

**ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**AN ANALYSIS OF RECENT
PERFORMANCE OF ADDIS ABABA CITY
ADMINISTRATION IN REVENUE
GENERATION AND COLLECTION**

BY: *ABATE AYANA*

***A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE
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FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE
OF MASTER OF ARTS IN REGIONAL AND LOCAL
DEVELOPMENT STUDIES***

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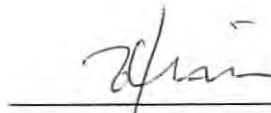

ADDIS ABABA UNIVERSITY
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This paper is dedicated to NEGASH MUSSA OBSAYE

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Acronym and Abbreviation

CSA	-	Central Statistical Agency
E.C.	-	Ethiopian Calendar
EPRDF	-	Ethiopian people's Revolutionary Democratic Front
FDRE	-	Federal Democratic Republic of Ethiopia
FEDB	-	Finance and Economic Development Bureau
MOFED	-	Ministry of Finance and Economic Development
MTEF	-	Medium Term Expenditure Framework
OECD	-	Organization for Economic Co-operation and Development
TOT	-	Turnover Tax
VAT	-	Value Added Tax

ABSTRACT

Public revenue is concerned with the identification, generation, collection and administration of revenues. However, revenue generation and collection efforts are constrained by many challenges and problems. The objective of this research is to analyse the recent performance of Addis Ababa city administration in its revenue generation and collection efforts and to devise ways for the maximum utilization of the revenue potential of the city. This study is based on descriptive analysis and the methodology combines both qualitative and quantitative types of data and information. It has employed both primary and secondary sources of data. The data collection methods include document review, opinion survey and interview.

The study has revealed that, Addis Ababa city administration enjoys wider sources of revenue. Thus, it generates and collects revenue from tax, non-tax, capital, municipal and external sources. It is observed that tax revenue on average contributed nearly half of the city's total income in the period under study. However, despite the good performance of the city administration in generating and collecting of revenues, there are many problems and challenges which hindered the maximum utilization on the revenue potential of the city. The major challenges include poor revenue collection performance, non-utilization of alternative revenue sources, the problems of revenue fluctuations and others. The study has come up with recommendations that should be taken both at the federal government and the city administration level. To this end, proper utilization of alternative sources of revenue, empowering the city to administer its own sources of revenue and designing a revenue sharing system are some of the policy implications of the paper.

CHAPTER ONE

1. INTRODUCTION

1.1. Background

Theoretically, it is believed that a state is supposed to perform many activities on behalf of the citizens. This state's function covers a wide range of areas which have importance to the citizens and development of the country. Modern governments provide a variety of services via the budget including housing, education, police and fire services, defense, the system of justice and law and pensions (Brown and Jackson, 1982:27). On the other side, it is obvious that to finance such activities the government should have enough revenue sources. This necessity results from government's dependency on public revenue to discharge the duties and responsibilities vested upon them.

Most governments use a variety of sources for raising resources. These sources include tax and non-tax sources. Tax sources include taxes on income and property, as well as taxes on commodities and services. The non-tax sources cover revenues such as contribution from public enterprise, interest receipts, revenue from economic and fiscal services, external grants, user charges and other sources (Purohit, 2005:72).

It is argued that a country's development wish will be realized when there are enough revenues that can cover its expenditure properly. In this situation, it is possible to give the desired public service to the society at large. It also implies the fact that, domestically there is enough financial resources to cover the expenditure and no need of looking other alternative financial sources.

But, in reality the conditions are quite the opposite of the assumptions. Most countries in the world face constraint of resources to accomplish

their missions. In other words, their expenditure exceeds their revenues and this in turn result poor performance in their service delivery to the society. Lack of resources to provide adequate service is almost unanimously similar both in industrial countries and developing countries (Bahl and Linn, 1992). In spatial dimension, this fiscal gap is felt more seriously in cities rather than rural areas. The result is an ever-widening gap between the supply of and demand for jobs as well as services and utilities and shortages in urban land and housing, particularly for urban poor (Salah, 1997:502).

There are a number of reasons for the existence of low public services and facilities in urban centers. The rapid urban population growth that accompanied by high level of rural-urban migration results increased demand for public services in cities. But, urban centers do not have the sufficient financial resources to satisfy such demands. In addition, there is inefficient management of the available financial resources. Moreover, most urban centers generate revenues from few known sources and they are also reluctant to diversify their revenue sources. In general, the fundamental imbalance between expenditure needs and revenue possibilities makes it critically important that cities spend what they have as effectively and efficiently as possible. However the pervasive uncertainty and instability of revenues ... make effective budgeting and expenditure management difficult (Bird, 2001:113).

Similarly, Ethiopian urban areas are not exceptional to the trends that experienced by world cities. In Ethiopia, urban areas are places where urban poverty and problems are dominantly observed. Most urban centers are characterized by unemployment, inadequate housing, social problems (such as crime, theft, Juvenile delinquency, prostitution, street dwelling) and environmental pollution. But, the degree of these problems varies from town to town (Jemal, 2000:2). It is known that the major cause for such problems is directly related to lack of enough financial

resources/revenues. Besides, in most urban areas, inefficiency in management of the available revenues is a major problem. The weak revenue collection system and dependency on few revenue sources also aggravate the existing fiscal gap more in urban centers.

It is in this context that, this thesis selected Addis Ababa city as a case to study the recent performance of the city administration in its revenue generation and collection efforts with particular emphasis from 2003/04-2006/07 fiscal year.

1.2. Statement of the problem

The early 1990s witnessed a major turning point in the cotemporary politics of Ethiopia. The new government under EPRDF leadership made a major political departure from its predecessors. The establishment of regional governments by proclamation No.7/1992 and later regional states as mentioned in the constitution (Art 46.1) is a major change in the administrative and political system of the country (Fanta, 1998:2). Accordingly, the constitution recognizes nine national/regional states and two special cities with a status equivalent to regional states. In line with this, fiscal federalism introduced in the country. Later on, in the transitional period laws and regulations such as proclamation No.33/1992 was enacted to strengthen further the fiscal decentralization process. But, the major legal basis for fiscal decentralization in general and for revenue sharing in particular was the 1994 constitution of the federal democratic republic of Ethiopia.

This constitution which is the supreme law of the country under article Ninety-five stated that the federal government and states should share revenue taking the federal arrangement in to account. It is based on this principle that, many regional governments proclaim subsequent tax laws and as well as adopt a decentralized fiscal system where Addis Ababa city administration also one of among them.

Addis Ababa city is one of the two cities in the country, which have constitutionally recognized administrative status. The city has an important role in the economic, social and political development of the country. Historically, the city serves as a capital city for more than a century. Today, the city is a capital for three governments that are the federal government, Oromia regional state and the city administration itself. It is also a home of many international organization including African Union and Economic commission for Africa.

Currently, Addis Ababa is a self –governing chartered city with its own city council. The council, which is elected every five years, is accountable both to the city electoral and the federal government. Some studies indicated that, more than three million people live in the city. This figure in turn shows that there is high level of public service demand in the city. As a result, the city administration to provide the needed public services to the city population and to further deepen the decentralization process, it reorganize the city in to ten sub cities and Ninety-nine kebeles. It also establishes many offices to facilitate the political, administrative and fiscal decentralization at the city level.

The city administration applies a fiscal decentralization system where revenue collection is made at kebele and sub-cities levels. In addition, the revenue agency, which is the office responsible to revenue and related matters conduct many studies that focuses on identifying new revenue sources to the city. Moreover, to make the tax collection and administration more effective, the agency computerized the tax collecting system to access the tax payers' information easily. The agency also introduces a tax collecting system through third parties like banks, postal offices and others. Furthermore, it gives much emphasis to build its employees capacity. It is the cumulative of these efforts that bring self-sufficiency in financial resources and no need of federal transfer or grants to the city unlike other regions of the country. Addis Ababa has

become self-sufficient since 1999/00 when it stopped receiving recurrent budget transfer though receiving capital transfer stopped three years earlier (i.e. 1996/97) (Derresse, 2003:24).

Despite the good performance of the city administration in generating and collecting of revenues, there are still many problems that challenge this process and its administration.

Thus, these problems include:-

- Problems related to the power and function of the city's revenue generation and collection
- High dependency on known revenues only
- The existence of weak revenue collection and administration system
- Organizational problems and lack of trained manpower in the area.
- Low productivity of the existing revenue sources
- The growing of the informal sector who do not pay tax
- The problem of corruption, tax evasion and avoidances
- The problem of revenue fluctuations
- The existence of inefficient management of the available financial resources
- Lack of public awareness and others.

These problems are reinforcing each other and hinder the city's development in many aspects. As a result, today many economic, social problems which are directly or indirectly related with lack of financial resources are observable in the city. It is in view of this that, this research analyses the recent performance of Addis Ababa city administration in its revenue generation and collection efforts.

1.3. Objective of the study

The overall objective of this research is to assess the revenue generation and collection performance of Addis Ababa city administration. It also reviews, and analyzes the existing trends, challenges and prospects in this process and forward viable recommendations on the basis of the research findings.

The specific objectives are:-

- To identify the city's major revenues, their structure and methods of collection.
- To examine the existing trends in revenue generation and collection of the city.
- To identify and analyze the major problems as well as prospects in revenue generation of the city.
- To compare and contrast the city's generated revenues versus its expenditure.
- To examine the human resource, organizational structure and power and duties of the revenue agency which is responsible to generate and collect the city's revenue.
- Based on the findings of the research, forward the necessary recommendation.

1.4. The research questions of the study are:

- What activities are the city's major revenues sources and why?
- How is the city's tax collecting system organized? Is it centralized or decentralized?
- What are the major problems and challenges in revenue generation and collection efforts of the city?
- What trends are observed in the city's revenue generation practices?

- Is the city's generated revenue enough to cover its expenditure or not?
- What are the means and prospects to strengthen the city's revenue generation capacity and efficiency?

1.5. Research Methodology

This study is based on descriptive analysis and the methodology combines both qualitative and quantitative types of data and information. It has employed both primary and secondary sources of data. The data collection method include document review, opinion survey and interview.

1.5.1. Document Review

This part is focused on review of the secondary data. It mainly consists of analyzing of financial documents, annual reports of Medium term Expenditure framework (MTEF) and others supplied by the concerned authorities. Recent studies related to the subject under study were examined and reviewed. In addition, books, articles and other publications were utilized to write the theoretical and conceptual framework.

1.5.2. Opinion Survey

A questionnaire was prepared for the business community who are the majors' stakeholders in this study. They are the one who pay the taxes, fees and charges to the city administration. As data from the revenue agency indicate currently in Addis Ababa city, 174,043 registered and licensed traders are found. Given the time and budget constraints and considering this huge number it is not possible to cover all the business community of the city. So, sampling framework is the best alternative in this situation.

1.5.2.1 Sampling Method

Currently, Addis Ababa city, for administrative conveniences is divided into ten sub-cities and ninety-nine kebeles. As a result the population in this study was all the registered traders in the city level. That means all 174,043 registered traders in the city. Out of this, a random of 100 business establishments have been taken. This random sampling was distributed to the ten sub-cities equally.

The questionnaires were designed to assess the overall performance of the revenue generation and collection process in the eyes of the business community who are the major stakeholders in the process.

1.5.3. Interview

In depth interview was conducted with the following staff members of the city administration.

- FEDB, planning and study Team Leader
- Revenue collecting team Leader
- Head, Legal department of Revenue Agency
- FEDB, Head inspection Department
- Head, Human Resource Department, civil service commission
- Treasury Department Head, FEDB

An interview questionnaire was prepared for the stated groups.

Observation was also part of the overall method whereby the researcher was able to observe the poor service delivery of the tax collecting officials, weak inspection system, absence of accountability and others.

Data collected in qualitative and quantitative forms organized in such a way to reflect the problem identified by respondents and the city administration performance in revenue generation and collection is

analyzed by using simple average, percentage, rates and annual growth rates.

1.5.4. Conceptual Framework

The conceptual framework for municipal finance comprises the basic relationship involved in the management of urban government finance. MC Master James (1994) cited in Haile. (2007) divided the relationships in to three categories.

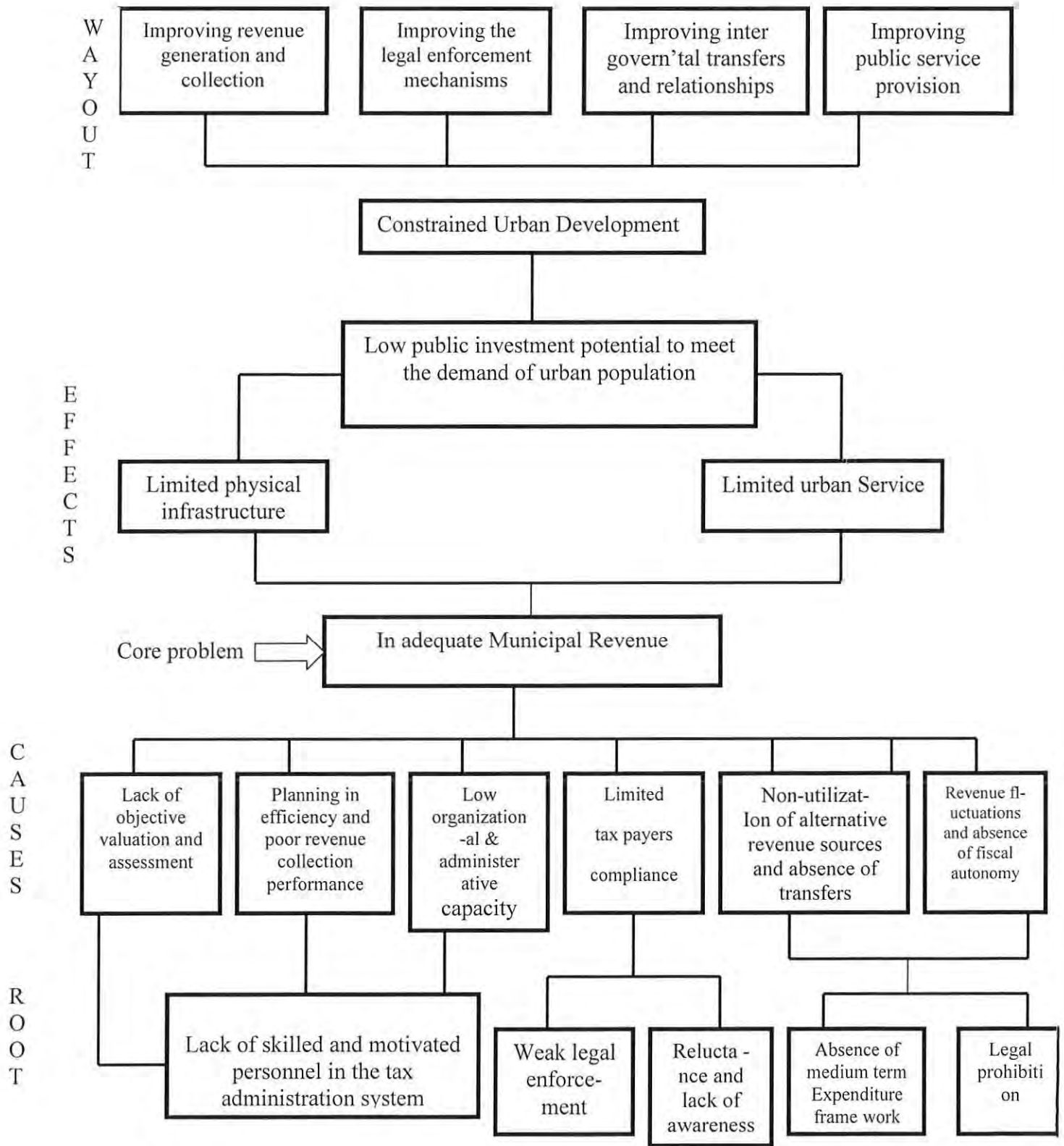
Revenue Generation:- implies how well the municipality is tapping the revenue potential of the city.

Expenditure Control:- is related to the cost of developing public service, budgeting and planning aspects and the factors that cause those public spending to rise.

Financial Balance:- the existing balance between revenue and expenditure and the trends projected into the future.

Various literatures on municipal finance indicate that the core problem for the constrained urban development is the inadequacy of municipal revenue to cope up with the ever increasing public expenditure needs necessitated by rapid urban population growth (Bahl and Linn:1992,Mosha:2004,Mc Master J.1994) cited in Haile (2007:11). The caustic factors and the root causes for the problem are indicated in the following conceptual framework of which this paper draws heavily from.

Fig 1. Conceptual/Analytical Framework



Source:- modified from Mc Master James (1994) Cited in Haile (2007:12)

1.6. Significance of the study

Addis Ababa city is self-sufficient in its financial resources and no need of federal government transfers is one of the unique achievements that distinguish the city from other regions of the country. The city administration adopts a fiscal decentralization policy and other methods, which are important to further the city's self-sufficiency in financial resources. But, this does not mean that this process is free from problem.

