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Tax Reforms and Tax Revenues Performance in Ethiopia

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Abstract
One of the main objectives of the Ethiopian tax reforms was to generate adequate tax revenues to finance ever increasing public expenditure on poverty alleviation and development projects. This would be achieved through streamlining of the tax system to mobilize tax revenues from national economic growth. The purpose of this article is to analyze and compare tax revenues performancesof the two governments in power in Ethiopia during the last 39 years.Descriptive analysis is used to compare different categories of tax performance of the Derg and Ethiopian People's Revolutionary Democratic Front(EPRDF) regimes. In public finance important measures that have been used to assess the responsiveness of a tax system in terms of tax revenues mobilization is tax to GDP ratio. In light of this major tax categoriesof tax to GDP and total tax revenuesratios over the period of 1974/75 to 1912/13 (39 years) were computed and analyzed. In addition comparison has been made between pre and post-tax reforms to compare tax system flexibility in terms of raising tax revenues during the EPRDF regime. The period after 2002/03 was considered as post comprehensive tax reforms years. The result shows that the comparison of two governments' different categories of tax ratios shows a slight increment from an average 3.77 percent to 9.95 during EPRDF period. Comparing pre and post-tax reforms during the period 1991/92 to 2012/13 the ratios of different category tax revenues show insignificant change for post comprehensive tax reform period. Comparing direct versus indirect tax categories, direct tax shows the tendency of declining contrary to the comprehensive tax reform main objective which gave due attention to increase the share of the direct tax to total revenues. The overall analysis reveals that tax reforms failed to boost total tax revenues and to bring tax structure change from indirect tax to direct tax.
Keywords: Tax reforms, Tax revenues, and performance

I. Introduction

Tax reform is the process of changing the existing tax system or the status quo to a new level of tax system so that the tax system can serve the main objective of financing government expenditure and meet other objectives. The general objective of tax reforms is similar among different countries, particularly among developing countries. A number of studies show that in developing countries tax systems are used to serve multiple objectives which include mobilization of resources to finance government expenditure; promoting saving and investment; encouraging the use of labor intensive techniques mostly the small and medium scale enterprises, whereby bringing about greater equity in distribution of income. (Islam, 2001; Roa, 2000)

Among the multiple objectives of tax reforms, the current literature focuses on the argument that the main focus of tax reform should be to raise adequate revenues to finance public expenditures on social goods and services. The issue has grown in importance in light of the recent fiscal crises in most of the developing nations. Bird (1993), states that the fiscal crises have been proven to be the mother of tax reforms in most of the developing countries. The views of tax reform to mobilize tax revenues have been increasing in the field of public finance among the academia and international institutions because developing countries are faced with declining external assistance in general and Africa in particular. The recent global crisis put considerable strain on inflows of international resources for African development which forced these countries to focus on domestic resource mobilization. As highlighted by African Economic Report (2012), tax reform issues have grown in importance in Africa as recent external capital inflows and trade financing have generally declined after the global financial and economic crisis.

Even though the contribution of foreign resources is significant in public finance of developing countries, there is no doubt that the role of domestic resources in financing government expenditure on public goods and services remains critical in the historical development of a country. Developing countries in general and African countries in particular lag behind in domestic revenues mobilization from their taxes and are forced to look for external resources that are tied to a number of conditionality.

It is generally agreed that African economies need to sustain high economic growth to reduce acute poverty from which most of the citizens have been suffering.UNCTAD (2005) discusses that poverty reduction or elimination needs sustainable economic growth per annum for a considerably long period. The high rate of sustainable economic growth in turn needs huge investments on physical infrastructures and other social goods and services.

While domestic resource capacities of tax revenues are low to finance the capital accumulation effort, these countries are forced to depend on foreign sources to finance economic growth. But economic literature bears evidence to the fact that the dependency of developing countries on foreign sources has not led to economic growth over a long period of time.Therefore, tax reforms in developing countries as a fiscal instrument to reduce dependency on foreign sourcesby raising adequate tax revenues to finance economic and social projects are the need of the time with a view to achieving sustainable economic growth over the long run.

As most of the developing countries in sub Saharan Africa, Ethiopia is among the highly dependent oneson foreign sources for poverty reduction and economic development. Geda (2005) identified that Ethiopia is the most dependent nation for financing government expenditure in general, and capital expenditure in particular than other developing nations. On the contrary, foreign funds are mostly tied with a number of conditionality that might not align with the country's economic and social priorities, which resulted in unsuccessful implementation of national plans due to financial constraints. The largest dam in Africa-Ethiopian Grand Renaissance Dam project, which is currently under construction by Ethiopian Government with its own financing sources, could have been constructed earlier in the absence of the foreign financing.

Actually Ethiopian government has been facing a range of challenges stemming from foreign sources of financing of poverty reduction economic policies. The country has been in a long period of civil war which left the nation to fiscal crises. The fiscal imbalance inherited from the past regime forced the new Government to look for external finance sources so as to rebuild the nation that was ruined by civil war over a long period of time. To respond to fiscal crises, Ethiopian Government started to implement what is commonly known as "Washington Consensus" Structural Adjustment Program (SAP) during the 1990s. The SAP which was sponsored by international financial institutions deployed to achieve goals that have little to do with development. The appraisal of SAP implementation impact by African Development Bank and other scholars show mixed results concerning the economic impact of the program.

Even though, African Development Bank Ethiopia SAP appraisal report was silent on the adverse effect of the program and tried to argue to the contrary of the negative effect of the program on the country by praising the program as "The program would not have been successful without adequate Bank supervision. This allows the collection of implementation problems which could have adversely affected outcome, if left unattended." (AfDB, 2000:19).

On the contrary, many researches have emerged to argue that the Program has not been successful and offered contradictory findings of the consequence of SAP implementation results to African countries in general, and Ethiopia in particular. The most important of these criticisms and probably the well-known criticism by Norman and Stingliz (2009:6), pointed out that the consequence of the Program as "the policies adopted-and advocated by the international institutions and many OECD governments, notably the US Treasury-contributed to creating the crises and its rapid spread around the world." Similarly, African Economic Report (2011) argues that SAP put Africa on a low growth path, undermined economic diversification efforts, and lead to an erosion of the industrial base in the region contrary to the SAP expectation that would make Africa firms more competitive, trigger industrial development and lay foundation for sustained economic growth.

The specific case of Ethiopian analyzed by Getahun (2004) reveals that the contradictory findings to the Bank's appraisal report, which strongly challenged the program by listing a number of responsible factors for the program failure which were overlooked by the Bank appraisal report.

Indeed, due to high dependency on foreign loans and politically motivated structural adjustment program, the Ethiopian economy has been experiencing external economic shocks for a considerably long period of time. Cognizant of this fact, the Second Five Years Plan- Growth and Transformation Plan (GTP) has given due emphasis to the role of domestic resources in financing the country's economic and social programs. Thereby, the recent development in the Ethiopian public finance has heightened the need to boost the capacity of domestic resource mobilization which GTP document clearly articulates as "major fiscal policy to strengthen domestic revenues generation capacity, finance major investment projects with own revenues," (GTP 2010:321). Despite the high interest of the Government to mobilize domestic resources in general and tax revenues in particular, the existing tax system consistently exhibited poor performance of tax revenues. Therefore, the grand objective of the country's public finance of mobilizing tax revenues to depend on own resource for financing poverty oriented projects can only be achieved through effective tax system so as to mobilize the required tax revenues. This effort in turn calls for the streamlining of tax system through comprehensive tax reforms.

This low tax revenues performance resulted in large, chronic and persistence fiscal deficit over long years and forced the country to look for foreign aid and assistance to finance public goods and services.Fiscal deficit financing tools especially through external source of financing is not only an unreliable source of financing but also tied with conditionality which the recipient countries should fulfill before securing the financial resources. The conditions may not fit the priority area of the country for economic and social development. Due to this obvious fact, Ethiopian government embarked on multi-phases tax reforms during the last couple of decades to improve the low tax revenues performance to maintain fiscal sustainability though the deficit still remained high

(more the 21% in year 2011/12).
In Ethiopia where the tax system has been under comprehensive tax reforms over the last couple of decades investigation of tax system flexibility is imperative. The success and failure of tax reforms that have been carried out over the last twenty years has not been well documented. Moreover, it is not known how the tax reforms have affected each category of tax revenues of the county. This article attempts to fill the gap in knowledge. To this end, the main question of this paper is: have Ethiopia's tax reforms improved the tax system in generating more tax revenues? Which categories of tax structure (i.e. direct or indirect) have been the most responsive or lagging behind and why?
This article, therefore, attempts to examine the impact of a series of tax reforms over the last couple of decades on tax revenues mobilization or the responsiveness of the tax system to the tax reforms carried out hitherto by comparing the share of major categories revenues to GDP or total tax revenues of Derg regime against the EPRDF regime. Specifically the study analyses the major two broad categories of tax i.e. directs tax and indirect tax to identify which category of the tax was inflexible to the tax reforms and the major determinants behind the non-responsiveness of the system.

II. Ethiopian Tax Reform Drivers

The tax system of Ethiopia is directly related to the government formation in the country. Modern state was established in Ethiopia at the beginning of 20th century. Historically, it is possible to say that Ethiopia as a country established modern tax system so as to raise funds to finance social and economic expenditures. Hailesilasie II was the pioneer to adopt modern tax system in the country after Second World War II. Before Hailesilassie II, the economic system of Minilik II was known as "GebarMadria" system in central and southern part of Ethiopia whereby the resources for war were mobilized from the serfs when needed to support a war as the land was under the direct control of the king, (Tsegaye, 2011).
Literature shows that different tax reforms in Ethiopia were initiated after Second World War period (1942-44), the years 1944-52 covering its second stage of tax changes. These changes were generally discretionary changes including amendments to property taxes (land and cattle). Broad-based taxes on goods and services were also introduced in the mid-1950s. Later in the decade and in the early 1960s, changes were also made in the rate and structure of taxes, especially on income. In the post-revolution period (1974-91), there was an increase in the coverage of tax bases and tax rates owing to the need to raise more revenues to support war efforts and to finance the ever growing public sector. Particularly during 1976-79, significant major changes on the rate and structure of all types of taxes were made. These involved widening the land tax base, introducing capital and surplus transfers from nationalized firms, as well as certain minor arrangements on other taxes, (Ministry of Finance, 1997; Geda and Abebe, 2005: 2).
The major changes of tax system have been taking place in Ethiopia for the last two decades. There were internal and external driving factors for the recent Ethiopian tax reforms. The major internal driving factors for the tax system were the transition of the economic system of the country from the planned economic development strategy to market based economic resource allocation on one hand and poverty eradication strategy of developmental program on the other hand. Changes of the economic policy from centrally planned economy to market oriented economic system necessitated the country to undertake a series of systematic changes in the tax system to raise tax revenues so as to finance public expenditures. As pointed out by Demerew (2004), the current account deficit necessitated an economic reform program of which tax reform is the main focus of the Government public finance. While the external driving factors were the requirement of International Financial Institutions (IFIs) to meet the standard of loan and aid. As reported by Islam (2001), developing countries faced with declining external assistance came under pressure to reduce budgetary deficits in the interest of macroeconomic stability by the requirement of multilateral development agencies to reduce deficit as a precondition for development assistance.
The budget deficit of the Ethiopian Government was not stable from 1991-2002 (see Table-1). Ratio of budget deficit to revenues declined from a high of 57 percent after the fall of Derg in 1991 to 8 percent lowest in 1996. During the Current Government (Ethiopian People's Revolutionary Democratic Front (EPRDF)) the lowest budget deficit 8 percent in1996 rose to 53 percent in 1999/2000 when the war broke out with neighbor Eritrean government (see Table-1).

Table-1 Ethiopian Budgetary revenues, expenditures and Deficit (1990- 2002)

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Expenditure	4317	5393	7179	8522	9462	10144	11360	14557	17181	15383	17652	19001
Revenues	2751	3657	4926	7045	8063	9381	9679	11215	11223	12805	12835	15703
Deficit	-1566	-1736	-2253	-1477	-1399	-762	-1681	-3342	-5958	-2578	-4817	-3298
Ratio of Budget deficit to Revenues	**57%**	**47%**	**46%**	**21%**	**17%**	**8%**	**17%**	**30%**	**53%**	**20%**	**38%**	**21%**

Source: Ministry of Finance and Economic Development

The financing of budget deficit through different deficit financing instruments can have serious macroeconomic effect in an economy if necessary cautions have not be taken in selecting the instrument of deficit financing. The sources of deficit financing of developing nations can be categorized into two major sources namely external and domestic financing. Financing budget deficit from external sources can create debt servicing problems. From domestic sources such as borrowing form Central Bank fuels inflationary tendencies whereas borrowing from the public through treasury bills exerts an upward pressure on other interest rates hence impeding private sector borrowing through crowding out effect. Hence the non-inflationary source of public finance is to mobilize tax revenues to finance public expenditures. It is a necessary condition for the country sustainable economic growth.

For these reasons, starting in 1990s, Ethiopia has been implementing a set of tax reform packages mainly in view of improving revenues performance at all levels of government so as to meet the growing expenditure requirements of Ethiopia's poverty reduction strategy. Furthermore, Ethiopian tax reforms measures have taken place to simplify complex and outdated tax laws, to improve weak tax administration performance and to reduce the existing tax evasion and avoidance. Realization of these tax reform objectives were envisaged through implementing a number projects which can be categorized mainly into two broad categories namely tax policy and administration reform and customs reform and modernization. These two broad categories of Ethiopian tax reforms are discussed briefly in the following section.

A. Tax Policy and Administration Reform

The Ethiopian Government has been introducing tax policy reforms with a view to improving tax revenues collection because the fiscal deficit has necessitated tax reforms in the Tax and Customs Administrations since 1992. As pointed out by Demrew (2004), the country faced severe macroeconomic imbalances such as falling export earnings, worsening balance of payments, and mounting debts and declining economic growth, the country undertook various policy measures following a major economic shift from central planning to market oriented system.

The government has attempted to rationalize the tax structure, broaden the tax base, and improve equity, fairness, consistency, in the administration and the tax laws so as to increase revenuesperformance. As part of this reform program, the government has undertaken different tax policy measures through designing and implementation of six projects under tax policy and administration package.

The Ethiopian Government has been introducing tax policy and administration reforms over the last twenty two years; specifically during the last ten years tax policy and administration reform was comprehensive and intensive in nature. On the policy side, rate schedules have been rationalized and the numbers of rate slabs have been substantially reduced. Moreover, Value Added Tax (VAT) has been introduced as a replacement of conventional sales tax in 2003 and foreign trade tariffs brought down from the maximum of 230 percent to a maximum of 35 percent by the reforms.

In parallel to tax policy reform, tax administration reform has taken place. In line to tax administration reform objective, Revenues Board was replaced by the Ministry of Revenues in 2001 to lead the tax system reform and the Tax Reform Taskforce was established to deepen tax policy and administration reforms. An inter-ministerial steering committee chaired by the Ministry of Capacity Building- unique ministerial office established to lead the national reform program to refine and support the tax system reform program. The most notable tax administration reform has taken place recently in 2009 which centralized tax collection by merging different tax collection authorities under one umbrella headquarters. This administration reform was the result of Business Process Reengineering (PBR) study which was carried out to streamline the process of the tax administration operations with a view of process efficiency and effectiveness. As a result, the BPR study came up with the new proposal of merging different tax offices-Federal Inland Tax Authority (FIRA), Ethiopian Customs Authority (ECA) and the regulatory ministry office-Ministry of Revenues (MoR) under one headquarters of Ethiopian Revenues and Customs Authority (ERCA).

The primary objective of the tax policy and administration reform was to raise tax revenues measured in terms of tax to GDP ratio from less than 10 percent to 18 to 20 percent of over medium range plan after implementation of the reform program. These targets have so far remained elusive as the tax to GDP ratio over the last 10 years shows about 10 percent (See Figure-2).

B. Customs Reforms and Modernization

Customs reforms and modernization was one of the major integral parts of Ethiopian tax reforms carried out over the last two couple of decades related to customs tariff of import and export trades to meet government revenues targets, facilitate the flows of legitimate goods and passengers eventually to register fastest and sustainable economic growth by putting in place conducive business environment for Foreign Direct Investment (FDI) and local investors to increase the competitiveness of the country's export on the international trade. Trade facilitation was the major objective of customs reforms and modernization whereby FDI and revenues collections can be enhanced. The change of regime from central resource allocation policy to the market oriented resource allocation policy necessitated tax reforms and modernization of customs administration so as to facilitate trade. It aimed at improving international trade tariff and procedures so as to create conducive trade environment through efficient customs service delivery system in order to smoothen the flow of goods and passengers crossing the boundary to the country.

Recent major customs reform and modernization has been taking place since 2003 focusing on rationalization of tariff rates, cutting through red tape, reduction in documentary requirements, simplification and computerization of the core function of the administration. As noted by Mawete (2011) customs reform and modernization resulted in dramatic reduction and clearance times, and increase in revenues collection and the elimination of systemic corruption. In general, Ethiopian tax policy and administration reforms and customs reform and modernization during the past two decades have largely focused on improving revenues performance so as to finance the developmental projects. It is possible to say that tax reforms were used in Ethiopia as an instrument of raising revenues productivity.

On the above background, this article investigated the tax ratios of major categories of tax revenues across the two governments (Derg and Ethiopian People's Revolutionary Democratic Front (EPRDF)) in term of tax revenues productivity with extremely different economic policies. Data ranges from 1974/75 to 2012/13 (39 years) have been analyzed.

III. Tax Reforms and Tax Revenues Performance

Acute fiscal imbalance forced developing nations to undertake a series of tax reforms. In the light of this fact, recent developments in the literature of tax reforms have heightened the need for tax reforms in view of boosting tax revenues for fiscal sustainability.

Empirically there are different tools to measure tax revenuesyield following tax reforms. Different types of tax performance can be measured in terms of tax ratios. The ratios show responsiveness of tax system to changes in national income growth with the proxy variable Gross Domestic Product (GDP).

It is conventional to give the ratios of tax revenues in relation to GDP to enhance the understanding of the tax system in terms of revenues yield. The study and comparison of different categories of taxes in share of GDP or total revenueswould help in assessing the overall success of government tax reform measure to increase tax revenues.

Moreover, to examine taxrevenues productivity level of pre and post comprehensive tax reforms of the current Ethiopian government tax system which rangesthe period from 1992/93 to 2001/02 was considered as pre reform while the time span from 2002/03 to 2012/13 is post tax reforms where comprehensive and extensive tax reforms have been taking place.

Analyzing major tax performance trends of the two regimes graphically (see Figure 1 and Figure 2), the pattern in this regard is somewhat similar. During 1974/75-1991/92 the maximum tax to GDP ratio was 5.25 percent with the average for 17 years of 3.77 percent of GDP (see Figure-1). On the other hand, during 1992/93-2012/13 the tax performance in average slightly improved to the 13.62 percent with the average tax to GDP ratio of 9.95 percent (see Figure-2).

Tax revenues performance of the market oriented economic policy of the current government has not been accompanied with the economic growth observed during the same period. Market oriented resource allocation economic policy has resulted in the expansion of economic activities with an average economic growth rate above 6 percent in average during the last 20 years compared to 2 percent average economic growth to the previous centrally planned economic system. In general, the figures demonstrate that the growth of tax revenues does not mirror the growth of the economy measured in terms of GDP. There appears some slight change in the current market oriented economic policy system (1992/93-2012/13), the average performance of tax revenues as a share of GDP suggests that more systematic efforts should be exerted to mobilize that revenues at least to the level of the Sub-Saharan African countries average (18%) of tax revenues performance.

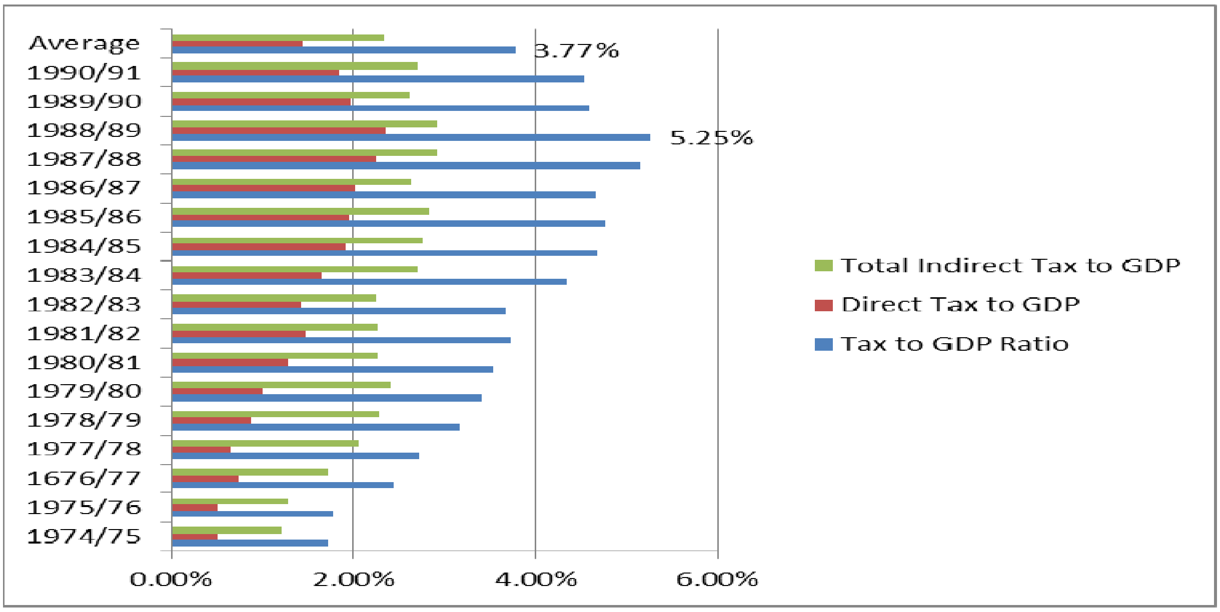

Figure-1 Major Tax Trends 1974/15 to 1991/92

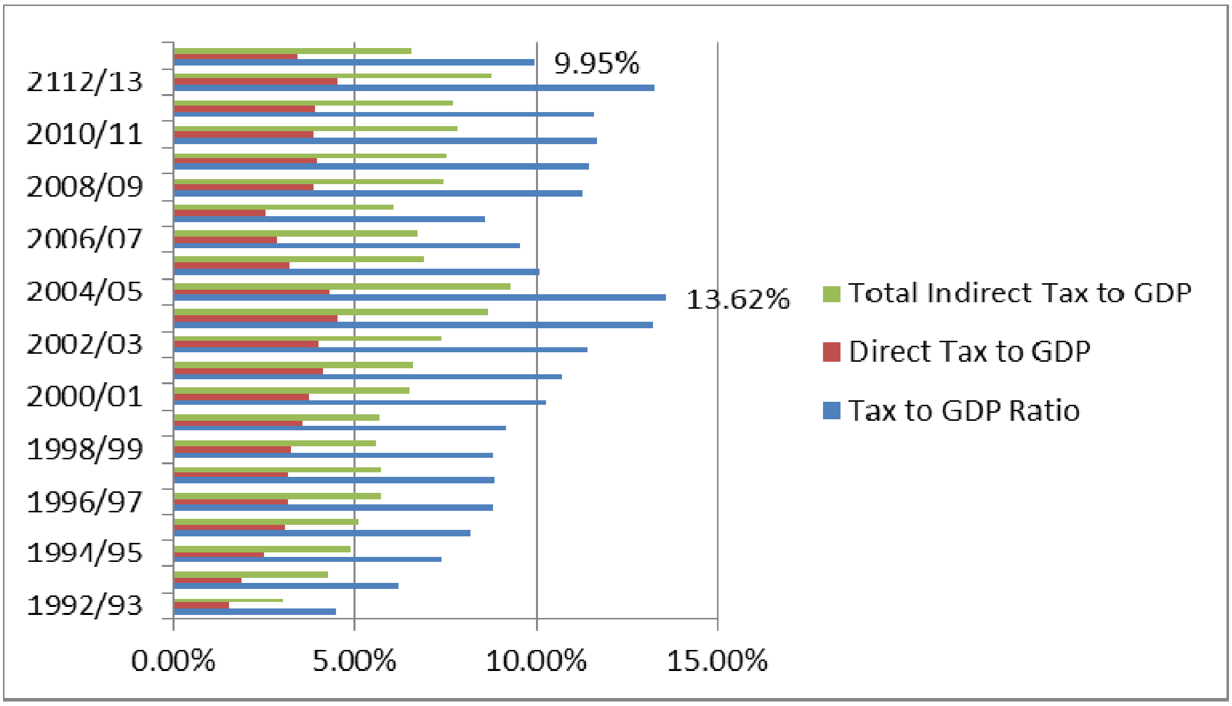

Figure-2 Major Tax Trends 1992/93 to 2012/13

Ethiopia tax revenues performance measured in terms of the ratio of major components of tax structure to GDP over the period 1974/75 to 2012/13 is highlighted in Table-2. During the 17 years of Derg's Government period (1974/75--1991/92) tax to GDP ratio average exhibited 3.77 percent, grew to 10 percent during the current Government system which still remained low compared to sub regional average and put the Government under persistence budget deficit. The deficit has persisted even though the fiscal target has been to achieve a balanced budget through comprehensive tax reform which was carried out starting from 2002/03 under strict supervision of Ministerial steering committee chaired by the Minister of the Ministry of Capacity Building to implement the comprehensive reforms so as to increase the ratio of tax to GDP ratio to 18 percent within medium range plan after the implementation of the reform programs which comprised nine projects.

Table-2 Major category of tax ratio to GDP in % (1974/75--2012/13)

Ratios of Total Tax, Direct and Indirect Taxes to GDP in %			Pre Reform	Post Reform
Types of Tax	1974/75-1991/92	1992/93-2012/13	1992/93/2001/02	2002/03-2012/13
Total Tax Revenues to GDP	3.77	9.95	8.30	11.45
Direct Tax to GDP	1.44	3.40	2.98	3.78
Total Indirect Tax to Total Tax	2.33	6.55	5.31	7.68
Total Indirect Tax to Total Tax	1.15	2.34	1.92	2.71
Foreign Trade Taxes to Total Tax	1.18	4.21	3.39	4.96

Source: Ministry of Finance and Economic Development

On top of the major objective of the tax reforms of boosting tax revenues collection, balancing the share of direct tax revenues with indirect revenues were the other focus of the tax reforms. Table-2 highlighted the structure of Ethiopian tax system so that the relative contribution of major tax categories to total tax revenues can be observed over 39 years. To show the relative share of each major Ethiopian tax category to total tax revenues and to examine the impact of comprehensive tax reform, tax system performance comparison has been done between the two government systemson the one hand and pre and post comprehensive tax reforms on the other hand.The structure of the tax revenues which has been dominated by indirect taxes in general, foreign trade taxes in particular during the Derg regime continued in the same trend. The share of indirect tax in total tax revenues has increased from 63 percent to 66 percent while foreign trade tax revenues increased from 33percent to 44 percent in average with change of economic policy from the centrally planned economic policy to market oriented one (See Table-3).

On the other hand, comparison of direct tax contribution to total tax revenues during the Derg regime (1974/75-1991/92) 37 percent has declined in average to 34 percent during the current government (1992/93 – 2012/13). The low performance ratio of direct tax during the current government is possibly attributable to the reduction of high marginal direct tax rate 89 percent during the “E” regime to 35 percent of maximum in the current government. Moreover the threshold for tax exemption has increased from 50 Birr to 150 Birr which can erode the tax base of direct tax. Moreover, different public offices focused corruption assessments show that the revenues sector is one of the highly vulnerable public sectors to corrupt practices. In the light of thesestudies, Ethiopian Revenues and Customs Authority (ERCA) high officials have been under investigation for almost one year. This possibly can be one of the factors contributingto the poor performance of direct taxes.

In addition, Ethiopian Revenues& Customs Authority (2012) press release shows that 70 percent of the tax is collected from 962 organizations. This suggests that there is ample opportunity to increase direct tax collection by bringing formal economic sector to the tax net. Among the four schedules of the direct tax, salaries income tax is the only component of direct tax with low possibility of tax evasion since it is deducted at source. Therefore, concentrated effort should be exerted to collect business profit tax, rental income taxes and other income taxes.

Table-3 Ratio of direct tax &indirect tax to total tax (%) **(1974/75--2012/13)**

			EPRDF tax reform	
	e Period	EPRDF Period	Pre Reform	Post Reform
Types of Tax	**1974/75--1991/92**	**1992/93-2012/13**	**1992/93—2001/02**	**2002/03-2012/13**
Direct Tax to Total Tax (%)	37	34	36	33
Domestic Indirect Tax to Total Tax	30	24	24	24
Foreign Trade Taxes to Total Tax	33	42	40	44
Total Tax Revenues	100	100	100	100
Total Indirect Tax to Total Tax	63	66	64	67

Source: Ministry of Finance and Economic Development

It is worthnoting that concentrated effort should be exerted to mobilize direct tax so that the contribution of direct tax to the total taxrevenues should be balanced to that of indirect tax which in average constitutes more than 66 percent, as the indirect tax particularly foreign trade tax (easy to tax sector) revenuescannotbe a reliable sources of revenues from the long term perspective because the indirect tax revenues mainly comes from foreign trade tax which is vulnerable to globalization pressures like the country'saccession to World Trade Organization (WTO) being underway and regional economic integration to Common Market for East and South Africa (COMESA).

Conclusion

Ethiopia has been reforming its tax system for more than 20 years. Comprehensive tax reforms started in 2002/03 as an integral part of economic reforms. The main objective of the tax reforms was to mobilize tax revenues with special focus on increasing the share of direct tax contribution to total tax revenues to ensure fiscal sustainability and to reduce dependency on foreign trade tax which is volatile due to free trade agreements and regional integration from long term perspective.

However, the failure of tax reform to improve tax revenues mobilization put the government under fiscal pressure in financing the national economic plan. Thereby the government opted to other deficit financing sources to finance budget deficit particularly borrowing from central bank and currency printing which pushed and exacerbated the inflationary situation to a high of 40 percent in year 2012. It is, therefore, clear that this type of deficit financing can slow down the fast economic growth that the country has been registering over a decade and put obstacles to the efforts to join middle income countries with continuous sustainable double digit economic growth.

The comparisons of the two government periods tax system flexibility in generating tax revenues with the ratio of each categories of tax to GDP and to total tax revenues reveals that there were no significant difference found in terms of revenues performance though a little improvement is observed during the current EPRDF government in terms of tax revenues mobilization.

One of the more significant findings to emerge from this study is that the most striking results d from the data is the low performance though the comprehensive tax reforms have been carried out. The government has been trying through comprehensive tax reforms which were strictly monitored by high political profile leaders to mobilize tax revenue and to change tax revenue structure from indirect tax in general and foreign trade tax in particular to direct tax to reduce the possibility of revenue loss due to continues tariff reduction in response to international multilateral organizations pressure of for more economic openness. However, the share of indirect tax to total tax revenues remained high or is increasing (67%). This signals the stability of the country's tax revenues is at stake in the long term due to regional integration (COMESA) on the one hand and accession to World Trade Organization (WTO) on the other hand.

The expansion of regional integration and multi-lateral organizations posed challenges to the country to raise revenues from international trade tax which forced the country to reduce trade tariff periodically from the maximum 230 percent to 35 percent and further reduction to zero level would be expected due to regional integration. It is therefore, the dependency of foreign trade tax revenues (easy to tax) should be substituted by domestic indirect tax or direct tax to compensate possible revenues loss to ensure fiscal sustainability.

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