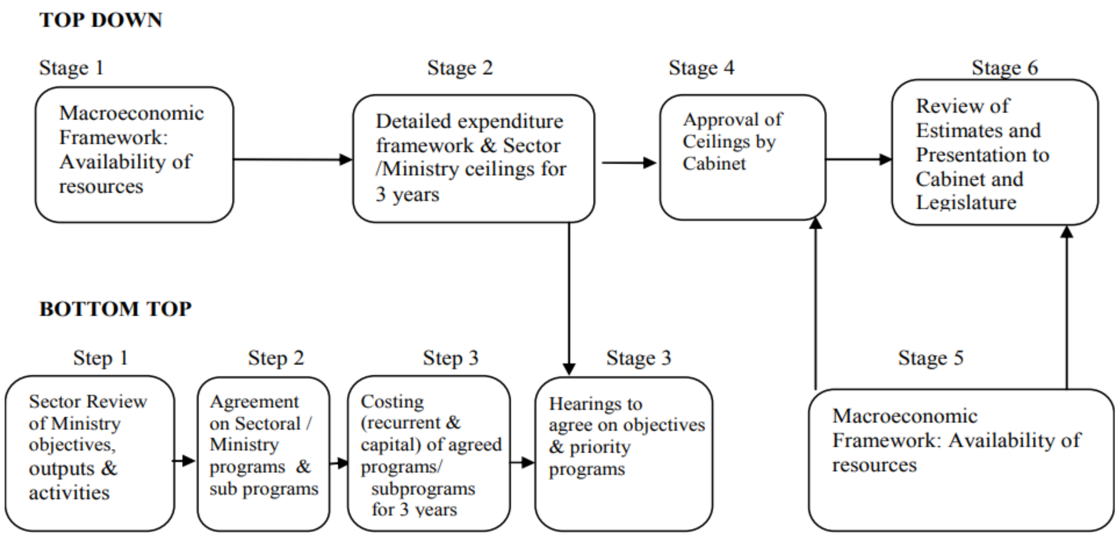
14 This MEFF is designed by the World Bank, and it is being implemented by many countries. In some other countries it is called Medium Term Expenditure Framework (MTEF). According to the WB's Public Expenditure Management Handbook (1998), "The MTEF consists of a top-down resource envelope, a bottom-up estimation of the current and medium-term costs of existing policy and, ultimately, the matching of these costs with available resources... in the context of the annual budget process." The "top-down resource envelope" is based on a macroeconomic model that indicates fiscal targets and estimates revenues and expenditures, including government financial obligations and high-cost government-wide programs such as civil service reform. To complement the macroeconomic model, the sectors engage in "bottom-up" reviews that begin by scrutinizing sector policies and activities , with an eye toward optimizing intra-sectoral allocation (GRIPS Development Forum at www.grips.ac.jp)

15 Since MEFF is also based on the IMF's Financial programming model, theoretically it is based on what is called the "monetary approach" to the balance of payment (or the Polak model; Polak, 1957). Since the theoretical underpinning of the model implies the balance of payment problem will be solved by controlling credit, it doesn't address the structural problem of Ethiopian external trade issues and its financing development endeavor and need to be take cautiously (see Alemayehu 2023 for the model and its detail algebra)

administration law of the land[16]. Regional States and City Administrations also have similar budget processes, except that the preparation of the MEFF is a requirement only for a few of them.

[16] The Federal Government of Ethiopia Financial Administration Proclamation No. 648/2009.

Figure 10: The Six-Stage Top-down and Bottom-up Approach of MEFF



Source: Okpala (2014)

Before the introduction of the MEFF, the budget process in the country was focused on the preparation of each year's budget only and did not have a medium-term outlook. The introduction of MEFF enabled the government to integrate its medium-term policy priorities with the annual budget. The preparation of MEFF involves both top-down and bottom-up processes (Figure 10). The top-down approach consists of preparing the macroeconomic and fiscal resource projections. This process involves participating and coordinating the MoF, the MoPD, and the NBE. MoF is responsible and mandated to lead the MEFF preparation with the involvement of its own relevant departments, such as budget, tax, external resource mobilization, and debt administration departments. The MoPD and NBE provide the macroeconomic projections of the real sector and the "monetary and BoP projections", respectively. At the same time, the MoF produces fiscal resource projections (tax revenue, non-tax revenue, external grant, and loan) of the federal government based on the macroeconomic projections, which will be used to set the ceilings of the resource envelope. The top-down process will also set ceilings for the fiscal deficit in line with the monetary and external loan projections. Based on this exercise, the federal government arrives at the need for external loans. Notwithstanding such an elaborate process, the actual practice paid little attention to debt sustainability issues, their impact, and the need to exit from aid dependency (and indebtedness) in the medium to the long run. Thus, this is one of the leading institutional gaps that may contribute to the unwarranted level of debt and the unstoppable demand for debt-creating flows.

In preparing the macroeconomic and fiscal projections, the government reviews economic developments in the current and past years. In addition, the global economic outlook and prospects will also be considered for the projection exercise. This review is also informed by the annual progress reports of the five-year development plan, although there are challenges in getting such reports on time. As noted above, a simplified financial programming model is used to make these projections. As part of the top-down process, MEFF will also include the fiscal policy directions, including the potential tax policy changes and tax administration reforms to be implemented to boost revenue collection. It also has broader policies related to the expenditure allocation priorities over the medium term, usually consistent with the five-year development plan.

Unlike the top-down approach, the bottom-up process, on the other hand, is a process that involves the participation of budgetary units in presenting their expenditure needs and priorities. The country's development plan prioritizes areas designated as poverty-related sectors such as education, health, agriculture, water, and road. Thus, the MEFF is expected to provide priority in resource allocation to realize the implementation of the programs and projects of these sectors. One critical consideration for budget allocation is that such projects must go through an appropriate appraisal process and be economically feasible and well prepared, as per the recently enacted Federal Government Public Projects Administration and Management System Proclamation No. 1210/2020. This is a significant institutional development. Previously, although such requirements were there, there was no expertise with the required skill at various ministries to do this (Alemayehu and Dawit, 2011), and this capacity challenge is still a significant constraint today.

In broader terms, resource allocation is one of the critical decision processes that will take place in the MEFF top-down and bottom-up processes. In this regard, the main objective of the MEFF is to decide the ceilings of the aggregate recurrent and capital expenditures of the federal government and the regional subsidies. The budgetary units' spending needs (or the demand for resources) is usually more than the resource available, as defined in the resource envelope. Therefore, the projected deficit level and the resource envelope ceiling will ultimately determine the magnitude of the expenditure considered in the MEFF. It is worth mentioning that there is no clear guideline on how to set priorities within priorities, deciding which projects to reschedule or cut the excess spending needs (See also Alemayehu and Dawit, 2011 for more detail). Thus, this is usually done in consultation with the sectors and partly involves the decision of the Council of Ministers. However, implementing ongoing projects is given high priority and assured resource allocation. In addition, non-discretionary spending needs, such as debt service payments and salaries, will always be prioritized.

The level of fiscal deficit is one of the major fiscal targets decided within the MEFF framework. The Fiscal Policy Directorate of the MoF technically provides the proposal for the fiscal deficit ceiling. The technical decision on the fiscal deficit is not carried out using elaborated policy tools such as model-based macroeconomic simulation analysis[17]. Thus, the implication of the proposed fiscal deficit ceiling for various macro aggregates, such as growth, monetary policy objectives of the plans, debt sustainability etc,[18] is not checked using such a macroeconomic model. Similarly, the level of indebtedness is decided in a very rudimentary manner by observing the current macroeconomic situation and the risk level of the debt. Although there is no legal framework which sets a binding fiscal rule about the budget deficit level, as a rule of thumb, a fiscal deficit of about 3% of GDP is usually used as the upper limit. However, if economic conditions are good, the deficit level is expected to be lower. Apart from the central government's deficit, foreign debt risk could also emanate from the non-budgetary credits of SOEs since such loans are generally government guaranteed. In addition, domestic borrowing triggered by fiscal deficit is one of the contributors to the inflationary pressures observed in the past few years (see Alemayehu

[17] Alemayehu and Addis (2023b) developed a macroeconometric model for Ethiopia that is based on their previous research and for use in the context of this study. Hopefully, the government could adopt it and use it for such analysis.

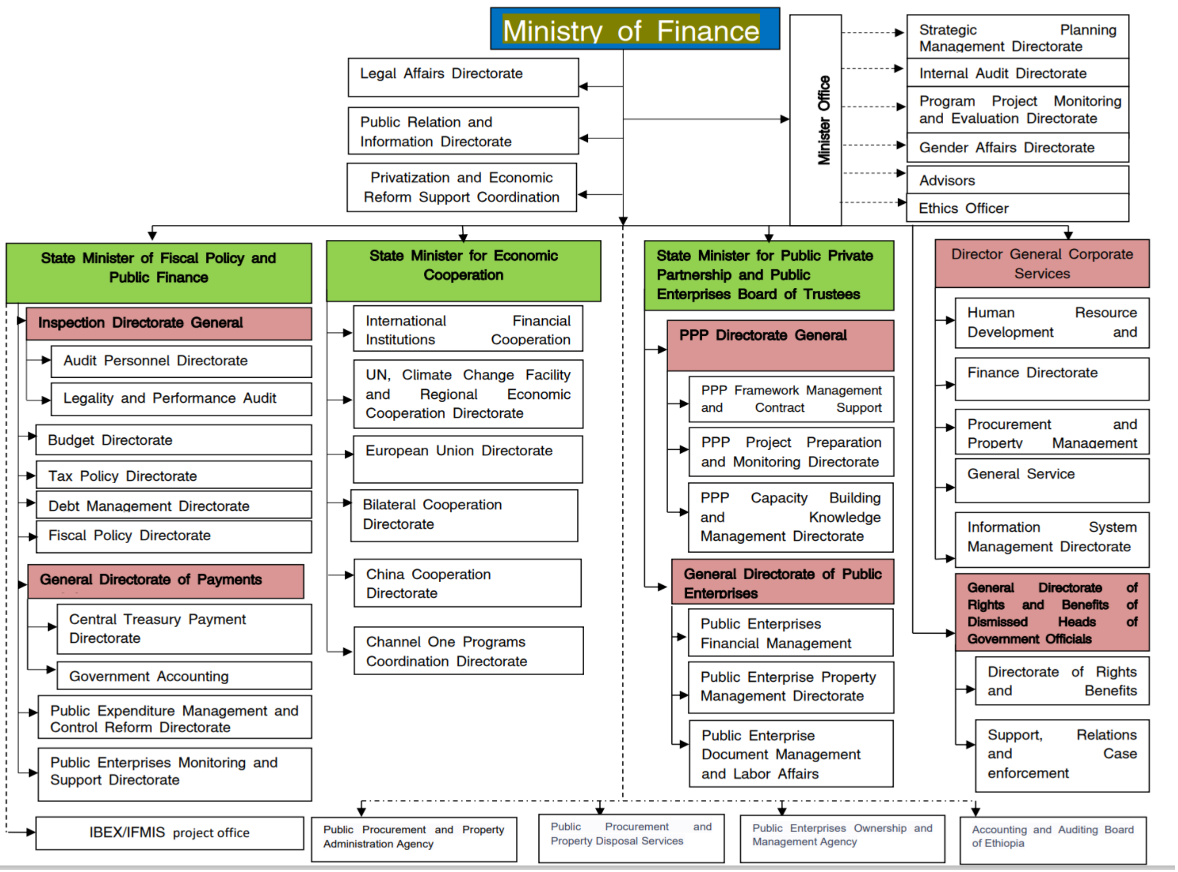
[18] The debt sustainability objective is stated in the medium-term debt strategy of the country.

and Addis, 2023a?????). Thus, using macro model-based analysis to decide on the level of the fiscal deficit by examining its economy-wide effect using such tools is critical. Such a model is also essential for forecasting major macro variables such as GDP upon which the resource envelope projection and the economy's debt-carrying capacity is estimated (see footnote 15). Be that as it may, once the level of the fiscal deficit is decided upon, providing advice on how to finance this deficit from the domestic market and what kind of debt instrument to use will be the task of the debt administration directorate of MoF in discussion with the NBE. As discussed below, frontline-office directorates usually decide the foreign loan part of the deficit financing.

IV. Debt Process and Management

The MoF is one of the critical ministries related to economic management issues, with several departments and directorates that plan, manage, and monitor the various aspects of the economy related to finance (Figure 11). The debt management department is one of the critical departments under the 'Fiscal Policy and Public Finance Division and 'The Inspection Directorate General.' In addition to this department, debt-related issues are also managed in other 'Economic Relation' division, which has a directorate for multilateral, European Union, bilateral, and China directorate (Figure 11). In addition, debt management is also related to the 'Directorate of Public Enterprises,' which is responsible for managing SOEs (see Figure 11).

Figure 11: Organizational Structure of the Ministry of Finance



Source: Ministry of Finance

4.1 The Institutional Process of Indebtedness

As discussed above, the MoF, in collaboration with MoPD and NBE, develops the MEFF. In preparing the MEFF, the MoF is responsible for forecasting the tax and non-tax revenue. The MEFF sets the limit not only the tax and non-tax revenue, but also to the federal government spending, subsidies for regional states, and the ceiling on the budget deficit. This is done using the forecasted GDP growth from MoPD (about what tool or model used is not known[19]) and IMF financial programming model. Achieving the often-ambitious growth target requires a significant amount of finance that is usually beyond the level of government revenue. The demand for debt emerges from this financing gap in the plan. Projections of external and domestic loans that are required to fill this fiscal gap will then be made. Within the MoF, the external resource mobilization and debt administration departments are responsible for forecasting the availability of foreign/external resources. Again, this projection of external resources is not informed by any national or global macroeconomic projection tools. It largely depends on the commitments of the creditors as well as using past trends of such capital inflows when such commitment data is unavailable. The MoF also discusses with donors to confirm this. Since the dominant sources of external loans are known (such as IDA of WB and AfDB – which accounted for about half the debt-creating flows (see Table 2), the expected resources from these entities are usually determined at the global level first (head office allocation of IDA across LDCs in the world at WB head office, for instance) and also using their Country Assistance Strategy Analysis (CAS), a reasonably accurate estimate of such resources could be made. These sources are usually inflexible to the borrower's demand and vulnerable to political and geopolitical development in the global economy (esp. the WB ones). Other donors, such as EU and Non-Paris lenders, are relatively flexible, and the MoF attempts to explore that flexibility to get more loans from them. A limit to the fiscal deficit as a share of GDP (such as 3% of GDP) is one of the conditions upon which the external commitment of resources (loans) is based and agreed upon with donors.

It is interesting to ask, 'Who decides to be indebted' to understand the process and the power behind the decision to be indebted. In today's Ethiopian context, the MoF makes that decision. Different departments from MoF, such as "Legal Service," "Debt Management," and "China Debt Management," are involved in the process of developing proposals for external loans. The World Bank also has its own analysis and appraisal. Notwithstanding this process, some loans undertaken by SOEs' is a political decision that is not within the realm of such

[19] During PASDEP plan a consistent macro framework has been used in preparation of both the macro framework for 5 years planning period as well as the related fiscal framework. The tool used were the WB's MAMS and the IMF's financial programming models. The MAMS was used to forecast growth and other major macro aggregates. This practice was good because at least it has a macro consistency framework (notwithstanding Easterly's (2002) critics of this). Since the start of the growth and transformants plans (GTP I& II) that begun in 2010, this practice is abandoned, and growth targets begun to be decided politically. It is not known how such political growth figures technically arrived at also. It is highly likely it is arrived using a simple HD growth-based model using ICOR as that of many countries in Africa (Key informant interview; and also, Alemayehu, 2002).

technical experts. For some of such loans, there is no adequate analysis. Commercial loans from China and Turkey are typical examples of such loans.

Regional states have no role and cannot borrow independently. They take what the federal government secured as debt. Likewise, sectors (ministries of health, agriculture, etc.) are not allowed to take loans independently. On the other hand, the SOEs' debt is incurred by themselves. However, the MoF has recently been mandated to review SOEs' demand for debt (approve or reject). It is also empowered to monitor and review debt-financed projects of SOEs. It should be noted, however, that since 2023 this is not in the mandate of MoF.

The MoF allocates the debt secured by the federal government to different programs and entities based on the annual plan of the country. The government then asks the parliament to approve the debt. The latter usually approves the country's new debt contract yet lacks the technical capacity to evaluate its effect on the economy and its sustainability. The parliamentarians generally do not dwell on the growth and macroeconomic implication of the debt. They usually debate hard when budget allocation affects their constituency, whether local or external sources finance that debt, and the debt's risk is less of an issue for them.

4.2 Debt Management

Public debt management is primarily defined as designing and implementing the strategy for managing the country's public debt to raise the required funding to realize a country's development plan. This is done by appropriately managing risk, achieving cost objectives, and meeting any other sovereign debt management goals. Thus, sound public debt management is essential to attain these objectives and goals. In so doing, it is critical to appropriately define the required debt management functions and ensure they are adequately executed.

Effective and efficient debt management is essential to maintain macroeconomic stability. Therefore, the goal of debt management functions of any country is to keep the country's debt at a sustainable and healthy level and minimize debt risks, yet secure sufficient funds to finance development that includes the government's fiscal deficit at a minimum cost. Unless risks emanate from poorly structured debt in terms of maturity, currency, or interest rate, as well as large and unfunded contingent liabilities are not well managed, they will induce or propagate economic crises, as can be learned from the history of the debt crisis in many countries. This underscores the need to put in place a robust debt management system.

Such functions as deciding on the required borrowing, negotiating to contract this borrowing, servicing the contracted debts, debt renegotiation, etc., are the typical standard functions necessary to achieve the debt management objectives of the Ministry of Finances of any country. Similar functions are being practiced in Ethiopia as far as public debt management is concerned. These functions are categorized into three core functions: "Frontline Functions", "Middle-level Functions", and "Back-office Functions". Functions under each category are elaborated as follows:

i) Frontline functions: The frontline operations comprise negotiating new loans or issuances of new securities and bonds and market-making functions. By executing these functions, the frontline debt workers' primary objective is to raise funds at a minimum cost, subject to an acceptable level of risk. The negotiation/issuance function is meant to evaluate funding prospects and their impact on the debt portfolio in terms of compliance with the country's debt strategy. These evaluations would be made on technical, financial, and legal terms, as well as in line with the conditionalities of the funding proposals. Regarding the institutional arrangement, the negotiation function of external debt is organized separately under the various directorates of the resource mobilization wing of MoF. In contrast, the negotiation/issuance function of the domestic debt is the responsibility of the debt administration directorate. This function is also partly delegated to the NBE recently by the MoF. The frontline officers lack sufficient knowledge of international financial markets and risk management to negotiate with external creditors and to issue or borrow the desired amount and type of borrowing or using hedging instruments in the global financial markets. This function also involves liaising with the country's creditors, donors, and development partners, which requires diplomatic and financial skills. Capacity building in these areas is crucial for proper debt management. The market-making function is related to the development of the domestic financial market. Although this function is not well developed in Ethiopia yet, it is primarily the function of NBE, which is mandated to handle this in coordination with the credit administration directorate of MoF. Ethiopia's domestic financial market is undeveloped, although recent initiatives (such as setting up the capital market authority) provide hope for its future development.

Once the external loans are negotiated, the contract agreement will be presented to the CoMs and then to the parliament for endorsement (approval). In contrast, the domestic debt approval is done at the MoF level with the limit as endorsed by the annual budget. The Federal Government is the only body that can borrow both for the Central Government and the Regional States. The SOEs can also borrow independently, with a government guarantee, except Ethiopian Airlines and Ethio-telecom, which are not required to have a government guarantee to borrow, given their strong relations with their creditors and goodwill. However, recently, the MoF has also issued a directive to guide the contracting of new loans to such entities so as to ensure macroeconomic stability by overseeing it will accord with the Federal Financial Administration Proclamation number 648/2009. These directives aim to ensure the timely disbursement of the proceeds of external loans and that the implementing agencies properly execute projects financed by external loans[20].

ii) Middle-level functions: The middle-level officers are responsible for analysis and advice on the debt management strategy and implementing risk controls. The middle-level officers' function of public debt management is mainly the responsibility of the debt management directorate of MoF. The middle-level officers are also expected to monitor how the debt contract implementing parties comply with the country's debt strategy. The *analytical function* of the middle-level officers includes debt servicing cash-flow projections on existing loans and new financing, activity intimately linked to cash management, portfolio analysis, and debt sustainability analysis that is performed regularly. These officers also perform other types of analysis depending on the debtor country's needs and strategy. The middle-level officers analyze the total stock of domestic and external public debt, and the debt flows regularly. This analysis provides debt information to each of the creditors and debtors, including the debt composition by currency and related interest rates. These statistics are vital economic indicators that will help evaluate indebtedness. The list of such indicators includes, for example, the debt to GDP ratio, the debt service ratio, and related other debt indicators. This analysis, together with statistical tables, will also appear as the report of the Ministry on debt issues as a periodic publication. This debt management

[20] Public Debt Management and Guarantee Issuance Directive No 46/2017, MoF.

function is also coordinated with other departments of the MoF and the NBE, which also deal with macroeconomic problems.

R*isk analysis* is another crucial function of middle-level officers of the debt management directorate. Once the debt management directorate receives information on the amounts of borrowing required to be raised, the directorate is expected to discharge its responsibility of performing the borrowing task prudently based on cost-risk analysis. This also needs to be coordinated with other relevant government bodies, including the NBE. The role of middle-level officers in this function is to foresee ways and means of minimizing the risk that contingent liabilities present to fiscal stability. Although the debt management directorate of MoF is responsible for all these functions, much of the analytical work is not carried out internally due to the capacity limitation of the directorate. As a result, external technical support (especially by IMF and the WB) carries many such functions. However, this support itself doesn't adequately cover the needs of the directorate.

iii) Back-office functions. The back-office role is the backbone of the whole debt management functions of the debt management directorate. These functions include creating and maintaining a high-quality and updated database of the debt portfolio that will allow timely registration, disbursements, debt servicing, and the production of accurate statistical information. These functions comprise the administration of the entire life cycle of a debt contract, from signature to its full repayment.

The *recording function, one of the back-office functions,* is composed of collecting, storing, processing, validating, and disseminating debt data. The recording function is not necessarily an "accounting" function but provides public accounting data. Also, the aggregation and manipulation of data will supply relevant statistical information with a vast range of purposes. At the MoF, this function is supported by the Debt Management and Financial Analysis System (DMFAS), developed by United Nations Conference on Trade Development (UNCTAD). The recording function also includes the reconciliation of debt data periodically with creditors, as well as data validation and internal and external auditing of debt data.

The other role included in the back office function is the *operating function*, which is responsible for following up the essential dynamics of debt to trigger disbursements in due time, to pay without falling in arrears, to verify that the creditors are claiming the correct amounts, to notify disbursements to the Budget and Treasury Directorates of MoF and to order debt service, to verify that the currencies needed for the debt service will be available for payments at the NBE. Part of the operating function is the production of debt service and disbursement projections to be included in the next annual budget.

From the above description, we learn that Ethiopia's debt management system is well organized from an institutional perspective. However, the actual practice on the ground differs from how it is described here for lack of capacity. This forces the directorate to rely on external experts – the IMF team is one of them. The Debt Management Directorate conducts debt sustainability analysis regularly. The IMF team, which annually visits the country for two weeks, supports this exercise. The MoF also has a financial advisor that is based in France. Despite such support, there is still a capacity limitation to realize all the functions the Ministry is expected to undertake as outlined above.

Finally, although direct evidence about it is not provided in this study, several studies as well as the annual federal auditor general reports, show a significant abuse of public resources through corruption, the glaring example being the total abuse of loans from the EXIM bank of India for established about ten sugar factories where the money is embezzled by the corrupt authorities of the previous TPLF regime without building a single factory (see Alemayehu, 2023a). Such abuse of resources obtained through public loans is widespread in the country, as inferred from the annual Federal Audit Report, aggravating the debt problem. For instance, Alemayehu and Addis (2016) found that debt fuels capital flight from the country through such abuse of external loans. Thus, making the Anti-corruption authority, as well as "the Ethics Office" of the MoF (Figure 11), solid and independent, as well as making abusers of public funds accountable, is an essential institutional reform that is needed badly.

V. Conclusion: Implications for Policy

In this study, an attempt to provide the profile of Ethiopian debt and its institutional-related challenges is made. The analysis reveals the Ethiopian debt to be significant, especially in relation to the country's capacity to service its debt. The Ethiopian debt problem is primarily a liquidity rather than a solvency problem, chiefly due to its underdeveloped export sector covering less than half of its imports. The economic growth that was brought about by the debt was and still is unable to provide the foreign exchange needed to service the external debt – revealing a growth strategy problem of financing its growth in the past two decades. The problem is akin to the 'transfer problem' that Keynes analyzed as Germany's problem after WWII, where it must compensate (in foreign currency) for the damages it inflicted on the eventual winners of the war -the 'Allied Forces'.

The analysis also shows the country has quite a sophisticated institutional set-up to manage its public debt from an organizational perspective. However, several institutional challenges in managing debt, including a lack of skilled experts and challenges in properly implementing rules and laws (political challenges), are identified as one of Ethiopia's major debt problems. This calls for the government's capacity building, transparency, and accountability to address the country's public debt challenges. In addition to these general policy implications, the study points out the following policy directions that policymakers need to address challenges related to the institutional aspect of debt management in Ethiopia.

First, though the MoF has an impressive organizational (institutional) structure concerning debt management and handling external debt-creating flows, these departments are poorly staffed and need external expert assistance to carry out their task adequately. Thus, continuous capacity building and institutionalizing attractive incentive structures for staff (carrier and reward systems including decent salary) is essential to attract talent and maintain the existing experts. This also helps to minimize the dependency on external experts such as the IMF for technical work.

Second, the analysis reveals that there are no adequate institutional constraints to the government accumulation of both external and domestic debt in practice. This is particularly true concerning monetizing the fiscal deficit through government borrowing from NBE, especially when external loans are unavailable. Re-introducing the limit to government domestic borrowing from the NBE (as well as from banks and non-banking institutions) along with the 1994 NBE establishment proclamation is worth considering now, given the alarming growth of domestic public debt – direct advance, for instance, has grown by about 96% last year (2021/22). The 1994 NBE law, for example, used to set a limit to government borrowing based on government revenue mobilization capacity in the past three years.

This policy direction needs to be augmented by monitoring other macro indicators, such as export and import growth, which are crucial for external debt servicing from a liquidity perspective (the 'transfer problems'). However, given that a government in a developing country such as Ethiopia will always be a developmental state, the limit on the level of monetization should be judged based on where the money is spent and its expected impact, including on debt repayment and inflation – using past data as indicators. Hence, it needs to be open for discussion during the parliament session or in the Council of Ministers meeting by calling expert witnesses (testimony) if needed. In addition, setting up a legally binding debt service and debt-to-GDP ratio ceiling that serves as an "alarming bell" when additional borrowing is done is also worth considering to limit the extent of indebtedness, given the ever-growing government demand for debt.

Third, the study reveals that, though the MoF has a robust organizational structure to manage public debt, lawmakers (parliament) are unaware of the broader macroeconomic consequence of indebtedness (especially its implications on growth, repayment challenges, inflation etc, in the medium run). Such knowledge is also limited at the MoF debt management directorate and related departments/directorate because of the lack of tools such as a macro model and experts handling such analysis. Successive governments are not usually keen to show the broader macroeconomic implications of debt and its sustainability to the public or lawmakers. They are not strictly following the technical requirements outlined in the intuitional set-up of the MoF either. Parliamentarians hardly raise such issues when asked to approve government loans. Thus, parliament must call independent experts (from universities or other independent research institutions) as well as MoF experts as witnesses to hear their testimony and learn the overall consequence of a new loan on the profile of the public debt and its macroeconomic implications before deciding on approval.

This idea of calling experts for testimony needs to be extended to the decision about monetization of the deficit through government borrowing as that is also central for domestic debt accumulation and its macroeconomic implications, such as inflation and future debt servicing burden. Thus, establishing such a system of calling experts for testimony by parliament when loans (both domestic and external) and budgets are approved is a policy direction worth pursuing. The session also needs to be open to the media. This also contributes to the political accountability and transparency of the executive when such events at parliament are televised.

Fourth, a significant institutional challenge of handling debt relates to incorporating the future challenge of debt in the planning and budgeting process. This is central to address the root cause of the debt management problem from an institutional perspective. This issue, for instance, relates to how institutionally to include debt sustainability issues and potential macroeconomic implications of debt in the MEFF/Budget formulation process. By indicating the country's debt-carrying capacity, growth forecasting is critical in this respect (a rosy growth forecast in the past few years is recently being blamed as one of the factors for the current African debt problem. This is because it wrongly signalled a high debt-carrying and debt-servicing capacity and led many African countries to build up high debt). In addition, forecasting the growth of imports and exports is also crucial to gauge the economy's external debt-servicing capacity (liquidity challenges). Thus, capacity building in forecasting and using analytical tools such as macro modelling for forecasting and studying the economic-wide implications of debt and its servicing in the budget and plan preparation process is crucial.

Finally Fifth, in addition, developing technical tools for prioritization of spending categories and the spending items at various budgeting units at the MoF and Ministry of Planning and Development (MoPD); capacity building on the project appraisal and monitoring at MoPD; capacity building on the setting up of the deficit ceiling and its economy-wide implications, which is currently done arbitrarily, are important areas for technical capacity building which are crucial for debt management from the perspective of institutional challenges. Monitoring debt-financed projects also needs to be done from a governance perspective, including corruption and wastage.

Finally, the study also argues that institutions in charge of debt management at the Ministry of Finance, as well as the MoPD, also need to go beyond the management of debt to developing an exit strategy from persistent demand for debt-creating flows (external aid dependency) for financing development and the day to day running of the economy. This could be done if the government plans to adequately cover its spending in local and foreign currency with its resources in the medium (say, five years) to long term (say, ten years).

By examining each of the institutional challenges of debt management in the country, this study offers pointers for improvement.

VI. References

Alemayehu Geda (2002). *Finance and Trade in Africa: Macroeconomic Response in the World Economy Context*. Lonon: Palgrave McMillan.

Alemayehu Geda (2021), 'Domestic Credit and Employment Promotion in Ethiopia: A Diagnostic Study' (Background Study for ILO Regional Office for East Africa)

Alemayehu Geda (2023a), 'Crony Capitalism through the 'Developmental State Model' of Ethiopia: An Identification of Its Main Manifestations', ERF Working Paper No 1634, Cairo/Dubai.

Alemayehu Geda (2023b, forthcoming). *Advanced Macroeconomics for Africa I: Short-Run Macroeconomics*. (Under Review of Addis Ababa University Press).

Alemayehu Geda and Addis Yimer (2016), 'Capital Flight and Its Determinants: The Case of Ethiopia', African Development Review, Volume 28, Issue S1: 39-49.

Alemayehu Geda and Addis Yimer (2023a), 'Fundamental and Proximate Drivers of Debt in Ethiopia' (Institute of Development Policy Research/IDPR, AAU and IDRC Canda, forthcoming).

Alemayehu Geda and Addis Yimer (2023b), 'The Growth Effect of Debt in Ethiopia in Ethiopia' (Institute of Development Policy Research/IDPR, AAU and IDRC Canda, forthcoming).

Alemayehu Geda and Addis Yimer (2023c), 'A Dynamic Macroeconometric Model for A Supply Constrained African Economy: The Ethiopian Macro model (forthcoming, AAU, Department of Economics)

Alemayehu Geda and Dawit Berhanu (2011), Spending without Proper planning: Why Ethiopian Agriculture is not Growing Despite High Public Spending in the Sector by Africa Standard, A Macro Perspective', EDRI-IFPRI Conference on Supporting the Ethiopian Government Strategy, Hilton Addis, Addis Ababa Ethiopian (available also at www.researchgate.net/profile/Alemayehu_Geda)

Easterly, William (20020, 'An Identity Crises? Testing IMF Financial Programming', Center for Global Development, Working Paper No 9 (August).

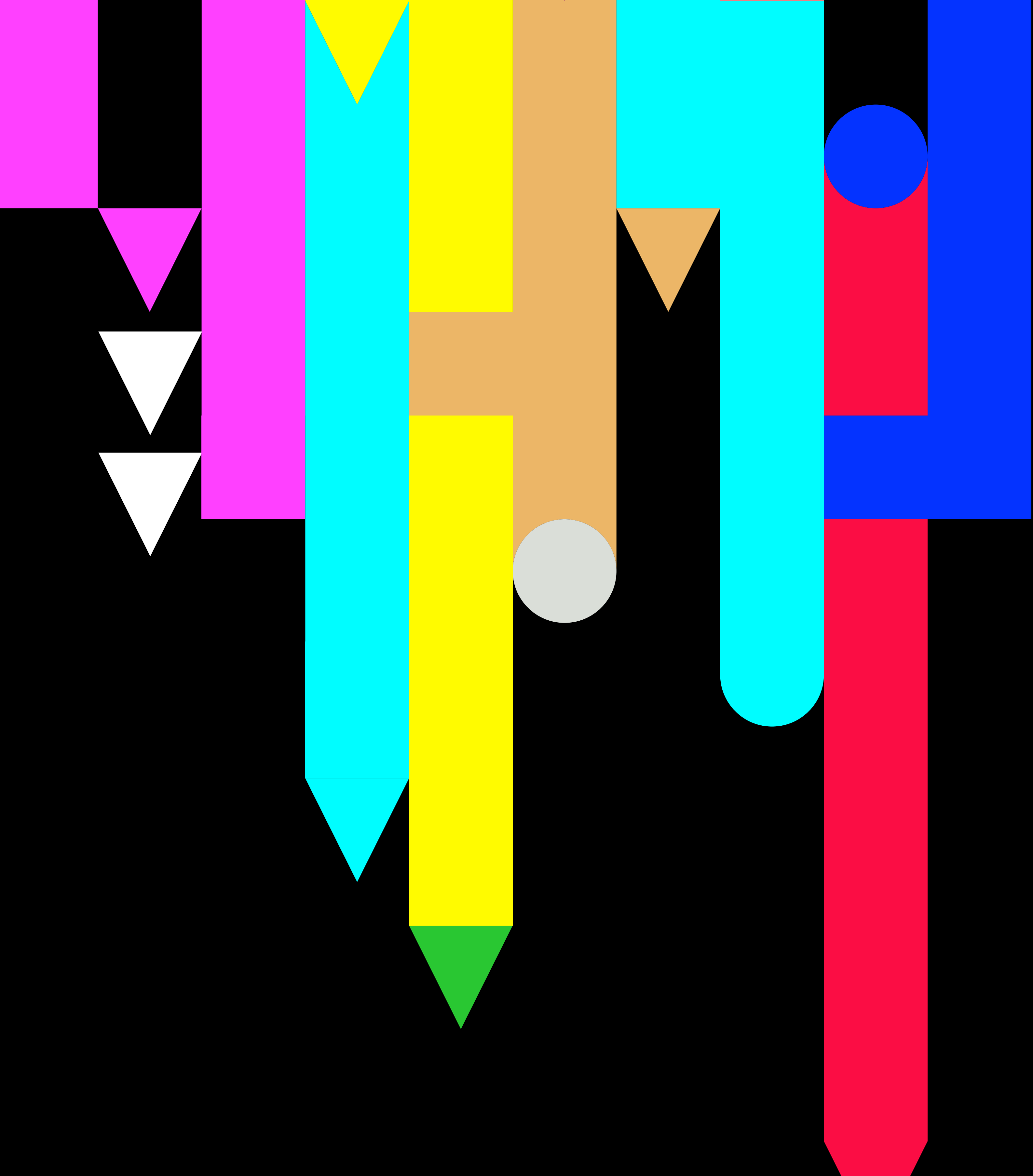
Federal Government of Ethiopia Financial Administration Proclamation No. 648/2009

Ministry of Finance (MoF). Debt Statistics Bulletin, various years.

Ministry of Finance, MoF (2017). Public Debt Management and Guarantee Issuance Directive No 46/2017, MoF, Ethiopia.

Okpala, Kenneth Enoch (2014, 'Medium Term Expenditure Framework and Budget Effectiveness in Nigeria', International Journal of Innovation and Scientific Research, Vol. 4 No. 1 Jul. 2014, pp. 26-32.

Polak, J. J., (1957), ‘Monetary Analysis of Income Formation and Payments Problems’, *IMF Staff Papers*,6, issue 1, p.1-50.



PROMOTING A PANDEMIC RECOVERY:
EVIDENCE TO SUPPORT MANAGING
THE GROWING DEBT CRISIS PROJECT