Currently, in the city many economic and social problems, which are in one way or another related to lack of financial resources are widespread. There are also many problems and challenges in relation to the tax collection system. Therefore, it is hoped that the finding of this study would help to identify the major problems that surround the city's revenue generation and collection system and forward viable solution for policy makers. The study also hoped to be a plus in indicating the potential revenue sources to the city administration. Furthermore, the city's experience especially the positive ones may be a good lesson to other cities of the country.

1.7. Limitation of the study

The relevant offices at the center have poorly organized documentation centers. This problem is also observed in the sub-cities as well. So, it is difficult to get organized and well developed time series data and documents in such situations. Besides, the reluctance to help was a major problem. Moreover, due to time shortage and existence of hundred thousands of business community, it was only possible to handle smaller group through sampling. But, despite these limitations, maximum effort was made to get as correct analysis as possible.

1.8. Organization of the study

This paper is organized into six chapters. The first chapter is this introductory part. Chapter two covers literature review that is related to public finance, revenue mobilization and expenditure management and fiscal decentralization. Chapter three focuses on the Ethiopian experience in fiscal decentralization, municipal finance and financial management with particular emphasis to Addis Ababa city administration. Chapter four describes the profile of the study area - Addis Ababa city administration. Chapter five is devoted to empirical data analyses that consist of the city's revenue, its collection system and expenditure management. Finally in chapter six the conclusion and possible recommendation of the study are presented.

CHAPTER TWO

Literature Review

2. The Economic Role of the Government

Modern governments have a decisive role on the life of its citizens in many aspects. This government function includes delivering public services to the society, redistribution of income, correcting market failures and others which have importance on the market. In the economy, it is known that the market could not satisfy the public desire alone. There are many public goods and services that either provided insufficiently or not at all by the market. It is this fact that necessitates the importance of government intervention in the economy.

Theories of public finance justify the rationale of government intervention mainly in three grounds. The government pursues that allocation of resources which maximizes efficiency. It has to deal with the market distortions caused by monopoly power and other forms of market failure (Bailey, 1995:17). Through allocative policy, it is possible to directly provide those goods and services that the private market fails to provide efficiently. In market economy, the distribution of income and wealth are affected by a number of factors including the laws of inheritance, the distribution of innate talents, the availability of educational opportunities and others. Therefore, a mechanism must be provided by which corrections in the state of distribution can be made (Musgrave,1959:18). In such situation, government intervention helps redistribution of income in better way. Distribution policy refers to the role of government in obtaining and maintaining the socially preferred distribution of resources or income, in most cases by redistributing of resources from rich to poor (Fisher,1987:22). The other argument for government intervention is related to its stabilization role in the economy. A free economy, if

uncontrolled, tends towards more or less drastic fluctuations in prices and employment (Musgrave, 1959:22). Thus, the government using its stabilization policy can maintain full employment, control of inflation and equitable balance of payments. The government also achieves stabilization functions through manipulation of fiscal and monetary policies (poole,2005:13)

In general government intervention in the economy is needed to achieve efficient allocation of resources when the market fails to do it, to redistribute income in the societal preferred way and to stabilize the economy. These three government functions also influence each other in their interaction in the economy. For example Fiscal policy intervention under the stabilization role involves to taxation and public expenditure that affect the distribution of income in cash and in kind (Bailey, 1995:17-18).

On the other hand, modern states formed in such a way that they would have two or more tiers of government structures. This is a prevailing reality in all countries that follows different political system. Due to this fact a state would have national, regional and local government structures each with its own duties, responsibilities, powers and jurisdictions. Thus, it is usually argued that stabilization and income distribution are properly the concern of central (national) government while resource allocation is primarily the concern of local governments (oates,1972; king,1984;Musgrave and Musgrave,1989)Cited in Bailey (1999).

At the macro-level governments involve themselves in the economy to stabilize its performance with respect to unemployment, inflation and the balance of payments (Brooah, 1992:133). This role is given to the national government due to its macroeconomic nature. Besides, the fiscal and monetary instruments are only found in the hands of the national government. State-local governments do not have any monetary

authority. In addition, the general openness of state-local jurisdiction economies restricts the opportunity for fiscal policy to be effective. (Fisher, 1987). Therefore, it is generally argued that local governments should play no part in stabilization of the economy through macroeconomic policy (Bailey, 1999:11).

Government distribution role in the economy is much similar to that of its stabilization role in the sense that both are preferred to execute by the national government. Many scholars argued that the national government has both the ability as well as the capacity to perform the redistribution role in the economy. However, local or subnational governments might have some distributional role but will resulting negative outcomes at the end. The main objection to subcentral redistribution is that the authorities which pursued the most progressive policies would very likely find themselves in an untenable position, with poor people coming in from other areas to enjoy the high benefits and rich people being driven out by the high taxes (King, 1992:163).

The allocative function is primarily concerned with the provision of public goods to the society. Theoretically, it is argued that resource allocation function should be given to the local government bodies. The rationale behind this assumption is that local governments are near to the public and know the public preferences better than the central or regional governments which found at distant. As a result, it is believed that they are in a position to provide those public goods that reflect the desire and need of the local population efficiently. But, it is sometimes held that public goods can be divided into two groups: national public goods and local public goods. In such circumstances it is easy to see that there would be a good case for having the central government provide the national public goods and for having subcentral authorities provide the local public goods (King, 1992:158). In conclusion, the heart of fiscal federalism thus lies in the proposition that the policies of the allocation

branch should be permitted to differ between states, depending on the preferences of their citizens. The objectives of the distribution and stabilization branches, however, require primary responsibility at the central level (Musgrave,1959:181-82)

Public finance is an area of study, which deals with the financial issues of the government. As Dalton (1971) defined public finance is one of those subjects which lie on the border line between economics and politics and concerned with the income and expenditure of public authorities. Through time, with change in government structure and management of the economy the importance and scope of public finance increased. Nowadays, at least it covers four major areas including public expenditure and revenue, public debt and financial administration of a government. Scholars argue that public finance in dealing with its concerns it also take into consideration the three major rationales for government intervention in the economy and strive towards their achievement.

Public finance also plays different roles in the multi-level government structure. Bhatia(1994:20)pointed out that since a modern government often operates at several levels (federal, state and local) therefore, the subject matter of public finance works into the financial problems and policies of the government at different levels and also studies the inter-governmental financial relations. In general, public finance is a study, which focuses on the operation of government treasury with particular emphasis on public revenue and expenditure.

2.1. Public Revenue

The concept of public revenue is one of the major divisions in public finance. It is the main method through which governments raise resources to finance their activities. Public revenue is an income, which is raised by the government from different sources. The important and

common source of public revenue would include taxes, income from currency, market borrowing, sale of public assets, income from public undertakings, fees, fines, gifts, donations etc... (Bhati, 1994:37). But, most literature classified public revenue into two broader categories, namely tax revenues and non-tax revenues.

2.1.1 Tax Revenues

Taxes are the most common and major sources of public revenue. In almost all countries taxation forms a significant portion of government revenues. A tax is compulsory levy and those who are taxed have to pay the sums irrespective of any corresponding return of services or goods by the government (Musgrave;1959,Rosen:1999).Taxes have two unique characteristics, which are their mandatory nature and the existence of no quid pro quo relationships between the tax payment and the benefit received.

Taxes could have many objectives while they are imposed. In other words, governments introduce taxes with multiple objectives in their mind. These objectives of taxation could be summarized as: -

- a) Rising revenue: - the principal objectives of taxation rest on the need to raise sufficient revenue to cover the cost of government expenditure.
- b) Taxes redistribute resources through both reducing the wealth and income of the rich and transferring funds directly to the poor through government expenditure allocation.
- c) The last objective of taxation is related to encouraging or discouraging of certain activities. In this regard tax can be used as a tool to correct certain externalities.

In general, besides simply raising money, taxation can be used to discourage consumption of commodities yielding negative externalities, to stabilize income and to redistribute income and wealth (Bailey, 1995:55).

There are certain principles that should be followed when imposing taxes. It was Adam Smith who for the first time identified these principles of taxation. The five accepted properties of a good tax system or principles of taxation are: -

1. **Economic efficiency:** the tax system should not interfere with the efficient allocation of resources.
2. **Administrative simplicity:** the tax system ought to be easy and relatively inexpensive to administer.
3. **Flexibility:** the tax system ought to be able to respond easily (in some cases automatically) to changed economic circumstances.
4. **Political responsibility:** the tax system should be designed so that individuals can ascertain what they are paying, and evaluate how accurately the system reflects their preferences.
5. **Fairness:** the tax system ought to be fair in its relative treatment of different individuals.

(Stiglitz,2002:457,tresch,2002:322, Wagner,1994:11).

Tax administration is one of the major areas, which need attention while discussing about tax revenues. It is the process of imposing taxes and collecting them. But, in reality administration of tax system is not an easy task and also entails significant costs.

Tax administration is not a costless activity. Rather, gathering taxes requires the consumption of resources by the taxing authorities. At the same time, taxpayers incur costs in complying with the tax system. These include outlays for accountants and tax lawyers, as well as the value of taxpayer's time spent filling out tax returns and keeping records. (Rosen, 1999:326).

As stated earlier, taxes have mandatory nature. That means they are a burden that must be paid. Therefore, taxpayers would naturally try to avoid them. As a result, tax evasion and avoidance are a common problem in many countries of the world. For example in United States tax evasion is extremely difficult to measure. The internal revenue service estimates that taxpayers voluntarily pay only about 80 percent of their actual income tax liability (Rosen, 1999:328). In conclusion, taxes are the major source of public revenue. They are imposed with multiple objectives and based on certain principles. Besides, tax administration is an area, which needs careful attention especially in relation to tax evasion and avoidance problems.

2.1.2. Non-tax Revenues

Non-tax revenues refer to different type of sources of revenue. Each of this revenue has its own peculiar characteristics but commonly called charges. User charge refers, generally, to prices charged by state-local governments' for specific services or privileges, used to pay for all or part of the cost of providing those services. Common examples of user-charge include water charges, tuition at public colleges and Universities, public hospital charges, parking fees and highway tolls (Fisher, 1987:323). Charges are basically differ from taxes due to they create an incentive for efficient choice because consumers face the true costs of their consumption decisions. In other words, there is direct relationship with charges paid and the service received. In reality government introduce charges to achieve many objectives in the economy. As Bailey (1995:84)

pointed out, charges have to serve many different functions. These include raising revenue, covering costs, the need to meet financial targets or required rates of return on assets, checking abuse of service, the need to target subsidy and the pursuit of equity. In reality, most countries have at least the following three types of user charges.

- a) **Service Fees.** These include such items as license fees (marriage, business, vehicle and so on) and various small charges local governments levy for performing specific services-registering this or providing a copy of that-for identifiable individuals or business.
- b) **Public Prices.** These consist of the revenues local governments receive from the sale of private goods and services other than from service fees. All sales of locally provided services to identifiable private agents-from public utility charges, to admission charges, to recreation facilities fall under this general heading.
- c) **Specific Benefit Taxes.** In theory, they are related in some way to benefits that specific taxpayers receive, in contrast to such general benefit taxes as fuel taxes levied on road users as a class or local general business or property taxes viewed as a price paid for local collective goods. Examples are such as land value increment taxes, improvement taxes, frontage levied and others (Bird,2006:179-180).

Theory of user charges argues that they should operate as benefit taxes with an individual's charge depending both on benefit and cost of provision. On the other hand, there are objection to user fees on the grounds that they are a disadvantage for consumers with lower incomes and that the administration costs (to the government) and compliance costs (to the consumer) of collecting the charge may offset any expected efficiency gains (Fisher, 1987:34). But, apart from its criticism user

charges (non tax revenues) are major sources of public revenue particularly to municipal governments.

2.2. Decentralization

Nowadays, the idea of decentralization is a dominant issues in both developed and developing countries of the world. There are many reasons for its expansion but the common rationales for decentralization is basically grouped in to political and economic factors. The process of decentralization results in changing the existing political, administrative and fiscal relationship between the central and local governments where more power is given to lower level of jurisdictions. With this notion in mind, many developing countries are turning to various forms of decentralization as one possible means of over coming ineffective and inefficient governance, macroeconomic instability and inadequate economic growth (Bird and Vaillancourt,1998).

Decentralization in its broad sense refers to the division of political, economic and administrative power /responsibility between the center and subnational levels of government. As stated earlier the common theoretical rationales for decentralization are two namely economic and political factors. Economists justify decentralization on the ground of allocative efficiency. It is argued that decentralization can reduce the number of decision-making layers as a result of which faster decision can be made with less bureaucratic overhead (Lister and Betley,1999) cited in Derrese (2003:2). In addition, decentralization improves the competitiveness of local governments, enhance innovation and satisfy local people needs. Politically, decentralization is an indication of good governance and also helps to accommodate pressure for regional autonomy. In general, although both the economic and the political factors are tallied as the causes of decentralization that took place across countries in Africa and Latin America in the past decade, much of the weight has been accredited to political concerns (Derresse,2003:4).

Most literature identified three types of decentralization based on the combination of the level of autonomy and location of accountability between local and central governments [vazquez, Mclure and Vaillancourt (2006), World bank(2004), Bird, Ebel and Wallich(1995)].

- a) **Deconcentration** - It refers a situation where the central government disperses responsibilities for certain services to its regional branch offices that implement decisions taken at the center. It is the weakest form of decentralization used mostly in unitary states. It does not involve any real transfer of authority; it does not involve independent local governments that are elected and/or accountable to the local populations (Boko,2002;2).
- b) **Delegation** - It is a more extensive form of decentralization and it is one way to balance local and national interests. Through delegation central governments transfer responsibility for decision-making and administration of public functions to semi-autonomous organization not wholly controlled by the central government, but ultimately accountable to it (Bird, Ebel and Wallich,1995:11-12).
- c) **Devolution** - Central government transfers substantial authority for decision-making, finance and management to quasi-autonomous local governments that are accountable to their constituents. According to Boko (2002) devolution forms the foundation for political decentralization in that it usually involves the transfer of responsibilities to municipalities that elect their own mayors and councils, raise their own revenues and are able to make investment decisions independently of the central government.

2.3. Fiscal Decentralization

Decentralization can have three dimensions including political administrative and fiscal ones. Fiscal decentralization is the proper location by the level of government of various taxes, spending programs, grants and regulations. It covers the whole spectrum of inter governmental fiscal relations. As Boko (2002:4) pointed out that if decentralization is to be successful, there must be a clear definition and alignment of the fiscal functions among different levels of government. The responsibilities of which level of government sets and collects what taxes, or which tier undertakes what expenditure must clearly spelled out. This reality makes fiscal decentralization significant. As a consequence, currently countries throughout the world are increasingly recognizing the benefits of fiscal decentralization. If done properly, decentralization allows people to have a greater influence on government decisions that affect their lives (vazquez, Mclure and villancourt, 2006:15). In general, the principle of fiscal decentralization attempts to search for the optimal pattern of inter-governmental fiscal relations of revenue and expenditure assignment and inter-governmental transfers. These three component of fiscal decentralization will be discuss one by one in the coming section briefly.

2.3.1. Revenue Assignment

Revenue assignment is the core component of fiscal decentralization. Public finance theories argue that on one hand government should provide public services through its expenditure role and on the other hand it should mobilize revenue to fund its expenditure costs. In other words, the expenditure role of the government is the derivative of its revenue collection. It is this rationale, which makes revenue assignment central in the discussion of fiscal decentralization.

If fiscal decentralization is to be a reality, subnational governments must control their own source of revenue. Subnational governments that lack independent source of revenue can never truly enjoy fiscal autonomy, because they may be and probably are under the financial thumb of the central government. (Vazquez, Mclure and Vaillancourt, 2006:21).

In practice, assigning of revenue collection powers is not an easy task and need careful considerations. In addition, there could be high risks when revenues are decentralized without adequate steps being taken to ensure both that local revenue mobilization is maintained and that local authorities are capable of carrying the corresponding expenditure responsibilities (Bird and vaillancourt, 1998:5). Besides, a high degree of revenue decentralization does not mean there is no significant vertical fiscal gap. On the contrary, even in the most decentralized federation, intergovernmental transfers play an important role (Boadway and shah, 2007:xxix).

In general, assigning revenues particularly to lower jurisdictions need a well understanding of the existing source of revenue/taxes in multi government structure. Experiences reveal that revenue assignment practice is even differing within countries, which follow the same political system. As Broadway and shah pointed.

In decentralized federation such as Canada, India, Switzerland, and the United states, State-level governments have full access to broad-based taxes such as income, sales and payroll taxes. In more centralized federations, such as Australia and Germany, much less own-source tax revenue is raised, although in both cases, revenue-sharing applies to federal taxes. (2007:xxix).

In reality, the question of what types of taxes and revenue should assigned to which level/tiers of government is still a controversial one. The theories of fiscal decentralization suggest a variety of approaches to assign revenues to subnational governments.

These are: -

1. **A first approach**, independent subnational legislation and administration, provides subnational governments with the most fiscal autonomy. Under this approach, subnational governments choose the taxes they levy, define the tax bases, set the tax rates, and administer the taxes.
2. **A second approach** is subnational surcharges, which provide most of the important fiscal autonomy of independent subnational legislation and administration. Here, a higher level of government defines the tax base and collect both its own tax and surcharges set by subnational government.
3. **A third approach**, tax sharing, is generally much less attractive than subnational surcharges. Under this approach, subnational governments receive fixed fractions of revenues from particular national taxes originating within their boundaries (Vazquez, Mclure and vaillancourt, 2006:25-26).

As stated earlier, the issue of revenue assignment is not yet fully resolved. However, most literature in fiscal decentralization suggests that the local governments/Municipalities should be assigned to those taxes collected or levied on immobile bases and whose burden cannot be exported out side the municipal jurisdiction. On the other hand taxes that are collected on mobile bases and taxes that are unevenly distributed over space should be assigned to the higher levels of government (Theshome, 2007:17). Furthermore, Bird (1998:11) outlined the following specific characteristics of ideal local taxes:

- 1) The tax yield should be adequate to meet local needs and sufficiently buoyant overtime.

- 2) The tax yield should be relatively stable and predictable overtime.
- 3) The tax base should be visible, to ensure accountability.
- 4) The tax should be perceived to be reasonably fair by taxpayers.
- 5) The tax should be relatively easy to administer efficiently and effectively.

2.3.2. Expenditure Assignment

In fiscal decentralization, assignment of responsibilities is the prime concern that must be addressed. The first fundamental step in the design of a system of intergovernmental fiscal relations should be a clear assignment of functional responsibilities among different levels of government [vazuqez,Mclure and vaillancourt,2006:16.] It is argued that expenditure assignment is the means to determine a government financial needs. In properly structured finance, money always follows functions, not precede them. Without specific assignment of expenditure responsibilities it is not possible to assess the other two components of a system of decentralized government finances: The adequacy of revenue and tax assignments to different types of government and the need for an effective system of intergovernmental transfers (vazuqez,1995:192).

Public finance theory defines principles for an appropriate division of responsibility between central and decentralized local governments. Accordingly, expenditure responsibilities should be given to the lowest level of government, which is consistent with efficient performance of that service. In addition, where the benefits from a public service are restricted to a particular locality, decentralized supply is appropriate because it allows the service concerned to be provided only to those who benefit from such goods. On the other hand, the central government will be responsible for functions with strictly national benefits, functions

where economies of scale are important and functions with national redistributive or social insurance objectives (Sewell and Wallich, 1995:260).

In general, the assignment of expenditure functions influenced by efficiency consideration in the delivery of public goods and services as well as benefits from allowing subnational governments discretion in choosing programs best suited to their constituent communities. In reality, local governments vary in their responsibilities across developing countries. China grants most extensive expenditure responsibilities to local governments. On the other side, local governments' role in delivering local services is minimal in India and South Africa and largely focused on delivery of Municipal services (Shah and Shah, 2006:36-37). But, currently with the changing role of expenditure assignment, local governments in particular Municipalities expenditure role are increased. As a consequence, Municipalities provide public services, which are not limited in their geographical areas. Mathur (2001:65) pointed out the following ideal functions of municipalities.

Core Functions

- Road and bridges
- Water supply for domestic, industrial and commercial purpose
- Public health, sanitation and solid waste management
Public amenities including street lighting, parking
- lots, bus stops and public conveniences

Welfare Functions

- Safeguarding the interests of Marginalized group of society e.g. handicapped and mentally retarded
- Slum improvements and upgradation
- Urban poverty alleviation
- Promotion of cultural, Educational and aesthetic aspects,

Developmental Functions

- Urban planning including planning for social and economic development.
- Regulation of land use and construction of building.
- Urban agriculture including Environmental protection aspects.
- Vital statistics including registration of births and deaths.
- Regulation of slaughterhouse and tanneries

However, assignment of responsibilities is not a problem free tasks. Different countries experiences reveal that assigning of functions confronted with problems. Central governments view fiscal decentralization as an opportunity to reduce central expenditures in two ways. First, "Spinning off" expenditures responsibilities to subnational level reduce the central deficit. Second, reducing fiscal transfers, purportedly to make subnational governments more independent, also reduces central outlays (Bird, Ebel and Wallich, 1995:23). But, this shifting of responsibilities do not backed by giving additional revenue raising power to the subnational governments/municipalities. As a consequence, subnational government found themselves in a state of budget deficit and as well as performing unfunded central government responsibilities.

2.3.3. Inter-governmental Fiscal Transfer

Transfers are another aspect of fiscal decentralization. Theoretically, it is argued that there should exist correspondence between the available resources and the assigned responsibilities of subnational governments (smoke,1994:55). But, in practice there is a mismatch between the two which result expenditure-revenue gap. It is this conditions that makes inter-governmental transfers important in the study of local government finance. As shah (2007:1) stated that inter-governmental fiscal transfers finance about 60 percent of subnational expenditures in the developing

countries and transition economies and about third of such expenditures in member countries of the organization for economic cooperation and development (29 percent in the Nordic Countries, 46 percent in non-Nordic Europe).

In principle, inter-governmental transfer involves not only a vertical flow of resources from the center to lower level governments but also a reverse vertical transfer from surplus regions to the center, and horizontal from wealthier to poorer regions. But, for various political and economic reasons, central governments usually have greater revenue raising capacity than lower level of governments. As a result, most of the time inter-governmental transfer is a function of central or regional governments (Kibre,1994:9).

Inter-governmental transfers can take many different forms, depending on the underlying rationale for the transfer. In most literature of fiscal decentralization, transfers broadly categorized in to unconditional and conditional transfers [Slack (2007), Bailey (1999)], oates (1999)].

Unconditional transfers can be spending on any expenditure function or used to reduce local taxes. No conditions are attached to the use of unconditional funds. In some cases, unconditional transfer is given on a per capita basis. In other cases, the amount of transfer received depends on a formula that may take account of the expenditure needs of the municipality, the size of its tax base, population or other factors.

On the other hand, conditional transfers, have conditions attached to it. Conditional transfer can be block grants, which do not require the municipality to provide matching funds, or they can be matching transfers, which require the recipient to match donor funds.

Transfer often has a number of objectives. The first task of transfers is to close the fiscal gap. That is when local governments have in adequate

own-source revenues to meet their expenditure responsibilities, they encounter a budgetary imbalance. This in turn result vertical imbalance or fiscal gap. In this situation, transfers are the most important means to close such fiscal gap. According to Bird, Ebel and Wallich (1995) in addition to transfers fiscal gap could also be closed in principle by shifting tax powers to subnational governments, assigning expenditure responsibilities back to the central government or reducing subnational expenditure and service standards. But, they further argued that it is transfers that are most appropriate and prevailing methods of closing the fiscal gap.

The other objective of inter-governmental transfers is to achieve horizontal fiscal balance or equalization. As Broadway and shah (2007) pointed out that different jurisdictions will have different needs and costs of providing public services and different revenue-raising capacities with which to finance them. As a consequence, inter-governmental transfers usually have an equalizing element to them, with higher per capital transfers going to jurisdictions with lower fiscal capacities. Besides, these two major functions inter-governmental transfers also have the objective of ensuring a common minimum standard of public services, pricing externalities, stimulating subnational tax effort and achieving political goals (Kibre, 1994:11-12, Bird, Ebel and Wallich, 1995:51).

In inter-governmental transfer, the other important aspect that should be addresses is the issue of its design. There are three important aspects of inter-governmental transfers i.e. the amount of distributable resources, the base for distributing the transfers and conditionality. A good inter-governmental system is the one, which manifest transparency, predictability and autonomy in its design. It is believed that specifying the transfer of a set percentage from the national revenues to local governments will achieve the above principles in a better way. Once the aggregate volume of transfers is determined, the next step is determining

of its distribution across subnational governments. Most experts agree that a formula incorporating both local needs for expenditure and local capacities to finance such expenditure out of their own resources should be used for this purpose. Such a formula, if properly designed, has the additional virtues of stimulating local governments to make at least an average level of "effort" to finance the expenditure they carry out and ensuring that they remain accountable to local residents at the margin. (Bird and Vailancourt, 1998:31). There can be also a good cause made for some conditionality in inter-governmental transfers. Thus, central government has a legitimate interest in what is done with its grants and the country has a legitimate need to ensure that services such as education and health are available throughout the country at some minimum Standard (Bird, Ebel and Wallich, 1995:54).

2.4. Local Government Borrowing

In principle, local governments have two types of expenditures, namely capital and operating ones. Hence, the prime motive of local governments borrowing is to finance their capital expenditure. In many countries, local borrowing is an important source for financing long-term development projects such as roads, bridges, and waterworks. Local borrowing for such projects is justified on the grounds that the benefits of these projects often last decades: thus, future taxpayers should be bear the cost of these projects (Mochida, 2006:179). However, if capital expenditure is to be finance by borrowing, before such borrowing can actually take place a central government approval is required. In developed counties, local governments have an easy access to borrow due to the presence of a well developed market bonds and financial institutions which are the main sources of borrowing. In contrary, in developing countries there exist macroeconomic instability, lack of fiscal discipline and appropriate regulatory regimes, which impeded the development of financial and capital markets. As a result, local

governments have limited access to borrowing in developing countries. (Shah and Shah, 2006:40-41).

As Schroeder (2006:348) pointed out that, in United States in the year 2000, aggregate debt of state and local governments amounted to more than US\$ 5,000 per person. Such type of situations always raised questions about the manageability and limit on local governments borrowing. Public finance theories argue that, macro-economic stabilization role is the domain of central government. They further stated that borrowing is one of policy instruments of stabilization and it should be in the hands of the central government. As a consequence, these theories justify that central government should control and limit local governments/municipalities borrowing practice. In most developed countries, local governments have substantial borrowing powers especially to finance their capital projects. In Canada, long-term borrowing for financing municipal infrastructure investment is permitted and is common. In all provinces, there is a provincial authority through which or from which municipalities can borrow (Mc Millan, 2006:61).

In developing countries, experiences reveal that they follow different approach regarding the issue of local government borrowing powers. For example, in China local governments are forbidden to borrow from commercial banks or from capital market, except with special approval from central government. In addition, local governments are prohibited from direct borrowing (Qiao and shah, 2006:160). As a consequence, it is the central government, which borrow or issue bonds on the behalf of local governments. In contrast, in South Africa the 1996 constitution provides both implicit and explicit support for local-level borrowing. More specifically, the constitution allows municipalities to borrow within a regulatory environment provided by the national government (Heymans, 2006:73). Here, the municipalities at least have constitutional rights to borrow by their own. By the same token, in Argentina, Brazil and Poland, local borrowing from domestic and international capital markets is

allowed but constrained by fiscal rules, to ensure fiscal prudence and debt sustainability (Shah and Shah, 2006:40). From the prevailing practices, it is possible to identify two approaches in managing of local government borrowing in developing countries. The first one is the total denial of local government borrowing powers such as in case of China. The Second one is the more flexible one that central government allows local governments to borrow by their own within a regulatory framework. But, in general, in developing countries, the menu of choices available to local governments for financing capital project is quite limited, and the available alternatives are not conducive to developing a sustainable institutional environment for such finance (Shah and Shah, 2006:40-41).

On the other hand, in developing countries the rapidly growing urban populations are demanding more services. In addition, central governments are decentralizing functions without additional intergovernmental transfers. Moreover, the tax bases are expanding slowly. The summation of these constraints result local government budgets under increasing strain. But, still it is difficult to raise enough resource through borrowing where there are no well-developed bond-markets and financial institutions in developing countries. In face of this reality, Scholars argued that a first transitory step to provide limited credit market access to local governments may be to establish municipal finance corporations which run on commercial principles and to encourage the development of municipal rating agencies to assist in such borrowing. Besides, tax decentralization is also important to establish private sector confidence in lending to local governments. Furthermore, transparency in local budgeting and independent credit rating agencies are essential to smooth the transition to a market based approach to sub national lending (Shah and Shah, 2006:41).

2.5. Revenue Mobilization

Revenue mobilization is a process of generating resources to finance expenditures. It is said that revenue mobilization in developing countries is a problematic function. The major problems facing local governments in their revenue mobilization efforts are:-

1. The existence of limited revenue resources
 2. The poor revenue collection systems
 3. The non-payment or delay in payment of governments or share of tax revenues to local governments
 4. Rising costs and increasing demands for improved services.
- (Adedeji, 1972:11)

In many developing countries including those in Africa, revenue sources that local governments allowed to use typically have limited yield potential even if perfectly administered. For example, localities in Tanzania allowed using as many as 60 unproductive taxes. This in turn result the localities resource mobilization efforts in effective (Mikesell, 2007:33). In addition, revenue diversification and efficiency in revenue administration/tax collection have diverse experience but dominated by lack of meaningful practice in many developing countries.

Local government revenue in developing countries is basically raised from government allocation and locally raised revenues. According to the survey conducted in ten developing countries, local governments raise revenues from:- (Shah and Shah,2006:37-39).

- Taxes 39.6%
- Fees and charges 9.5%
- Intergovernmental transfers 50.9%

The role of fiscal transfers is much larger than average in some developing countries including in Uganda (85.4%), Poland (76.0%), China (67.0%), Brazil (65.4%) and Indonesia (62.0%). In African context, the best experience in major share of locally raised revenue is in South African municipalities. According to Heymans (2006:75) in aggregate, 10 to 16 percent of municipal expenditure is financed through intergovernmental transfer (the rest covered by locally raised revenues) but this range disguise significant variance between larger urban municipalities and others. On the other hand, local governments in the above sample developing countries have diverse revenue structures. The main sources of revenue are (based on 2006/07).

- Property taxes 32%
- Personal income taxes 15%
- Corporate income taxes 4%
- A large number of small taxes, fees and charges 49%

As a comparison the survey also forward the revenue mobilization efforts of local government in OECD countries. Accordingly their source of revenues are:-

- Property taxes 54%
- Personal income taxes 23%
- Corporate taxes 14%
- Other taxes 9%

In Africa, local governments resource mobilization efforts are encountered with many problems. There is wide spread tax resistance observed in many local governments. As a result, local government resorted to heavy physical coercion to ensure compliance. Tax literacy and transparency in tax system is a recent phenomenon in many African countries. Roadblock manned by local militia or police village-by-village invasions are frequently used as means of tax enforcement (Worldbank,

1988:10) cited in Teshome (2007:27). In general, in Africa many local governments except South Africa municipalities are heavily depend on intergovernmental allocation as their revenues. This trends also accompanied by assigning of unproductive taxes to local governments. Moreover, there is poor revenue collection and administration. As a consequence, local governments resource mobilization efforts are below the expected standards in Africa.

2.6. Expenditure Management

Public expenditure refers to the spending activities of the government. Studies indicated that through time government's expenditures are increasing. But, compared to this raising expenditure needs the available resources are scarce and limited. Folscher (2007:80) pointed out that given limited resources, expenditure claims would result in chronically high deficits and increasing debt and tax burdens if governments were not fiscally restrained. Therefore, judicious use of resource becomes mandatory while making public expenditure decisions.

In developing countries where financial resource is highly limited and ever expanding needs for public service call for efficient and effective public expenditure management. Government expenditure management and control involves planning, budgeting, funding, accounting, auditing and reporting activities. According to premchand (1983) cited in Teshome (2007) the main roles of public expenditure management are:

- a) Relate expenditure decisions to policy objectives and resources.
- b) Ensure efficiency and effectiveness in the implementation of government programs.
- c) Relate all major decisions to the state of national economy.

In public expenditure management the existence of multi-year fiscal planning and its integration with budgeting is an important aspect. In

principle planning and budgeting are interrelated process of government resource allocation and management. Scholars argue that no local authority can properly organize its affairs unless it prepared to look beyond the immediate horizon of one year. Consequently, many local authorities usually prepare capital programmes for periods of at least three years at a time and their revenue budgets although submitted and approved on an annual basis, are normally prepared in the light of adraft plan covering a longer period (Hepworth, 1979:211).

A proper budgeting is the one that depends on multi-year planning. However, the practices of budgeting in many developing countries largely at variance with planning. In developing countries there is weak institutional arrangements for managing expenditure systems. Besides, there exist poor budget preparation. Budget development often lacks public sector input and significant government body review. Moreover, there is a problem of timely and accurate reporting of expenditure (Thurmaier,2007:293-94). As a result, plan does not serve as guidance for resource allocation (budgeting) in these countries.

In conclusion, allocative, distribution and stabilization functions are the three justifications for government intervention in the economy. Public finance is a study, which focuses on the operation of government treasury with particular emphasis on public revenue and expenditure. Decentralization also can have three dimensions including political, administrative and fiscal ones. Revenues assignment, expenditure assignment and intergovernmental transfers constitute the central aspect of fiscal decentralization.

CHAPTER THREE

3. Historical Development of taxation in Ethiopia

In Ethiopia, taxation has an old history. It goes back as far as with the emergence of statehood. In traditional Ethiopia, hierarch of the tax system and paying of the tax in kind characterized taxation. The system of taxation in Ethiopia was provided not only for the upkeep of the monarch and the central government but also for a vast social hierarchy composed of provincial governors, lords and nobles, soldiers, the clergy and other privileged persons. But, at last the burden of taxation fall on the peasants. In the regime of Menielik II, in 1882 a tax called a "tithe" introduced in the agriculture. Tithe required peasants to pay one-tenth of their product to the state tax collecting officials. In this time, tax was paid in kind and not in money. This practice was common till the Italian invasion of the country.

In the year 1941 G.C, the Italian forced defeated and the country became liberated. In line with this, emperor Haile Sellasie II wanted to build a strong central government system. So, the importance of revenue to support the state is a crucial one. As a result, the government introduced different kind of taxes in the country. This period also marked the beginning of modern tax system in the country.

In the year, 1942 G.C the government introduced a land tax. This proclamation made the division between fertile, semi-fertile and not fertile land. It also imposed the tax rate based on their distinctive features. In addition, church lands are exempted from this land tax. In the same year, the country's first income tax proclamation was declared. Later on, the country repealed this proclamation by the 1961 income tax proclamation, which exists more than four decades. During

the emperor Haile sellasie time, there were also many modern taxes in the country including health tax, education tax, excise tax and others. In the dreg regime, most of the above mentioned taxes were continued to be functional while some are revealed and replaced by new ones. In the year 2002 G.C the country's tax system experienced a major change. In this year, the current government introduced four major tax proclamations in the country.

Currently, in Ethiopian tax structure it is possible to identify three main categories of taxes. This classification is basically based on the characteristics and incidences of the taxes. These major divisions are direct, indirect taxes and foreign trade taxes. It was also observed that the first two categories are areas that both the federal government and regional states generate and collect revenues where as foreign trade taxes are federal government exclusive jurisdictions.

3.1. Fiscal Decentralization in Ethiopia

In 1991, the Ethiopian political system experienced a major change from its predecessors. This shift was basically due to the introduction of federal arrangement in the country. The constitution provided the national regional governments to have legislative, executive and judicial powers. Furthermore, the country is divided in to nine regional states and two special city administrations representing the two largest cities-Addis Ababa and Dire Dawa with a status equivalent to regional states (Derrese,2003:13). In relation to fiscal decentralization, regions are authorized to collect taxes, share revenue with federal government and fully utilize in budget expenditure covered from finance by the regional government. The legal and institutional framework for revenue assignment, expenditure responsibilities and intergovernmental transfers in the country context are discussed in detail below.

3.1.1. Revenue Assignment

In post 1991 Ethiopia, it was proclamation No. 33/1992 which for the first time defines the sharing of revenue between the federal government and the regional states. However, the major legal basis for revenue sharing was the 1994 constitution of the federal democratic republic of Ethiopia (FDRE). The constitution, which is the supreme law of the country in its article 95, stated that the federal government and states should share revenue taking the federal arrangement in to account. This constitution also further classifies the power of taxation in to four categories.

A. Federal power of Taxation

Article 96 of the federal democratic Republic of Ethiopia constitution clearly lists the federal government power of taxation. Accordingly, the major revenue collecting area of the federal government includes:

- The federal Government shall levy and collect custom duties, taxes and other charges on imports and exports.
- It shall levy and collect income tax on employees of the federal government and international organizations.
- It shall levy and collect income, profit, sales and excise taxes on enterprises owned by the federal government.
- It shall tax the income and winnings of national lotteries and other games of chance.
- It shall levy and collect taxes on the income of air, rail and sea transport services.
- It shall levy and collect taxes on income of houses and properties owned by the federal government; it shall fix rents

- It shall determine and collect fees and charges relating to licenses issued and services rendered by organization of the federal government.
- It shall levy and collect taxes on monopolies
- It shall levy and collect federal stamp duties.

B. State power of taxation

On the other hand article 97 of the FDRE constitution gave exclusive right to regional state to generate and collect revenue in the following areas:

- States shall levy and collect income taxes on employees of the state and of private enterprises
- States shall determine and collect fees for land usufructuary rights.
- States shall levy and collect taxes on the incomes of private farmers and farmers incorporated in cooperative associations
- States shall levy and collect profit and sale taxes on individual traders carrying out a business within their territory.
- States shall levy and collect taxes on income from transport services rendered on waters within their territory.
- They shall levy and collect taxes on income derived from private houses and other properties within the state. They shall collect rent on houses and other properties they own.
- States shall levy and collect profit, sales, excise and personal income taxes on income of enterprises owned by the states.
- Consistent with the provisions sub-article 3 of article 98, states shall levy and collect taxes on income derived from mining operations, and royalties and land rentals on such operations.
- They shall determine and collect fees and charges relating to licenses issued and services rendered by state organs.
- They shall fix and collect royalty for use of forest resource.

C. Concurrent power of taxation

Here, focus is placed on the joint power of both the federal government and regional states to generate revenue through taxation. According to article 98, these common areas are:-

- The federal government and the states shall jointly levy and collect profit, sales, excise and personal income taxes on enterprises they jointly establish.
- They shall jointly levy and collect taxes on the profits of companies and on dividends due to shareholder.
- They shall jointly levy and collect taxes on incomes derived from large-scale mining and all petroleum and gas operations, and royalties on such operations.

D. Undesignated power of taxation

In case of undesignated taxes, the constitution also stated that, it is the responsibility of both houses to determine its power of taxation. The house of the federation and the house of people representatives, shall in a joint session, determine by a two-thirds majority vote on the exercise of powers of taxation which have not been specifically provided for in the constitution. (article 99).

In practice, the regional government revenue collection performance is very low compare to the federal government. For example in the fiscal year 2006, regional governments on average collected only 9.7 percent of the total tax and non-tax receipts of the country. This is mainly because taxes collected from profits, residual surplus and indirect taxes from federal government enterprises as well as import taxes which constitutes the lion's share of aggregate tax and non-tax revenue are the jurisdiction of the federal government (FDRE the New Federal Budget Grant Distribution Formula Bulletin, 2007:2,FDRE, Bulletin

hereafter). To sum up, the FDRE constitution is the basis for revenue sharing between the federal government and regional states including Addis Ababa city administration. As a consequence, the city administration generates and collect revenue from sources designated under article 97 of the constitution. The detail of these sources of revenue are examine and analyze in chapter five.

3.1.2. Expenditure Assignment

In Fiscal decentralization, assignment of responsibilities is the prime concern that must be addressed. However, there is no universally acceptable formula in allocating functions between various levels of government. Each country has to address this question based on its own individual circumstances (Eshetu,1994:171). In Ethiopia context, though the 1994 constitutions is not as explicit on the expenditure responsibilities of regions as it is on the revenue assignment, it however provides the general guideline that the central government and the regional governments bear all financial expenditure necessary to carry out all responsibilities and functions assigned to them by law (Derrese, 2003:20). Accordingly, major expenditures like defense, foreign policy, printing of currency, economic policy, communication and others are assigned to the federal government. On the other side, powers not given expressly to regions and the federal government are reserved for regions. In practice, the demarcation of responsibilities between the federal government and regions emerges from national policies as well as from various statutes and regulations that define the responsibilities of federal and regional agencies (world bank,2001) cited in Deresse (2003:21).

Addis Ababa city administration has three tiers of administration. Thus, its expenditure assignment also reflected such reality. The following table summarizes the major functions assigned to each of these tiers of administration.

Table 3.1 Expenditure Assignment in Addis Ababa city administration

City Administration	Sub-cities administration	Kebele administration
<ul style="list-style-type: none"> ➤ Issue and implement policies concerning the development of the city ➤ Organize sub-cities and kebeles, allocate budgetary subsidy ➤ Prepare, approve and administer the budget of the city ➤ Levy and collect taxes, duties and service charges ➤ Borrow money from domestic sources under authorization of federal government ➤ Identify, determine and organize municipal services to be delivered at the level of the city, a sub city and kebele 	<ul style="list-style-type: none"> ➤ Prepare the overall plans, work programmes and projects of the sub city ➤ Allocate the budget set aside to it and disburse and follow up ➤ Administer the civil servants of the sub city ➤ Administer technical and vocational school, secondary schools, supervise private schools ➤ Administer sport centers ➤ Coordinate the kebeles in the sub city ➤ Ensure the implementation of policies, laws, standards and decisions of superior city organs ➤ Maintenance of security in the sub city and others. 	<ul style="list-style-type: none"> ➤ Supervise local development activities ➤ Coordinate and supervise the residents of the kebele on sanitary and beauty of the environment ➤ Follow up primary and kindergartens schools ➤ Prepare and submit the budget of the kebele ➤ Acquire full information about vacant lands in the kebele. ➤ Protect and supervise parks and recreation areas

Source: Extracted from proclamation N° 361/2003 and proclamation N°. 1/2003

3.1.3. Inter-governmental Transfers

Inter-governmental transfer is one mechanism for dealing with sub-national governments fiscal gap. The system of intergovernmental transfers (subsidies or grants) began in Ethiopia in 1992/93. However, the formula determined federal transfers to regions started, two years later, in 1994/95 though it has been in continual evolution since then (Derrese, 2003:17). The formula that has been operational was based mainly on subjective weights given to variables that indicate size of population, differences in levels of development, revenue collection effort and sectoral performance. The variables used in the formula and the weights assigned to each variable are depicted in table 3.2.

Table 3.2 variables of the previous Budget Grant Distribution formula

Year	Variable	Weights in percent
1995	- Size of population	30
	- I-distance (index of development)	25
	- Regional Revenue collection	20
	- Capital budget allocation for EFY 1994	15
	- Area	10
1997	- Size of population	33.3
	- Level of development	33.3
	- Ratio of regional revenue collection to budget	33.3
1998	- Size of population	60
	- Level of development	15
	- Ratio of regional revenue collection to budget	15
	- Area	10
2000	- Size of population	55
	- Level of poverty	10
	- Level of development	20
	- Revenue collection effort and sector performance	15
2004-2007	- Size of population	65
	- Level of development	25
	- revenue collection effort	10

Source: FDRE, Bulletin, 2007:5

As can be observed from the table, the variables used in the formula and the weights assigned to each of these variables have changed over years. The number of variables used ranged from 3 to 5, while much variation is observed in the weights assigned to these variables. However, the above budget grant distribution formula has been subjected to criticism for many reasons. The shortcomings of these formula are summarized as follows:-

- The subjective nature of the variables used the weights assigned to these variables to estimate the expenditure needs of regions
- The formula give much weight/focus to capital expenditure, without due consideration to recurrent expenditure needs.
- The formula fails to consider the potential revenue raising capacity of regions. It is therefore not possible to identify the difference between the actual revenue collection, and the potential revenue raising capacity of the regions. (FRDE, Bulletin, 2007:6)

In May 2007 the federal government to address these shortcoming devised a new budget transfer formula. Accordingly, the variables used in the new formula centers on four aspects.

- (i) Population
- (ii) Differences in relative revenue raising capacity
- (iii) Differences in relative expenditure needs and
- (iv) Performance incentives

The house of Federation has decided on the phased implementation of the new formula. Accordingly, in Fiscal year 2007/08,75 percent of the previous and 25 percent of the new formula will be implemented. In Fiscal year 2008/09, 50 percent of the previous and the new formula would be operational, while in 2009/10, 75 percent of the new and 25 percent of the previous formula would be implemented (FRDE, Bulletin, 2007: Viii).

Addis Ababa city administration unlike other regional states do not received federal government budgetary grants. As Derrese (2003) pointed out Addis Ababa stopped receiving recurrent budget transfer in 1999/00 while it stopped receiving capital budget transfer earlier in the year 1996/97. However, inter-governmental transfers is practiced at the city level. Theories of decentralization suggests that both revenue raising as well as spending powers should be decentralized jointly. But, the experience reveals that taxes are more decentralized than spending powers in the city administration. The revised charter in its article 57(5) stated that such revenues of the city government as are to be collected and directly utilized by sub-cities shall be specified by the city council. That means sub-cities and kebeles are not allowed directly spend from the revenue they collected. According to officials, the basic reason for such arrangements was related to the existence of spillover effects between sub-cities. The charter further stated that, the revenue-sharing system for sub-cities shall be effected according to a formula which enhances competitiveness and effectiveness as well as rests on equity. (Article 57(1)). Thus, the city administration exercise the allocation of budgetary grant to sub-cities since the year 2003/04.

For the first three years (2003/04-2005/06) the city administration applied both block and specific grant transfer system for distributing of resources between sub-cities. But, in the year 2006/07, it followed a block grant transfer system. Currently, the finance and Economic Development Bureau adopted a new unit cost budget distribution formula. This new formula was approved by the city cabinet and implemented. A unit cost budget distribution formula is calculated based on selected Need Indicators. Accordingly, these selected need indicators are:-

- Education
- Health

- Solid waste Management
- Police service
- Micro and small Enterprise activities
- Salary and operating cost of sub-cities
- Other sectors
- Capital budget

(source: Addis Ababa city administration sub-cities budget distribution formula for 2001 E.C. budget year).

Based on the unit cost budget distribution formula, the city cabinet approved sub-cities budget for 2008/09 G.C (2001 E.C.) fiscal year. The sub-cities approved recurrent and capital budget are depicted in table 3.3.

Table 3.3 summary of sub-cities approved total budget for 2001 E.C.

No	Sub-city	Expenditure type		Total
		Recurrent	Capital	
1	Arada	78,450,896	51,447,103	129,897,99
2	Addis Ketema	65,095,149	52,755,322	117,850,471
3	Akaki-kality	65,513,507	32,760,310	98,273,817
4	Bole	58,734,087	33,854,551	92,588,636
5	Gulele	76,761,262	52,399,786	129,161,048
6	Kirkos	78,091,228	32,084,900	110,176,127
7	Kolfe-keranio	97,646,307	30,928,432	128,574,740
8	Lideta	68,710,771	50,312,927	119,023,698
9	Nifas silk lafto	72,516,733	36,205,938	108,722,671
10	Yeka	84,431,345	69,199,447	153,630,791
Total		745,951,281	441,948,715	1,187,900.000

Source: Addis Ababa city administration sub-cities budget distribution formula for 2001 E.C. (2000)

3.2. Borrowing

It is argued that sub national governments may need to borrow from domestic and foreign sources to finance their expenditures. In a decentralized system of Ethiopia, domestic borrowing by regional governments has been conditional-based control while foreign borrowing is prohibited (World Bank, 2000a) cited in Derrese (2003:20). Thus,

regions are required to submit a detail information to the Ministry of Finance and Economic Development while they exercise their right to borrow from domestic sources. This trend also applicable to Addis Ababa city administration. According to the revised charter, the city administration can borrow from domestic sources directly or by way of selling bonds on short and long repayment terms but subjected to federal Government authorization. (Article 54(1)). The charter further stated that in case of any loan, account should be taken of the non-endangerment of the country's macro-economic stability as well as of the city government's financial capability to discharge its functions and obligation both intermittently and perpetually. Moreover, it is mentioned in the charter that sub-cities and kebeles may not take loans. (Article 54(4)). However, in practice the loans from both external as well as domestic sources are not yet realized so far by the city administration.

3.3. Municipal Finance and Financial Management

Urbanization in Ethiopia can be traced back to the time of Axumite kingdom. However, it was during the 20th century that the process of urbanization accelerated and several towns emerged. Furthermore, the urbanization process in Ethiopia intensified with the arrival of the Italians who constructed significant lengths of road and established new towns. (Tesfaye, 2001:298). But, municipalities present in Ethiopia were established in 1940s during the imperial regime.

3.3.1. Municipalities during the Imperial period

After the withdrawal of Italians in 1941, the Haile silassie government wanted to build a strong central government and consolidate its power. To this effect, the then government issued and proclaimed many laws and regulations including Decree No. 1 of 1942 which was concerned with administrative regulations. Thus, the country was divided in to 14 provinces, 103 Awrajas (sub-provinces) and 505 weredas (districts)

(Jemal, 2000:24). This decree in its article nine deals with municipalities. Under the said Article, officials are to be appointed for the direction of municipal affairs. Furthermore, the municipal council together with the Kantiba or officer of a town have the powers to fix municipal taxes in accordance with law.

This article prohibits taxes to be appropriated for any other purpose than for the expenditures of municipalities. It also lays down a provision that the kantiba or officer of a town can not impose other taxes than those fixed by the municipal council and approved by the Governor-general (Marein,1979:253). However, the decree failed to identify the exhaustive list of taxes to be levied by the municipalities.

The first proclamation dealing exclusively with municipalities was municipalities proclamation No. 74/1945. In the preamble of the proclamation, it was stated that the purpose of the proclamation was to define what municipal taxes it shall be lawful for a municipality to imposed. Accordingly, in article 4, it stated that the municipal council shall had a power to consider and decide town budget proposals, assessment and collection municipal taxes as well as the administration of municipal revenues of any kind (Marein,1979:254). However, in practice such decision of municipal council shall not come into force until it has been confirmed by the then ministry of interior. Furthermore, both the decree and the proclamation did not provide for financial grants and loans to municipalities that could have supplemented their financial resources (Jemal, 2002:25).

The rates, dues and fees regulation No.161 of 1971 was also another legal framework that defines municipalities revenue. The basic revenue sources assigned to municipal council were:-

- Annual license fees on business and profession
- Market fee
- Charges on fuel and lubricants

- Non stationary traders license fee
- Charges and fees on municipal services
- Charges for sanitary services
- Contract registration fees
- Weapon control fee
- Water bills
- Immovable property taxation and others

Once again it should be noted that no rates, dues, taxes and fees shall be imposed until written approval has been received from the minister of Interior and until such rates and dues have been published in the Negarit Gazeta (Jemal,2000:26).

3.3.2. Municipal legislations of the Derg regime

At times of the Derg regime, many legislations concerning municipalities were issued. It was proclamation No. 47/75 which nationalized urban land and extra houses aiming at establishing a centralized socialist urban management in the country. As a result, the proclamation abolished the ministry of Interior and the ministry of urban Development and Housing took over the role of supervising municipalities.

The other proclamation focused on the fiscal aspects of municipalities was urban land rent and urban House tax proclamation No. 80/1976. This proclamation was aimed to fix urban land rent and urban house tax. Later on, it was amended by proclamation No. 101/1979. On the other hand, Legal Notice No. 64/1979 was issued to fix urban land rent and house tax based on four categories created in accordance with the level of development of urban centers. This legal notice contains rent of urban land payable on business building, residential houses, industrial and agricultural users as well as rate of tax payable on urban houses (Teshome, 2007:40).

Chartered urban centers were authorized by proclamation No. 206/1981 to levy and collect tax and rentals, subjected to approval by the council of Ministers. At that time Addis Ababa was the only charter city. Accordingly, it was meant to legalize the taxing power of Addis Ababa city. Non-chartered towns could only prepare and submit land rent, house tax and service charges to the then Ministry of urban Development and Housing (Jemal, 2002:27).

During the Derg regime, municipalities were highly controlled from above and no progress was made regarding the improvement of revenue sources except some amendments on land rent and house tax.

3.3.3. Legislations under the current Government

The downfall of the Derg regime has remarked the establishment of a federal system of Government in the country. Accordingly, three-tiered government; namely, federal, National/regional states and wereda administration with legislative, executive and judiciary powers at each tier formed. The revenue sharing arrangement was clearly promulgated by proclamation No. 33/92 and later on the FDRE constitutions (Haile, 2007:29).

But, municipalities are not recognized as distinct and separate institutions of local governance in the on-going decentralization process in Ethiopia. As mehret (1999:5) stated an indication of this observation is the fact that municipal administration is not mentioned either in the constitutions of regional governments or the FDRE constitution. This has serious implications on the status, revenue share and on the municipalities role in the provision of public services.

Recently, some regions adopted proclamations focused on municipalities which found under their jurisdictions. These proclamations empowered

municipalities/towns to provided with authorities to levy taxes, fees and charges and administer their revenues. The common features indicated in the proclamations are the authority to create new sources of revenue, set the rate system and approve as well as administer their budget (shewaye and wandimagen,2003:16) cited in Teshome (2007:42).

CHAPTER FOUR

4. Profile of the study area

This chapter deals with the description of the area under study-Addis Ababa City administration. The first part of the chapter covers the physical characteristics of the city, its historical background and population. The next part focuses on the legal and institutional framework of the city, followed by the major economic activities. The last section will shortly discuss the major public services delivered by the municipality and the revenue agency functions.

4.1. Locations and Topography

Addis Ababa which is the capital city of Ethiopia is almost found at the center of the country. The city's latitude and longitude demarcations are 09.03° north and 38.42 east respectively. Addis Ababa possesses a complex mix of high land climate zones, with an average monthly minimum temperature 8.1°C and a maximum of 24.8°C. The average rain fall of the city is calculated to be 1180.4mm (National meteorological Agency, 2007).

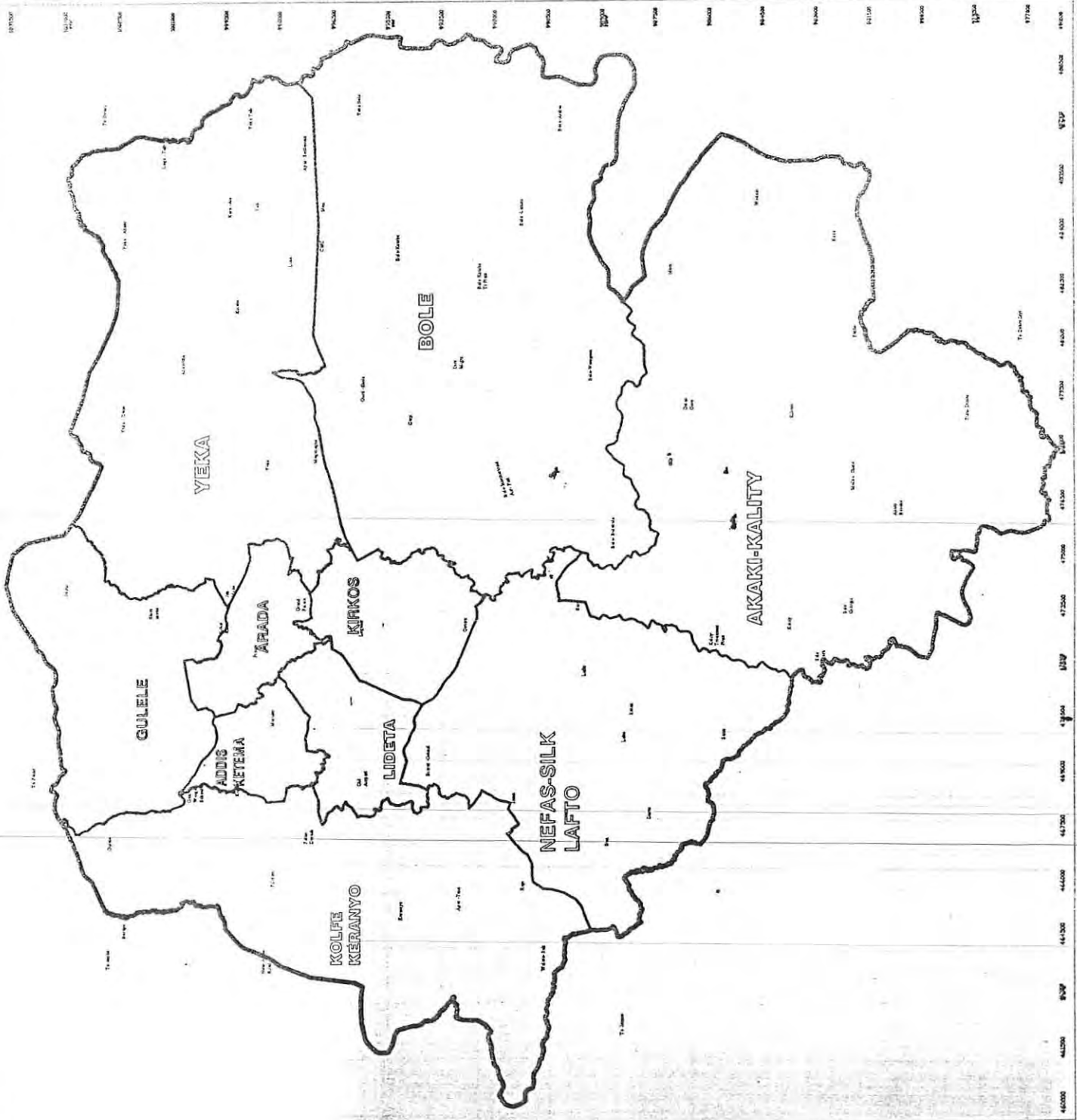
Addis Ababa city lies between an altitude of 2,326 meters above sea level (its lowest point around Bole International Airport in the southern periphery) to over 3,000 meters in the Entoto mountains to the north. The city covers a total area of 530.14 square kilometers with estimated density of 5, 607.96 people per square kilometer. Addis Ababa city is surrounded by hills, the Entoto range to the north, Yarrar to the east and to the west Mannagasha and Wacaca being prominent (Garreston,2002:2). As can be observed from the map of Addis Ababa city on the next page, the size of the city in terms of area expanded through time. Currently, the city divided in to ten sub cities and 99

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA
City Government of Addis Ababa

KEBELE RESTRUCTURING



— KIFLE KETEMA BOUNDARY
— CITY BOUNDARY



DATE OF APPROVAL: 2011
SCALE: 1:50,000
SHEET NUMBER: 1 OF 1

kebeles, which are the second and third administrative levels respectively.

4.2. Historical Background

Addis Ababa city was established in the late 19th century. The site was first chosen by Empress Taytu and later in 1886 the city was founded by her husband Emperor Menelik II as the permanent capital of the then emerging modern Ethiopian state. In short period of time, the city expanded and flourished in every aspects. It also became the social, political and economic center of the country. It was such developments which raised the need for proper and effective administration of the city. As a result, emperor Menelik established the first Addis Ababa city municipal administration. In line with this, the emperor decreed the urban land law and appointed the city's first mayor.

In Empress Zewditu time, the city municipal administration was assigned to execute activities like regulating land ownership certificate and to collect taxes from land owners. Moreover, it had the responsibility of maintaining the peace and security of the city. However, the municipal administration also faced with problems while discharging its responsibility. The presence of powerful lords and churches that have their own land in the city were the main challenges for both the municipal administration and development of the city. In the year 1936 G.C Italy invaded Ethiopia and made Addis Ababa city the capital of Italian east African colonies (Master plan Revision office, 1979:53-54).

During Haile Sellasie II regime, Addis Ababa was one of the few chartered cities which administered by lord mayor (Kantiba). It was also the emperor who appointed the kantiba. In this time, the kantiba had considerable local autonomy because he was largely free from the political control of the then power minister of interior (Meheret,1999).

After the Dergu regime come to power, Addis Ababa city lost a great measure of its municipal autonomy. Furthermore, the nationalization of urban land and rental houses which took place in 1975 G.C deprived the city lucrative property tax. As a result, the city revenue bases suffered a sever setback.

Under the current regime, it was in 1997 that Addis Ababa city has designated as a chartered city government with considerable degree of self-rule. According to Mehret (1999) the Addis Ababa city government charter proclamation No. 87/1997 provides for an elected council to administer the city for a term of five years. The main function of the council is to make municipal laws and approve the annual budget. Currently, the city is administered by an elected city council and mayor.

To sum up, Addis Ababa city is the largest city in the country. Historically, it was founded in 1886 by emperor Menelik II. Hence forth, Addis Ababa is undergoing through a steady but an effective development. Today, it enjoys the status of being the capital city of Africa. It is a home of the African union (AU), Economic commission for Africa (ECA) and many other international organizations.

4.3. Population Growth

Addis Ababa is the largest urban center of the country with an average growth rate of population 2.94 percent annually. The total population of the city is 3,147,000 in 2008 with 51.9 are females and while 48.1 are males.

Table 4.1 projected population of Addis Ababa City 1999-2008

Year G.C	Male	Female	Total	%Growth rate
1999	1,169,000	1,255,000	2,424,000	-
2000	1,202,000	1,293,000	2,495,000	2.93
2001	1,237,000	1,333,000	2,570,000	3.0
2002	1,273,000	1,373,000	2,646,000	2.96
2003	1,310,000	1,415,000	2,725,000	2.99
2004	1,348,000	1,457,000	2,805,000	2.94
2005	1,387,000	1,500,000	2,887,000	2.92
2006	1,428,000	1,545,000	2,973,000	2.98
2007	1,469,000	1,590,000	3,059,000	2.89
2008	1,511,000	1,636,000	3,147,000	2.88
Percentage	48.1	51.9	100	2.94

Source: By computing CSA, Analytical Report, 1999

Almost all ethnic groups are represented in Addis Ababa due to its position as capital city of the country. The major ethnic groups represented are the Amharas (48.3%), Oromos(19.2%), Guraghe(17.5%), and Tigreans(7.6%), while other constitute 7.4% of the population of the city. Evidences indicated that among the total population of the city, 82% are Orthodox Christians, 12.7% are Muslims, 3.9% are Protestants, 0.8% is Catholics and 0.6% are traditional and other religious followers (CSA, 1999:30).

4.4. Legal and Institutional Framework

The main legal framework for the current Addis Ababa city administration is proclamation No. 361/2003 i.e. the Addis Ababa city Government Revised charter proclamation. By virtue of this proclamation, the city administration reorganized in to three tires of administration, namely city government, sub city and kebeles.

According to article 10 of the revised charter, the structure of the city government organs of power are indicated as follows:-

1. The city Government organs of power are the following:-
 - a) City council
 - b) Mayor

- c) City cabinet
 - d) City judicial organs and
 - e) Office of the city chief Auditor
2. Sub-city organs of powers are the following:
- a) sub-city council
 - b) sub-city chief executive and
 - c) sub-city standing committee
3. kebele organs of power are the following
- a) kebele council
 - b) kebele chief executive
 - c) kebele standing committee and
 - d) kebele social courts

Addis Ababa city administration is divided in to state functions and municipality functions. However, both state and municipal bodies form together under the mayor. The mayor coordinates both the state and municipal functions of the city. Under the mayor and his cabinet members there are various sectoral offices, which are responsible for sectoral state functions such as education, health, trade, investment and others. On the other hand, the municipal services manager who is accountable to the mayor and also member of the city cabinet is responsible for the municipal tasks including provision of urban public services and infrastructure. The same type of organization also observable at sub-city and kebele levels.

The following Bureau are cabinet members of the city government.

1. Bureau of capacity Building
2. Bureau of Trade and Industry Development
3. Bureau of Finance and Economic Development
4. Bureau of Social and Civil Affairs

5. Bureau of Justice and legal Affairs
6. Education Bureau
7. Health Bureau
8. Bureau of Information and Culture
9. The Mayor
10. The city manager

The above each cabinet member's bureaux also coordinate and direct other executive offices of the city administration. Currently, the city administration divided in to ten sub-cites and 99 kebles.

69

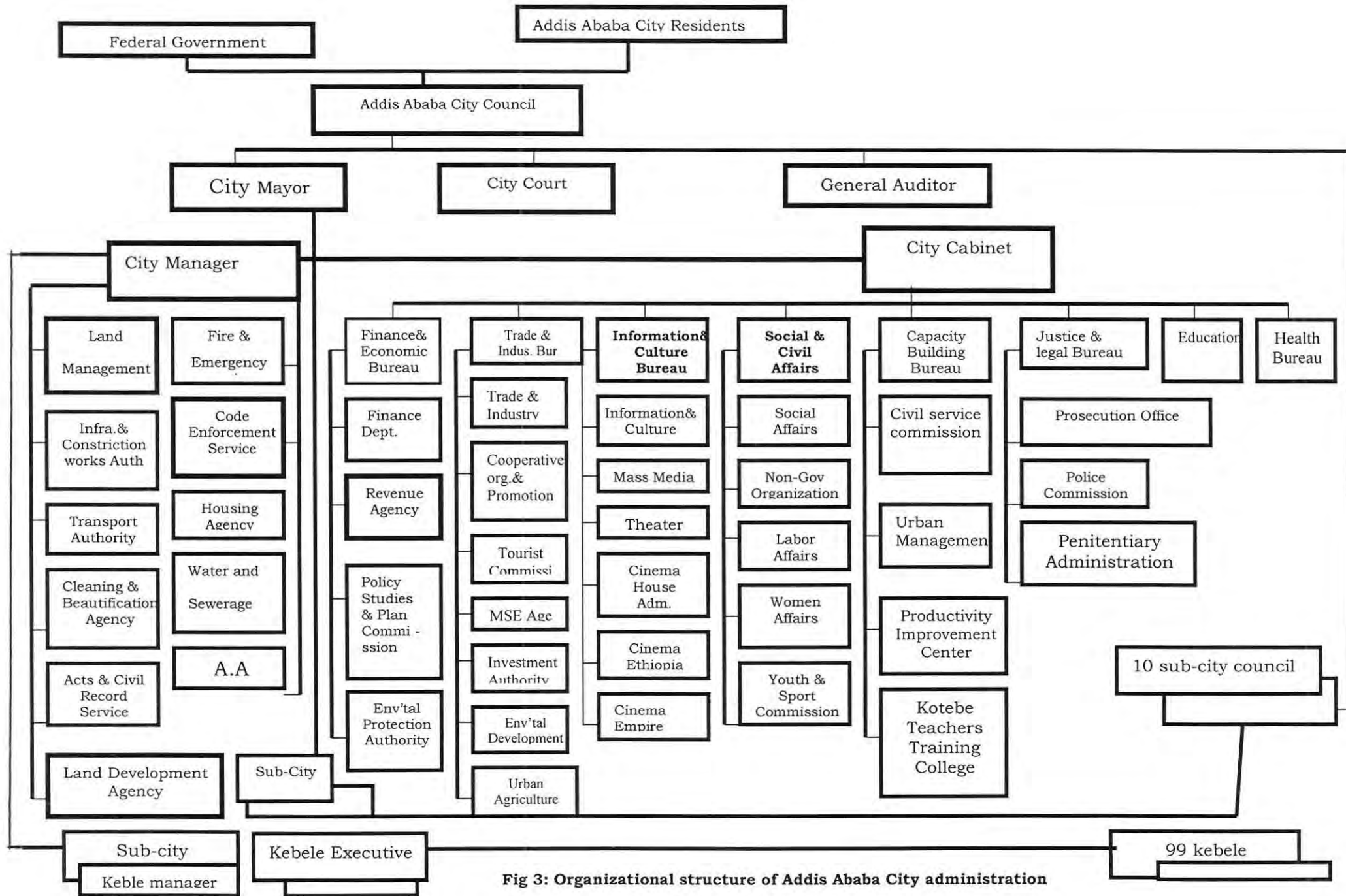


Fig 3: Organizational structure of Addis Ababa City administration

The city administration bears responsibilities for provision of public goods and services. The city has the power to collect taxes, fees, charges etc. This is based on article 14(2) (d) of the revised charter which stated that the city council shall have the power to levy taxes and duties and set service charges on revenue sources specified under this charter. At sub-city level also the sub-city administration has some autonomy to assesses and collect the taxes and duties under category (a) and (b).

The municipal financial administration of Addis Ababa city is currently governed by financial administration proclamation No. 16/2003 of Addis Ababa city government. This proclamation is based on article 14(1) (f) and 66 (2) of the city's revised charter.

According to the Addis Ababa City administration's civil service commission report, in the year 2006/07 there are 33,933 permanent employee of which 17,20 are male and 16,313 are female in Addis Ababa city administration. The following table shows these employees by level of education and sex.

Table 4.2 - Number of Addis Ababa city Administration Employees by level of Education and sex-2006/07

Level of Education	Number of Employees		Total
	Male	Female	
Illiterate	43	31	74
Read and write	412	381	793
1-4 Grade	429	622	1,051
5-8 Grade	1159	1,546	2,705
9-12 Grade(based on the former curriculum)	2171	2,871	5,042
Vocational Diploma/Based on the former Curriculum)	1734	1,743	3,477
9-12 Grade/Based on the new curriculum)	472	536	1,008
11-12 preparatory(Based on the new curriculum)	420	456	876
Certificate (10+1) (Based on the new curriculum)	1907	1,990	3,897
Vocational Diploma (10+2) (Based on the new curriculum)	876	1,056	1,932

Level of Education	Number of Employees		Total
	Male	Female	
1-4 year college students (Based on the former curriculum)	530	343	873
1-3 year college students (Based on the new curriculum)	624	454	1,078
College Diploma (10+3)	3,203	2,907	6,110
BA/BSC	3,091	931	4,022
LLB	50	5	55
M.D	99	46	145
D.V.M	15	2	17
MA/MSC	171	44	215
LLM	4	1	5
PHD	15	5	20
Unknown	195	343	538
Total	17,620	16,313	33,933

Source: By computing Addis Ababa city administration civil service commission data,

Addis Ababa, 2008

In addition to the above mentioned permanent workers of the city administration, there are 575 contract and temporary workers. Among these 328 are male and the rest 247 are female employees. From the above figure, it is possible to identify that there are higher number of employees who are educated at least up to Diploma level. As a consequence, it will be safe to conclude that Addis Ababa city administration does not face a shortage of qualified staff in the day-to-day administration of the city.

4.5. Urban Economic Activities

The economic activities in Addis Ababa are diverse. According to an official statistics from the Federal Government of Ethiopia, some 119,197 people in the city are engaged in trade and commerce: 113,977 in manufacturing and industry: 80,391 home makers of different variety: 71,186 in civil administration: 50,538 in transport and communication: 42,514 in education, health and social service: 32,685 in hotel and catering service and 16,602 in urban agriculture (FDRE states: Basic information-Addis Ababa).

4.6. Business and Investment

Addis Ababa is an important commercial center in the country. According to the data obtained from the city's trade and industry development bureau, in the year 2007/08 there is 119,379 licensed business establishments.

Table 4.3 Licensed Business establishments in Addis Ababa city in 2007/08

No	Type	No of license	Registered capital
1	Agriculture	575	200,165,646
2	Industry	4432	5,429,773,902
3	Retail	51976	3,502,455,975
4	Service	54014	10,013,965,589
5	Wholesale	8382	328,032,261
Total		119,379	19,474,393,373

Source: Addis Ababa city trade and industry bureau

As can be observed from table 4.3 there are 119,379 licensed business establishments with a registered capital of 19.4 billion birr. Among them, it is the service sector which took the highest share both in number and as well as registered capital.

According to the data obtained from Addis Ababa city administration investment authority, there are 4,886 licensed investment projects in Addis Ababa city. As can be observed from table 4.4 below, these investment projects registered a capital of 54.3 billion birr. They also created a job opportunity for 480,366 people.

Table 4.4 Number of licensed investment projects in Addis Ababa city in 2007/08

NO	Sector	No. of projects	Capital	Job opportunity
1	Agriculture	60	326,493,000	4,218
2	Construction	1,160	21,512,353,000	150,135
3	Industry	2,076	26,057,136,000	190,638
4	service	1,576	6,432,300,000	133,319
5	Others	14	156,859,000	2,056
Total		4,886	54,328,282,000	480,366

Source: Addis Ababa City Investment Authority

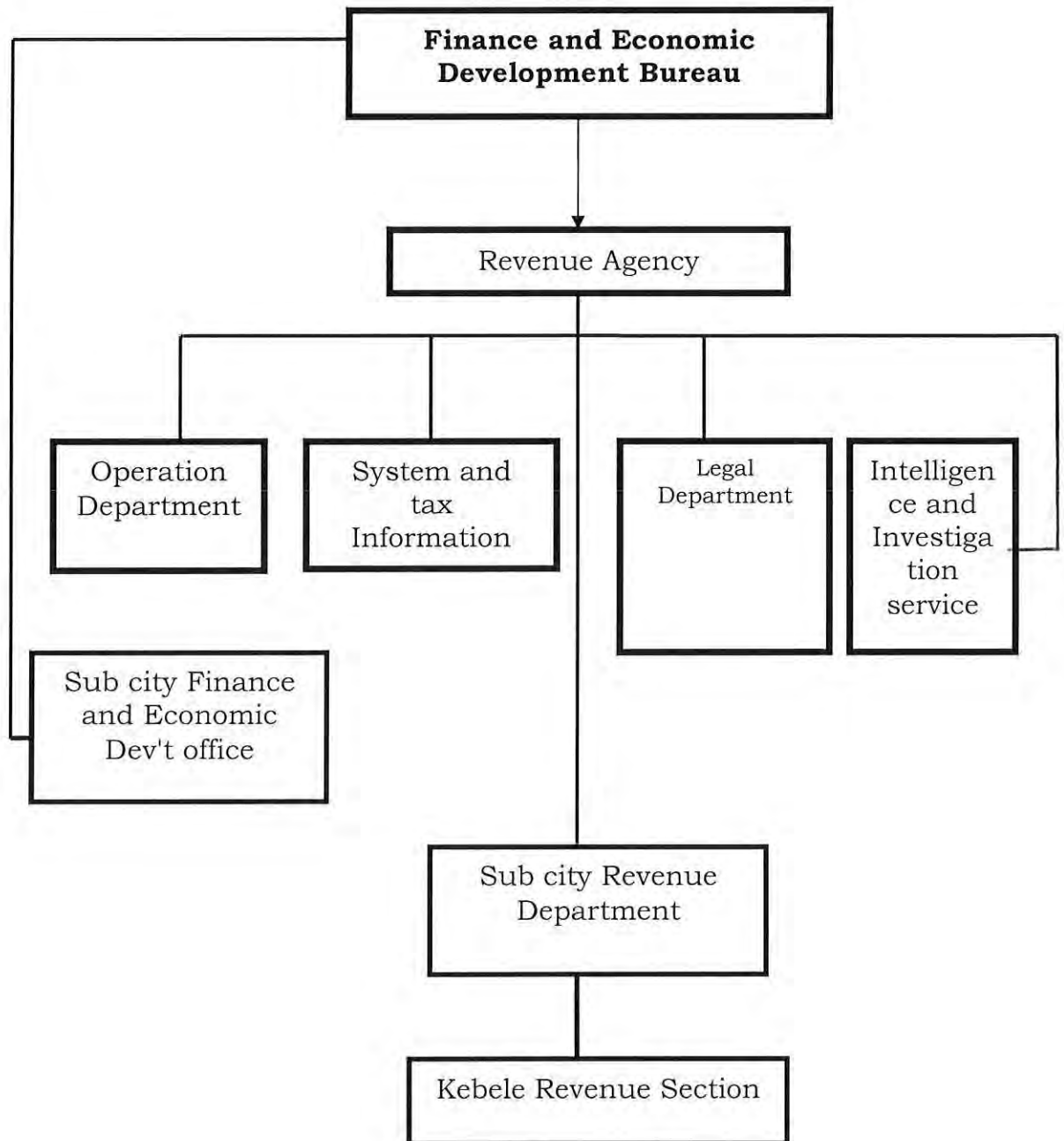
4.7. Municipal Services

There are many services, which are provided by the municipal organs of the city administration. These include road and infrastructure development, solid waste management, housing construction, water supply and others. The quality of these services also shows variations among themselves. But, it is possible to say that most of these services are delivered below the standard. As Meheret (1999) stated that the city has not been able to supply enough drinking water to the residents. In addition, there exist poor refuse collection and solid waste management system. Recently solid waste management shows some improvements due to many youths are organized in micro and small institutions and engaged in solid waste management activities. Furthermore, despite the city's housing development project; still there exist shortage of residential housing and overcrowding. There could be many reasons for such poor service delivery by the municipality. But, the main one is related to lack of enough resources to finance them

4.8. Functions of Revenue Agency

Addis Ababa city revenue agency is established by charter proclamation No. 311/95 E.C. for the purpose of administering tax within the city. It has ten sub city revenue departments and as well as in offices in ninety nine 'kebles' responsible for levying and collecting taxes from it's territory and revenue sources given to the city by the tax proclamation.

Fig 4: Organizational structure of Addis Ababa city Revenue Agency



On the other hand, the total number of employees of the revenue agency including sub cities and kebeles are 1176. The following table shows the total employees in terms of their educational qualification.

Table 4.5 - Employees of Addis Ababa city revenue agency including sub cities and kebles

Office	Educational qualifications							Total position occupied
	No. of positions	Less or equal to Grade 12	Vocational	College Diploma	BA Degree	LLB Degree	MA Degree	
Head office	42	4	7	13	11	2	0	37
Sub city	515	105	105	114	43	2	3	372
Kebele	883	304	310	153	0	0	0	767
Total	1440	413	422	280	54	4	3	1176
Percent		35.12	35.88	23.81	4.59	0.34	0.26	81.67

Source: Addis Ababa city Revenue Agency

The above table reveals the fact that around 70% of the agency employee's qualification is below college Diploma level. Besides, it is only 81.67% of the job positions occupied by employees. The rest are vacant positions. The officials in the agency confirmed that, the existence of unattractive salary structure, absence of conducive working environment accompanied by the private sector strong competition are the major causes for the existence of such vacant positions.

CHAPTER FIVE

5. Empirical Data Analysis

5.1. Legal Basis of Sources of Revenue

Addis Ababa city administration has a responsibility to perform both state and municipal functions. Accordingly, its fiscal administration also reflects this reality. Besides, unlike other regional states the city administration did not receive a budget grant from the federal government. Therefore, the city administration is depending on its revenue sources to finance the city's expenditures. Legally speaking, it is the Addis Ababa City government revised charter proclamation No. 361/2003 which gives revenue and expenditure assignment powers to the city administration. The revised charter in its article 52 stated that the city government shall in accordance with relevant laws, exercise the following fiscal powers:

1. Assess and collect tax on income from employment within the city, excluding employees of Oromia Region, of the Federal Government and of Federal public enterprises;
2. Fix and collect land use fee within the city;
3. Levy tax on income from agricultural activities within the city;
4. Assess and collect profit, excise and turnover taxes from individual businessmen trading in the city;
5. Receive value added tax collected by the Federal Government from individual businessmen trading in, and public enterprises owned by the city;
6. Fix and collect urban land rent and levy urban house tax in the city;

7. Assess and collect tax on income from rented houses and other properties in the city;
8. Assess and collect stamp duty on contracts and agreements as well as on title deeds registration executed in the city;
9. Assess and collect profit, excise and turnover taxes from public enterprises owned by itself;
10. Fix and collect road-user-vehicles charge in the city;
11. Fix and collect rentals form houses and other properties owned by itself;
12. Assess and collect income tax, royalty and land rentals on small-scale mining operations undertaken within the city;
13. Fix and collect royalty on use of forest resources within the city;
14. Fix and collect fees on licenses issued, and services delivered by itself;
15. Levy municipal taxes and duties as well as fix and collect service charges thereof;
16. Assess and collect income tax on gains from renting of patent rights within the city;
17. Assess and collect capital gains tax on property situate in the city.

(Source: Addis Ababa city government Revised charter proclamation No. 361/2003, article (52))

Beside the above-mentioned fiscal powers, the revised charter also gives additional revenue generating powers to the city administration. According to article 53(1) the city government shall obtain its revenue from juridical bodies under its charge, income generating activities where it hold the special permit required thereto, joint investment, fund investment, rentals and from donations; provided there is no legal prohibition in respect thereof. Furthermore, the charter stated that the

city government as per authorization by the federal government could borrow from domestic sources directly or by way of selling bonds, on short and long repayment terms. (Article 54(1)). Regarding external loan, it is mentioned in the charter that the city government shall identify international credit sources and solicit the federal government to take loans therfrom on its behalf.

On the other hand, the city administration delivers a municipal function to the city population. It also collects revenue from providing such municipal services. Historically there are quite many proclamations and regulations, which empowers municipalities (including Addis Ababa city) to levy and collect municipal taxes and charges. For example proclamation No. 161/1971 empowered municipalities to levy taxes, fees and charges on business in their municipal jurisdictions. Currently, it is article 52(15) of the revised charter, which empowered Addis Ababa city administration to levy and collect municipal taxes and charges. But, most of the rates and tariffs for the city municipal services are based on old legislation and legal notice, among which the following are the major ones.

- Out door advertising service charge-Legal Notice No. 6/1982
- Entertainment tax-Legal Notice No. 291/1956
- Urban land Rent and urban Houses Tax proclamation No. 80/1976
- Business permit sanitation service charge-Legal Notice No. 385/1962

In March 2004, the then Addis Ababa city interim administration applied a new service charge rates directive. This directive was particularly designed to improve the existing old tariffs in the city's service providing offices. Accordingly twenty-three service providing offices were listed with

a new Addis Ababa city service charge rates in this directive. Currently, it is also this directive, which is applied in the city's service providing offices.

5.1.1. The Revenue Collection Performance of Addis Ababa City

Addis Ababa city administration collects revenue from tax, non-tax, capital and municipal sources. On the other hand, Addis Ababa city is an important political, economic, social and commercial center of the country. This reality also make possible the city's revenue collection performance better compared to other regional states of the country.

As can be seen from Table 5.1 on average the city administration revenue collection performance between 2003/04-2006/07 G.C. years constituted 56% of the total revenue collected by all regional states (including Addis Ababa city administration itself). In addition, the city's tax revenue contributes on average 7.5% of the country's total tax revenue for stated budget years. Moreover, this tax revenue constituted 5.9% of the country's total revenue. Furthermore, the city's tax revenue also covers 37.6% of the total tax revenue collected by all regional states for the same period. In general, the above figures reveal the fact that Addis Ababa city administration has show high revenue collection performance in the past four years. This is especially true in relation to its tax revenue performances.

Table 5.1 - Total collected revenue 2003/04-2006/07 G.C. (in million Birr)

Budget year	National performance		All Regional states (including Addis Ababa) performance		Addis Ababa performance		% of the total			
	Total Revenue (1)	Tax Revenue (2)	Total Revenue (3)	Tax Revenue (4)	Total Revenue (5)	Tax Revenue (6)	(3 ÷ 5)	(2 ÷ 6)	(1 ÷ 6)	(4 ÷ 6)
1996	13,916.8	10,906.5	3,088.3	2,164.7	1,597.4	726.8	51.72	6.66	5.22	33.57
1997	15,582.2	12,397.9	3,570.9	2,686.1	2,103.4	1,084.5	58.90	8.74	6.95	40.37
1998	19,530.1	14,158.7	4,397.2	2,854.9	2,671.2	1,029.7	60.74	7.27	5.27	36.06
1999	21,797.4	17,353.6	4,384.7	3,234.1	2,307.6	1,302.9	52.62	7.50	5.97	40.28
Total	70,826.5	54,816.7	15,441.1	10,939.8	8,679.6	4,143.9	56	7.5	5.9	37.6

Source: Addis Ababa city Finance and economic Development bureau, Medium term expenditure Framework.(MTEF here after)

5.2. Aspects of Federal-city Administration Fiscal Relations

It is possible to identify four major aspects on the existing federal government and Addis Ababa city administration fiscal relationships. The first one is that the federal government has the power to collect value added tax (VAT) from individual businessmen trading in, and public enterprises owned by the city. But, it will transfer the collected VAT revenue to the city administration. This is based on article 52/5/ of the revised charter. Now a day, both the federal government and the city administration collect VAT. Due to this arrangement, the city's individual businessmen as well as public enterprise are either registered at federal or the city level for VAT. According to the data obtained from the revenue agency, at the city level there are 4,428 VAT registered tax payers. The city also collected 134,176,641.75 birr from VAT in the past three years.

**Table 5.2 VAT registered tax payers and amount of revenue collected
-1998-2000 E.C (in million birr)**

Year E.C	Number of VAT registered tax payers	Amount of revenue collected
1998	2,358	18,319,702.06
1999	2,563	49,903,467.70
2000	4,428	65,953,474.99
	Total	134,176,641.75

Source: Addis Ababa city administration Revenue Agency (2008)

The second aspect is related to federal government transfers. As described earlier, Addis Ababa city administration do not receive a federal government budget grant. Therefore, the city administration expected to cover all its expenditures from its own revenue sources.

this revenue to regions through budget grant. But, the case is not the same for Addis Ababa city administration. Addis Ababa city is a place where many companies are concentrated and operating. On the other side, the city administration did not receive a budget grant from the federal government. As a consequence, the city administration is not benefited from the profits of companies which are found in the city like other regional states.

5.3. The Sources of Revenue

Compared to other municipalities of the country, Addis Ababa city enjoys wider sources of revenue. This condition also enables to raise a huge sum of revenue to the city administration. It is observed that, Addis Ababa's status of both as a city and state is the main cause to have such a wider sources of revenue. As a consequence, the city is self-sufficient in its financial resources and there is no need of federal government budget grant. Currently, Addis Ababa city revenues are structured as follows:

1. Domestic Revenue

- 1.1. Tax revenue
- 1.2. Not-tax revenue
- 1.3. Capital revenue
- 1.4. Municipal revenue
- 1.5. Subsidy revenue

2. External Assistance

- 2.1. Multilateral Institution
- 2.2. Bilateral assistance

3. External Loan

However, the loans from both external as well as domestic banks is not yet realized so far. Hence, the major revenue sources of the city fall between the two categories, namely domestic revenue and external assistance. For tax revenue, the rates are based on different federal government proclamations and regulations. On the other side, the rates for municipal, capital and non-tax revenue are governed by different regulation and legal orders which are specific to the city administration in their nature.

5.4. The Revenue Structure

5.4.1. Tax Revenue

Tax revenue is one of the major sources of income which fall under domestic revenue category. It is also the biggest and potential revenue source to the city. In principle, tax revenue is classified into direct and indirect taxes. In the past four years (2003/04-06/07) direct and indirect taxes all together on average generate 47.7% of the total revenue of the city administration (For detail see Table 5.10).

5.4.1.1. Direct Taxes

Direct taxes are the most productive source of revenue to the city administration. On average, it alone contributes 35% of the total collected revenue of the city between the years 2003/04 up to 2006/07. This revenue title includes income from employment, rental income, profit to individuals businessmen, capital gains and others. The rates for the above mentioned direct taxes are determined based on the federal income tax proclamation No. 286/2002 and council of ministers

regulations No. 78/2002. The contribution of direct taxes to the city revenue is depicted in Table 5.3.

Table 5.3 contribution of Direct taxes-2003/04-2006/07 (in million birr)

Revenue Title	Budget year				Total	% of Total	Av.Gr. Rate
	2003/04	2004/05	2005/06	2006/07			
Income from employment	282.5	356.1	425.6	457.9	1522.1	50.8	17.7
Rental income	26.0	55.9	13.0	19.9	114.8	3.8	30.4
Profit to individual business men	277.9	387.1	303.6	330.6	1636.9	43.3	8.9
Capital gains	5.3	14.1	14.7	10.5	44.6	1.5	47.2
Others	4.9	1.9	2.4	7.5	16.7	0.6	59.2
Total	596.6	815.1	759.3	826.4	2997.4	100.0	

Source: computed from Addis Ababa city administration MTEF report (2007)

As can be seen from table 5.3 above, revenue from employment income shows an increasing trend while fluctuations are observed on rental income, profit to individuals businessmen, capital gains and others. Based on Table 5.3, the detail performance of each revenue title is discussed below.

- a) Income from Employment:-** Employment income is collected from employees that are found within the city and excluding federal and Oromia regional state employees. It is among one of the major sources of revenue to the city administration. It constituted 50.8% of the total direct taxes collected in the past four years. In all these years, it show a remarkable increase with annual average growth rate of 17.7%. According to officials, the main reason behind such an increasing trends is the existence of high number of public servants in the city administration and the administrative simplicity of collecting an employment income tax.

b) **Rental Income:-** is one of the revenue sources which experienced high fluctuations in its income. In the year 2004/05, rental income scored high growth while in 2005/06 it registered very low performances. On the other hand, in 2006/07 year it shows some improvement in its income. Rental income revenue is obtained from renting of houses and buildings. It constituted 3.8% of the total direct tax income in the last four years with an average growth rate of 30.4%.

c) **Profit to Individual Businessmen:-** It is a revenue collected from individuals who are engaged in business activities. As can be observed from table 5.3, at the beginning this revenue title show an increasing trends while it starts to decline in the year 2005/06. However, it manages to increase in the year 2006/07. This revenue title contributes 43.3% of the total direct taxes collected in the past four years. The annual average growth of the revenue is 8.9% in the years between 2003/04-2006/07.

The above three revenue sources constituted 97.95% of the total collected direct taxes of the city administration in the past four years. The city administration also gives priority to these taxes due to their high productivity. Accordingly, it is observed that there is a well developed tax administration system in relation to these sources of revenue.

d) **Capital Gains:-** It is a revenue derived from the transfer, sale or gift of certain investment property. According to income tax proclamation No. 286/2002, article 37(1) income tax shall be payable on transfer of building held for business, factory and office at a rate of 15% while for share of companies at 30%. This revenue title shows a high growth for three years and declined in the year 2006/07. It also contributes less than 2% of the total collected

income for the same period. The average annual growth rate of this source of income was 47.2% per year between 2003/04 to 2006/07.

e) Others:- are revenue which come from different sources. This revenue title includes profits to corporations, agricultural income tax, royalties, withholding tax on imports, chat income tax and others. Some of the taxes such as profits to corporations, royalties, withholding tax on imports ceased to exist from the year 2006 onwards. It is also observed that, the total contribution of this revenue title in the past four years was less than 1%.

5.4.1.2. Indirect Taxes

Under this revenue category, basically there are four major sources of revenue including:

- a) Value Added tax /VAT/
 - On Goods
 - On services
- b) Excise taxes
- c) Turnover taxes
 - on Goods
 - on services
- d) Stamp sales and duty

During the discussion with officials in the revenue agency it was disclosed that the existence of weak tax administration system is the major problem associated with collection of indirect taxes. They also argued that due to this reason indirect taxes revenue potentials are not utilized fully. The nature and contribution of each of indirect taxes are described here under.

Table 5.4 contribution of Indirect taxes-2003/04-2006/07 (in million birr)

Revenue Title	Budget year				Total	% of Total	Av.Gr. Rate
	2003/04	2004/05	2005/06	2006/07			
Value Added Tax	-	76.7	116.3	207.6	400.6	34.9	65.1
Excise taxes	4.9	3.7	2.4	6.3	17.3	1.5	34.3
Turnover tax	101.9	93.0	108.2	155.7	458.8	40.0	17.2
Stamp sales and duty	23.3	96.0	43.5	106.9	269.7	23.5	134.4
Total	130.1	269.4	270.4	476.5	1146.4	100.0	

Source: computed from Addis Ababa city MTEF Report(2007)

- a) **Value Added Tax /VAT/:-** is consumer expenditure tax which is collected on business transactions and imports at a flat rate of 15%. Currently, VAT is collected by both the federal government and the city administration. The figures in Table 5.4 above disclose the fact that VAT is becoming one of the fast growing revenue sources with an average annual growth rate of 65.1%. It also constituted 34.9% of the total collected revenue from indirect taxes between the years 2004/05 to 2006/07.
- b) **Excise Taxes:-** is a source of revenue which experienced a downward trends for the first two consecutive years. However, it managed to register a good performance in the year 2006/07. It has a 1.5% annual contribution to the total revenue collected from indirect taxes with average annual growth rate of 34.3% in the years from 2003/04-2006/07. It is a type of tax imposes on luxury and basic goods at a ranging from 10-100% based on the type of the goods.

- c) **Turnover Taxes:-** is an income which is collected from individuals who supply goods and provide services. Its rate ranges from 2-10% based on the type of goods supplied and services rendered. This revenue title show downward trend in the year 2004/05 while for the rest three years it scored a positive growth. In the past four years, it constituted 40% of the total collected indirect taxes with an average annual growth rate of 17.2%.
- d) **Stamp Sales and Duty:-** is a revenue source collected by requiring stamps sold by the government to be affixed to designate documents. According to stamp duty tax proclamation No. 110/1998; there are thirteen types of instruments which should affix stamps in their transactions. This revenue title shows a high growth in the past four years excluding the year 2005/06. Its share of total collected indirect taxes was 23.5% showing an average annual growth rate of 134.4% in the same period.

To sum up, direct and indirect taxes are the two component of tax revenue. Like other regional states of the country, Addis Ababa city administration also legally empowered to collect a revenue from tax sources. In the past four years, tax revenue on average constituted 47.7% of Addis Ababa city administration total income. In general, it is possible to say that tax revenue is one of the biggest and potential revenue sources of the city administration.

5.4.2. Non-tax Revenue

It is a source of revenue mainly collected from the provision of services and goods. In this revenue title, there are four major revenue sources, which are administrative fees and charges, sales of public goods and services, government investment income and miscellaneous revenue. There is also a detailed list of revenue under each of these categories.

The contribution of non-tax revenue to the city's total income in the last four years is depicted in Table 5.5.

Table 5.5 contribution of non-tax revenue-2003/04-2006/07 (in million Birr)

Revenue Title	Budget year				Total	% of Total	Av.Gr Rate
	2003/04	2004/05	2005/06	2006/07			
Administrative fees and charges	18.7	7.1	15.0	29.1	69.9	4.3	47.7
sale of public goods and services	26.9	38.0	118.1	54.2	237.2	14.6	66.0
Government investment income	178.7	223.3	534.5	180.0	1116.5	68.7	32.7
Miscellaneous revenue	67.1	55.7	57.4	21.3	201.5	12.4	-25.6
Total	291.3	324.1	725.0	284.6	1625	100	

Source: computed from Addis Ababa city administration MTEF Report(2007)

- a) **Administrative Fees and Charges:-** it is a revenue collected from providing different services. It includes fees and charges for work permits, Business and professional registration and license fees, forfeits, court fees and fines, fees for registration of foreigners, warehouse fees and others. This revenue title contributes 4.3% of the total collected non-tax revenue with an average annual growth rate of 47.7% in the years between 2003/04 to 2006/07.

- b) **Sale of Public Goods and Services:-** under this revenue title, there are more than fifteen revenue generating sources. It is a source of revenue derived from sale of services and goods such as health, road transport, agricultural products, government news papers, magazines and publications and the like. As can be observed from table 5.5 above, this revenue title show a

remarkable growth for three years and declined in the year 2006/07. In the past four years, it has 14.6% annual contribution to the total income collected with an average annual growth rate of 66%. It is also observed that, the rates for the sale of most of the services and goods are based on the city's new service charge rates directive which become operational in March 2004.

c) Government Investment Income:- it is the biggest sources of revenue which constituted 68.7% of the total collected non tax revenue in the years between 2003/04 up to 2006/07. Basically, this revenue is collected from interest on loan to government employees, rural land use fee, urban land lease and other incomes. But, it was urban land lease revenue, which contributed the major share in this revenue title. For example, in the past four years, the revenue from urban land lease on average constituted 98.6% of the total collected government investment income. This revenue title scored an increasing growth which was followed by a downward trend in the year 2006/07. It also registered an average annual growth rate of 32.7% in the last four years.

d) Miscellaneous Revenue:- is one source of revenue which show high fluctuations in its income. This revenue is raised from sale of stamps, tax fines and others. It constituted 12.4% of the total non-tax revenue, but for the past four years it registered a negative average annual growth of 25.6%.

5.4.3. Capital Revenue

It is the revenue, which is collected from the sale of movable and immovable properties. In the past four years, the lion share of capital revenue was generated from the sale of condominium houses to the city dwellers. As table 5.6 indicates, the revenue collected from sale of condominium houses constituted 85.8% of the total capital revenue. But it is also observed that, this revenue title show fluctuations for the same period. During the discussion, the city officials stated that if properly managed sale of condominium houses would be a good potential revenue sources to the city administration in the future.

There are also other sources of capital revenue which include capital transfers from non-governmental sources, royalty of stock and sale of stock. At the beginning, these sources registered a good performance. But, later on they declined to the extent that they ceased to exist in the year 2005/06. However, they manage to reappear again in 2006/07 year.

Table 5.6 contribution of capital revenue-2003/04-2006/07 (in million Birr)

Revenue title	Budget year				Total	% of total
	2003/04	2004/05	2005/06	2006/07		
Sale of condominium Houses	7.9	6.3	205.1	118.3	337.6	85.8
Others	50.7	3.7	-	1.3	55.7	14.2
Total	58.6	10.0	205.1	119.6	393.3	100

Source: computed from Addis Ababa city administration MTEF Report(2007)

5.4.4. Municipal Revenue

It is revenue collected from the provision, rent and sale of municipal goods and services. In this revenue category, there are four major sources which discussed in brief below.

- a) **Tax Revenue:-** is a sources of income which found under the municipal revenue title. This revenue is collected from municipal services which have tax behavior in nature. Accordingly, urban house tax, assurance, entertainment tax, live stock sales tax and others fall within this revenue title. As can be observed, tax revenue has shown fluctuations in its income for the stated years. It constituted 13.2% of the total municipal revenue with an average annual growth rate of 10.5% for the same period.
- b) **Rental Income:-** is one of the revenue sources which constituted 22% of the total municipal income in the last four years. With the exception of the year 2006/07, it has shown a positive growth rate. The annual average growth rate of this revenue is 2.8% in the years between 2003/04-2006/07. Rental income is revenue obtained from the city's administration renting activities which includes land rent, residential house rent, business houses rent, veranda rent, market store and other rental incomes.
- c) **Service Charges:-** which is raised from the provision of municipal services. Accordingly, such service charges are collected from license fee, city court fees and fines, house and fence construction permit fee, solid disposal license fee, traffic fines, service charge on long distance bus terminal and other municipal fees and fines. As can be seen from table 5.7 below, this revenue title registered a modest growth for the first three years while its income declined in the year 2006/07. It also contributed one-tenth of the total colleted municipal revenue with a negative average annual growth rate of 11.4% in the past four years.

d) **Sale of Goods and City Services:-** is a revenue collected from the sale of municipal goods and city services. This revenue title constituted the largest share (54.7%) of the total collected municipal revenue in the stated years. Besides, it registered an average growth rate of 11.9% for the same period. There is a long lists of revenue items under this title. But, chat sanitation fee, Acts registration and documentation service fee, parking lot fees, fees related to motor vehicles and water and sewerage service fees are the most important ones due to their substantial income contribution to this revenue category. The contribution of municipal revenue to the city total income is described in Table 5.7.

Table 5.7- Revenue collected from municipal sources-2003/04-2006/07 (in million birr)

Revenue Title	Budget year				Total	% of Total	Av.Gr. Rate
	2003/04	2004/05	2005/06	2006/07			
Tax revenue	62.4	91.8	81.3	77.9	313.4	13.2	10.5
Rental income	116.3	130.5	162	116.7	525.5	22	2.8
Service charges	62	68.8	74.6	34.7	240.1	10.1	-11.4
Sales of goods and city services	259.6	368.9	331.5	343.9	1303.9	54.7	11.9
Total	500.3	660	649.4	573.2	2382.9	100	

Source: computed from MTEF Report(2007)

5.4.5. Subsidy Revenue

Basically, this revenue title is raised from the federal government transfers. As can be observed in table 5.8 the Federal Government through its Ministry of Finance and Economic Development (MOFED) provide recurrent and capital subsidy to Addis Ababa City administration for the years between 2003/04 up to 2005/06. But, these subsidies were

stopped in the year 2006/07. They also constituted 32.6% and 2.3% of the total subsidy revenue in the stated budget years respectively.

It is also observed that the revenue from federal government loan was only raised in the year 2004/05 with insignificant amount and ceased to exist on the other stated budget years. On the other hand, road fund transfers constituted the highest share of subsidy revenue in the past four years. It contributed 64.4% of the total subsidy revenue with an average annual growth rate of 14.6% for the same period.

Table 5.8 contribution of subsidy revenue-2003/04-2006-07/(Birr in Million)

Types of subsidy revenue	Budget year				Total	% of total
	2003/04	2004/05	2005/06	2006/07		
Recurrent subsidy transfer receipt from MOFED	0.1	3.7	40.1	-	43.9	32.6
Capital subsidy transfer receipt from MOFED	1.8	0	1.3	-	3.1	2.3
Loan	0	0.9	0	-	0.9	0.7
Road Fund	18.6	20.3	20.7	27.2	86.8	64.4
Total	20.5	24.9	62.1	27.2	134.7	100

Source: Addis Ababa city administration MTEF reports(2007)

5.4.6. External Assistance

External assistance is an assistance given to Addis Ababa city administration. In practice, the city administration generates external assistance from two sources. These sources are multilateral institution and bilateral ones. In the past four years, the city administration generated 113.3 million birr from such sources. The contribution of external assistance to the city's total revenue is depicted in Table 5.9.

Table 5.9 Revenue collected from External assistance-2003/04-2006/07(in million Birr)

Types of external Assistance	Budget year				Total	% of total
	2003/04	2004/05	2005/06	2006/07		
Multilateral Institution Assistance	8.0	5.5	5.6	-	19.1	16.9
Bilateral assistance	34.1	51.3	0.8	8.0	94.2	83.1
Total	42.1	56.8	6.4	8.0	113.3	100

Source: computed from Addis Ababa city Administration MTEF Report(2007)

- a) **Multilateral Institutions Assistance:** - it is an assistance offered to the city administration by institutions like European Union (EU), United nations children's Fund (UNICEF), World Health Organizations (WHO), World Bank (WB) and other institutions. As can be observed, revenue from such sources show fluctuations and also ceased to exist in the year 2006/07. This assistance also constituted 16.9% of the total external assistance provided to the city administration in the year between 2003/04 to 2005/06.
- b) **Bilateral Assistance:-** Addis Ababa city administration receive external assistance from individual countries. Such support constitute the lion share of the city administration external assistance. Bilateral assistance shows remarkable improvement in the year 2004/05 where as it decreased in 2005/06. But, still it constituted 83.1% of the total collected external assistance in the last four years. Country wise, it is France and China which were the two major donors of the city administration for the same period. According to Finance and Economic Development Bureau official reports, in the past four years, France and China were donated 57.4 and 33.4 million birr respectively to the city administration

Public contribution of Birr 21.6 million and birr 30 million was observed in the years 2003/04 and 2004/05 respectively. But, from 2005/06 onwards no public contribution was registered. The annual plans of the city administration indicate that there should be public contribution as a cost sharing mechanism in each budget year. However, it could not be realized since the year 2005/06 onwards.

5.5. The Revenue performance

In this section, the revenue performance of each major sources of revenue in the past four years will be described briefly. This analysis excludes the revenue collected from external assistance and public contribution.

An interview arranged made with planning and study team leader in Finance and Economic Development Bureau(FEDB).² It was disclosed that the main reason for such exclusion is due to the reason that these sources are not the city's regular sources of revenue. In addition, there is an agreement that the city administration should cover its expenditures from its own sources of revenue and not depend on external assistance and public contribution. But, the city administration in each year plan to generate some amount of revenue from both sources. According to officials, most of the time revenue collected from such sources used to fill the existing fiscal gap.

As can be observed from Table 5.10 that tax revenue has an average share of 47.7% of the city's total income followed by municipal revenue (27.5%) non tax revenue (18.7%) and capital revenue (4.5%), during the

² Ato Melkamu Zerihun. Planning and Study Team Leader, FEDB

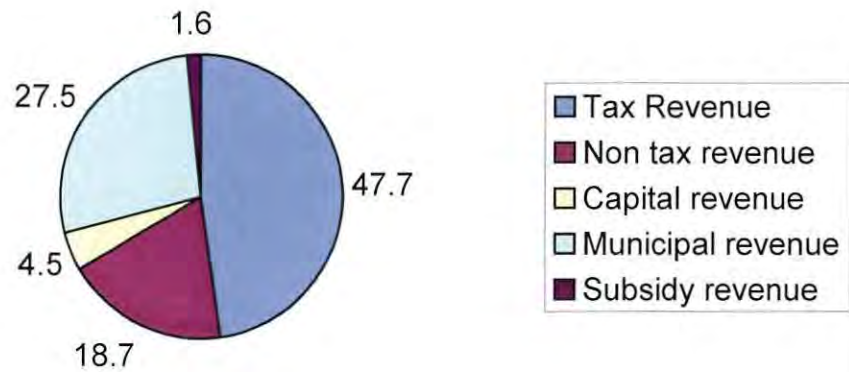
stated budget years. The lowest contribution is from subsidy revenue. It constituted 1.6% of the city's total income for the same period. In general, tax revenue is a promising sources of revenue for the city administration. It is also direct taxes which on average constituted 35.1% of the total revenue in the past four years. On the other hand, subsidy revenue except road fund transfers ceased to exist from the year 2006/07 onwards. This in turn brings its poor revenue performances.

Table 5.10 contribution of Regular revenue sources-2003/04-2006/07 (in million birr)

Revenue source	Budget year				Total	Average growth
	2003/04	2004/05	2005/06	2006/07		
Tax revenue	726.8	1084.5	1029.7	1302.9	4143.9	23.6
%	45.5	51.6	38.5	56.5	47.7	
Non tax revenue	291.3	324.1	725	284.6	1625	24.7
%	18.2	15.4	27.2	12.3	18.7	
Capital revenue	58.6	10	205.1	119.6	393.3	608.8
%	3.7	0.4	7.7	5.2	4.5	
Municipal revenue	500.2	659.9	649.3	573.2	2382.6	6.2
%	313.3	31.4	24.3	24.8	27.5	
Subsidy revenue	20.5	24.9	62.1	27.2	138.4	38.2
%	1.3	1.2	2.3	1.2	1.6	
Total	1597.4	2103.4	2671.2	2307.6	8679.6	
%	100	100	100	100	100	

Source: own computation from MTEF reports(2007)

Fig 5 Pie; chart showing the share of regular revenue sources (in percentage)

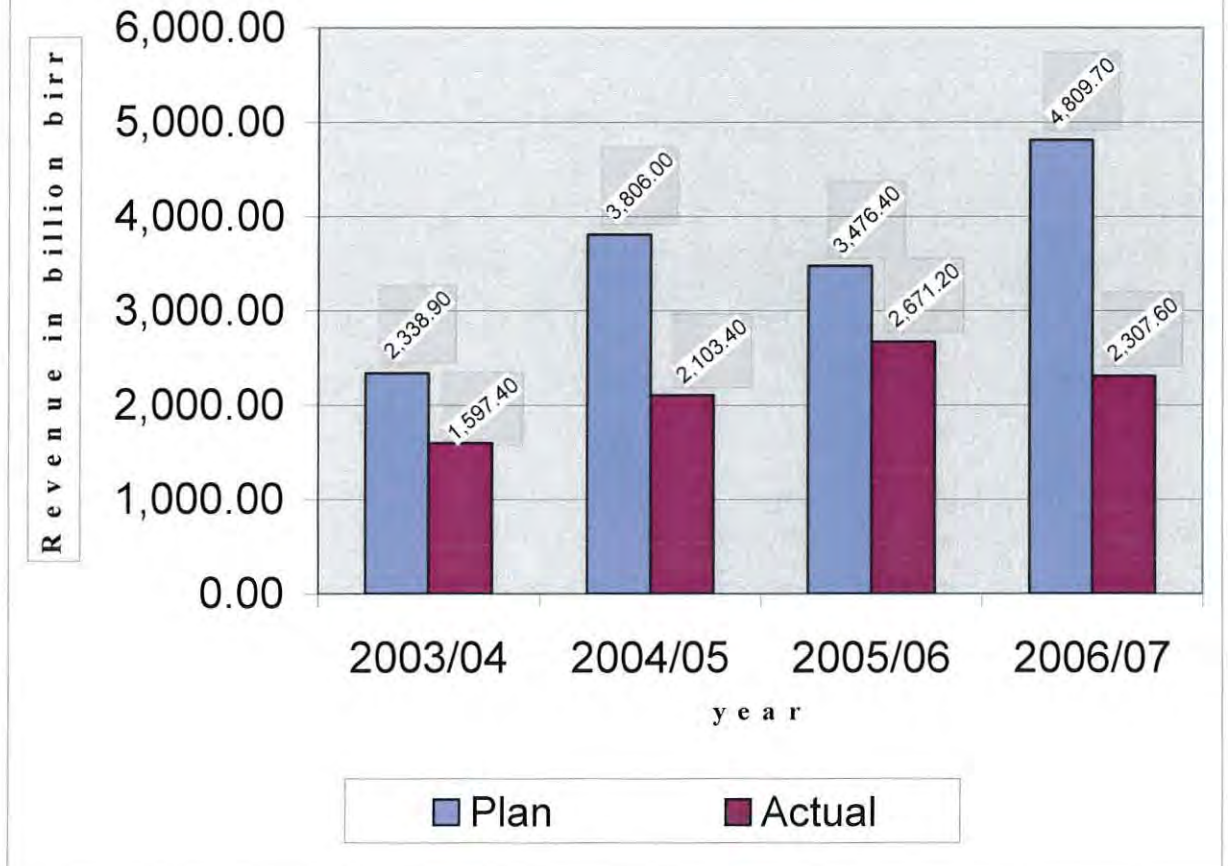


On the other side, Addis Ababa city administration annual plan and actual achievement in revenue collection showed high deviations. These deviations are indicated in the Table 5.11 and fig 6.

Table 5.11 Annual plan and achievement in revenue collection-2003/04-2006/07 (in million Birr)

Year	Plan	Actual	Achievement in percentage	Annual growth rate (%)
2003/04	2,338.90	1,597.4	68.3	-
2004/05	3,806.00	2,103.4	55.3	31.7
2005/06	3,476.40	2,671.2	76.8	27
2006/07	4,809.70	2,307.6	48.0	-13.6
	14431	8679.6	60.2	

Fig 6 Graph showing planned and actual performance of revenue collected in the past four years



One can see from both Table 5.11 and fig. 6 that in the year 2006/07 a big deviation was observed between the plan and actual revenue collection performances. The annual growth rate also declined from 31.7% to minus 13.6% in the stated budget years. There are many reasons for the existence of such big deviation among which planning in efficiency (unreliable data being used in planning process) was the importance one. On the other hand, the city's regular revenues plan and actual performances show a high variations in the last four years. As can be observed from table 5.12, tax revenue shows high achievement

(79.08%) followed by municipal revenue (74.30%), non-tax revenue (45.64%) while capital revenue registered the lowest achievement of 16.39% compare to the plan. However, the case of subsidy revenue is a different one. The city administration plan to raise 24.4 million birr from federal government transfers in the year 2004/05 and there was no plan for the rest three budget years. But, practically a subsidy revenue was raised in each year. As result, its achievement reached 567.21% compared to its plan in the years between 2003/04 up to 2006/07.

Table 5.12 planned and Actual performance of regular revenues- 2003/04-2006/07 (in million birr)

Sources	Planned	Achieved	Actual as percentage of plan	Actual percentage of total
Tax revenue	5,239.9 (36.3%)	4,143.9	79.08	47.7
Not-tax revenue	3,560.5 (24.7%)	1,625	45.64	18.7
Capital revenue	2,399.3 (16.6%)	393.3	16.39	4.5
Municipal revenue	3,206.9 (22.2%)	2,382.6	74.3	27.5
Subsidy revenue	24.4 (0.2%)	138.4	567.21	1.6
Total	14,431 (100%)	8,679.6	60.2	100

Sources: own computation based on data obtained from FEDB(2007)

As described earlier, the above discussion is based on the city's regular revenue sources and excluding external assistance and public contribution. However, the city administration also raised some amount of revenue from both public contribution and external assistance sources. Addis Ababa city administration total revenue including external assistance and public contribution, the city's total resources and expenditures in the last four years is depicted in Table 5.13.

As can be see from the Table, there is a big deviation between the total plan and actual revenue performances i.e. it is only 56.71% of the plan which is achieved in the stated budget years. It is also observed that the city's regular revenues all together constituted 98.14% of the achieved revenues. Column 4 shows Addis Ababa city administration total resources for the years between 2003/04 up to 2006/07. It is calculated by taking the city's total revenues, external assistance and public contribution (column 2) minus capital and recurrent subsidy transfers and loan from federal government in each year. On the other hand, the city's total expenditure is indicated in column 5. The figures in column 6, disclosed the fact that Addis Ababa city is able to cover its expenditures and also register budget surplus for the first three consecutive fiscal years. It is also safe to conclude that there is no observed fiscal gap in the years between 2003/04 up to 2005/06. However, the city faced a budget deficit of 196.2 million birr in the year 2006/07.

Table 5.13 - planned and actual performances of all revenue sources of Addis Ababa city-2003/04-2006/07 (in million birr)

Year	Plan (1)	Total revenue, assistance and public contribution (2)	Regular revenue total (3)	Total Resources of the city (4)	Total Expenditure of the city (5)	Balace (6)	Implication (7)
2003/04	2,668.1	1,661.1	1,597.4	1,659.2	1,486.3	172.9	Budget surplus
2004/05	4,397.1	2,190.2	2,103.4	2,185.6	1,564.0	621.6	Budget surplus
2005/06	3,476.4	2,677.6	2,671.2	2,636.6	2,241.9	394.7	Budget surplus
2006/07	5,055.0	2,315.6	2,307.6	2,315.6	2,511.8	(-196.2)	Budget deficit
Total	15,596.6	8,844.5	8,679.6	8,797.0	7,804.0	-	-

Sources: Own computation based on Addis Ababa city MTEF and annual reports

5.6. The Revenue Collection Performance

Addis Ababa city administration followed a fiscal decentralized system where revenue collection is made possible at kebeles and sub-cities

levels. Accordingly the largest share of the city revenue are collected at sub-cities and kebele levels. However, there are also revenues which are collected at the city level by different offices. The revenue agency also introduced revenue collecting system through third parties like banks, postal offices and others.

5.6.1. The Revenue Collection Performance of Sub-cities and Kebeles.

As described earlier, both kebeles and sub-cities are important places where most of the city's revenue are generated and collected. All major sources of income including tax, non-tax and municipal revenue are collected either at sub-city or kebele levels. It is also based on proclamation No. 1/2003, articles 7(3) and 13(9) that sub cities and kebeles empowered to collect revenues respectively. Realizing this fact, the revenue agency took a number of measures to improve sub cities and kebeles revenue collection performances. Currently, the tax payers files are computerized and networked.

It is observed that, revenue collection performance both in amount and sources show high variation between sub cities. Some sub cities generate high amount of revenue from tax sources and others are more depend in municipal and non tax sources. In the past four years, Kirkos and Bole are the two high revenue generating sub cities while Yeka and keranyo categorized as low income generating sub-cities. On the other hand, Addis Ketema and Lideta are medium level income generating sub cities. This revenue generating and collection performance variation also visible within kebeles which found in one sub city. However, all the total collected revenues are transfers to the city's consolidated fund (Financial administration proclamation No. 16/2003, article 5).

Addis Ababa city administration followed a decentralized fiscal system where revenue collection is made at kebeles, sub-cities and city level. However, it was observed that a huge amount of revenues were collected at sub-cities level.

According to the data obtained from the revenue agency, in the past four years sub-cities all together with their kebeles on average contributed 61.8% of the total collected revenue of the city as shown in Table 5.14.

**Table 5.14 revenue collected at sub-cities and city level (in percentage)
2003/04-2006-07**

Revenue collected	2003/04	2004/05	2005/06	2006/07	Average
At sub-cities level	62.2	65.7	57.2	62	61.8
At city level	37.8	34.3	42.8	38	38.2
Total	100	100	100	100	100

Source: Computed from Revenue Agency Report(2007)

As can be seen from Table 5.14 above, revenue collected at sub-cities level is high compared to that of the city level. Besides, with the exception of the year 2005/06 revenue collected from sub-cities show a modest growth.

5.6.2. The Performance of Revenue Collection Through Third Parties

The system of collecting revenue through third parties was introduced in August 2004. It is a method where banks, postal offices, Addis credit and saving enterprise and commercial nomince collect revenue from the city's tax payers and transfer it to the revenue agency. These institutions have got the tax collecting power from the revenue agency through contractual agreement. The main assumption behind introducing such method is that it will save the tax payers time, expenses and physical exhaustion. In addition, such system is a reliable way for money

transaction. Moreover, it reduce the tax authority administrative costs and also help to collect revenue timely.

On the other side, the tax payers while paying their taxes through third parties, they would expect to pay some amount of service charges. The rate is based on the amount of revenue the tax payers would pay to the third parties. Accordingly, a tax payers who pay three thousands and less birr require to pay three birr as service charge. On the other hand, those tax payers who pay above three thousand will pay additional one birr per each one thousand birr. However, if these tax payers pay above thirty-thousands birr one time, they are required to pay less than thirty birr as maximum service charges.

The revenue agency also clearly stated the types of taxes and charges that can be collected through third parties including.

- Employment income tax
- Business profit tax
- