1. Introduction

The Forum of Federations is an international learning organization, based in Canada, working on federal and devolved governance across the globe (see -- www.forumfed.org). The Forum operates a 5-year program on *Strengthening Federal Governance and Pluralism in Ethiopia* with various Ethiopian partners, led by the House of Federation (HoF) of the FDRE. The project addresses weaknesses in Ethiopia’s federal governance with the ultimate outcome of a strengthened and more responsive federal system for Ethiopian men and women. To this end, the project is working in three key results (intermediate outcomes) areas: intergovernmental relations (IGR), intergovernmental fiscal relations (IGFR), and constitutional understanding.

One of the immediate outcomes under the key results of intergovernmental fiscal relations is the increased capacity of HOF and its key federal and state partners to design, implement, and monitor/report a transfer system that promotes development, peace, sustainability, and gender equality. Among the major initiatives towards this end is a comprehensive review of the existing system of federal-state transfers (more specifically the Federal General Purpose Grant (FGPG) and development of proposals for revision, including integration of environmental sustainability and gender equality. As part of this initiative, the Forum, in close collaboration with the HOF, will engage an international consultant to help us to undertake a review of the current system of intergovernmental fiscal transfers in Ethiopia based on the terms and conditions set below.

In light of Covid-19 related restrictions, this assignment is expected to be completed remotely using Zoom and/or similar technologies.

2. Context

Since 1995, Ethiopia adopted a multinational federal system. The Federal Democratic Republic of Ethiopia comprises of the federal government and nine ethnically-organized States, both levels
having legislative, executive, and judicial powers. Addis Ababa, the capital city of the federal state, has been given a constitutional status of self-government, accountable for the federal government. The other self-governing federal city, Dire Dawa, was also established under the federal proclamation.

Following the establishment of a federal system, powers and responsibilities are divided between the two levels of government. Like most federations, the lucrative sources of revenue in Ethiopia are assigned to the federal government while a wide range of expenditure responsibilities are reserved for the regional states. This can be easily seen from the intergovernmental fiscal relations between the federal government and the states. During the period 2012/13 – 2016/17, states commanded only a 21% share of general revenue collection but accounted for about 44% of general expenditures. The share of states’ own revenue to total actual expenditure on average is only 23.81% over the same period. The resulting vertical fiscal imbalance is bridged by federal grants, the Federal General Purpose Grant (FGPG) being the most important one.

Cognizant of the inevitability of this fiscal imbalance, the Constitution of the FDRE lays down some of the legal and institutional basis for intergovernmental fiscal transfers. There are two kinds of fiscal transfer mechanisms in Ethiopia: (1) the sharing of joint taxes and (2) the sharing of federal revenue (Articles 94 and 89 respectively). The power for determining the division of these revenues between the levels of government is given to the House of Federation (HOF), the second chamber which represents the diverse ethnonational groups of the country (members are appointed by states’ legislatures).

The FGPG and Millennium/Sustainable Development Goals (MDG/SDG) grants have been the two most dominant transfers. During the past eight years the relative size of the latter on average was about 18.6% of total transfers, while the remaining 81.4% of the total transfer came from the former (this calculation excludes other specific purpose grants). There are other specific grants mostly provided by the federal line ministries to their state counterparts. However, the amount of these grants are insignificant compared to the FGPG and SDG/MDG.

For the horizontal sharing formula of federal revenues among the states, the HOF has experimented with various allocation formulas over the past several years. Since 2009, however, the House started using a simplified version of the Australian model with a few modifications over time to determine the division of the Federal General Purpose Grant (FGPG). The current formula was developed in 2017. Its main objective is to equalize the fiscal capacities of regions so that they can provide a comparable level of public services to their populations. Specifically, the objectives of the formula are correcting the horizontal fiscal imbalance that exists among regions, compensating regions that provide public services with positive spillover effects, compensating security-related expenditures along the country's international borders, and
encouraging regions’ revenue collection efforts. The formula tries to distribute the grant based on the relative fiscal gap of each state. In doing so, it equalizes both the expenditure needs and revenue capacities of regional governments. In accordance with established international practice, the representative tax system (RTS) and representative expenditure system (RES) methodologies have been used to assess the revenue potential and expenditure needs of the states.

Though the current formula has many improvements over its predecessors, it has been still criticized for a few drawbacks. In a recent workshop attended by relevant federal and state officials and senior experts, the following limitations were raised: 1) the Representative Expenditure System (RES) calculations use seemingly overly-complex econometric procedures to determine the weight of the adjustment factors; 2) calculations on fiscal gap ignore other federal transfers and assistance especially specific purpose transfers like SDG transfers; 3) there is lack of clarity on the formula as it is somewhat complex for the policymakers to fully comprehend it; 4) the formula provides disincentives for overcoming infrastructure deficiencies and minimizing gaps in access to basic services; 5) it fails to provide special support for the less developed states as stipulated in the constitution; 6) it tries to achieve more than one objective, a few of which are impossible to be addressed with a general-purpose grant; and 7) it rewards better-off states with higher population and land size.

Recently, a revision of the joint revenues formula was made by the House through an initiative with the Forum including addressing various administrative issues as well as the shares. In the revised system, an equalization element is introduced in the sharing of revenues from indirect taxes such as VAT and excise while the revenues from direct taxes are still to be allocated on a derivative basis. Efforts were also exerted to coordinate the revenue sharing with the FGPG. The main change brought about by this revision, however, is making the system of concurrent revenue sharing more transparent, principles-based, and simple (HOF, 2019).

The current formula for the FGPG was to be implemented for three consecutive years and was subject to review this year and renewal/revision in 2020/21. However, the House has decided to use the current formula until 2021/22. In its decision, it also acknowledged the need to begin preparations for the design of a new formula right away. One major direction given by the House was to conduct an evaluation/review on the existing system of intergovernmental fiscal transfers, to identify its weaknesses and shortcomings and come up with alternative options that can improve the system.
3. Objectives

The overall objective of the assignment is to design and conduct an authoritative and comprehensive review of the General Purpose Federal Grant Transfer System in Ethiopia using a robust and mutually agreed framework, and propose options for improvement. A secondary objective is to transfer knowledge and skills to the staff of the House of Federation and other key partners during the study.

The FoF will contract an individual international consultant (Consultant) to undertake the assignment as described in this ToR. The international consultant will work in a project team (mainly FOF and HOF) as well as a local consultant assigned by FOF and mutually agreed with the Consultant. The Consultant will report to the Forum. All deliverables submitted by the team should be approved by the Forum before any payment is made.

4. Tasks and Timelines

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<th>No.</th>
<th>Major Tasks (Considering COVID 19 restrictions)</th>
<th>Estimated Level of Effort ( # of Days)</th>
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<td>1.</td>
<td>Produce inception report</td>
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<td>• Preliminary review of relevant IGFRs documents</td>
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<td>• Interviews and/or discussions with selected key informants</td>
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<td>• Prepare and submit report</td>
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Output:
- A complete and approved Inception Report, to include inter alia:
  - Brief overview on the consultant’s understanding of the assignment.
  - A robust conceptual framework for the review informed by internationally accepted principles and best practices relevant to Ethiopia.
  - Cost-effective study plan: brief explanation of and rationale for tools and methodology to conduct the review, including all actors to be involved and their roles in the study.
  - Detailed work plan (format to be agreed).
  - Revision to TOR as and if needed (to be mutually agreed).
  - Preliminary outline for final report
  - Review revisions, and agreement with project team.
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| 2.  | Conduct study (details as per agreement in Task 1 above), including but not limited to:  
- Desk review, interviews, analysis  
  - Assessment of legal, institutional and administrative framework  
  - Review of relevant IGFRs documents (to be provided by Forum and HoF)  
  - Quantitative analysis of fiscal data  
  - Regular informal review of issues, progress, etc. with project team  
  - Intensive consultations, interviews, etc. as per the tools, methodology and work plan agreed in Task 1 above.  
- Options analysis | |
| 3.  | Report (to be detailed and mutually agreed during tasks 1-2)  
- Analysis of the policy, legal, institutional and administrative framework of IGFRs in Ethiopia.  
- General overview of the practice of Federal-State Transfers.  
- Thorough review of the FGPG formula and its coordination with other forms of transfer and revenue sharing arrangements.  
- Assessment of the proper integration of environmental and gender issues in the transfer system.  
- Identification of issues, strengths and gaps in the system.  
- Policy recommendations with options of basic framework/guideline for improvement to guide policymakers to improve the system. | |
| 4.  | Review report with FOF team and the HoF and provide revisions as agreed | |
|     | **Total** | |

5. **Expected Qualifications**

The consultants should have the following educational qualification and experience: -

- PhD in economics, public finance or other relevant field of study.
- Authoritative, comprehensive knowledge of the theory and practice of intergovernmental fiscal relations globally.
• Extensive publications in reputed academic journals and/or professional studies for government and/or major international organizations.
• At least 15 years of professional experience in research, teaching, consulting.
• Extensive experience in designing and conducting similar studies.
• Excellent coordination skills.
• Experience in working with governmental organizations.
• Extensive experience in writing technical reports and reports for political leaders.

6. Submitting Application

Please provide the following:

• Table (2-3 pages) summarizing the consultant(s) qualifications per each of the areas itemized in Section 5 above.
• Table (2-3 pages) with a very brief explanation of the consultant(s)’ experience and approach expected for completing each of the tasks outlined in Section 4 above.
• Indicate estimate level of effort (person days) for each task in the table in Section 4 above.
• Initial explanation on how to integrate gender equity in the evaluation/review.
• Detailed CV of the consultant(s)
• A daily rate of the consultant(s).

For questions, or to submit your application please contact Houlihan@forumfed.org by 15 June, 2020. Only candidates who have been selected or shortlisted will be contacted.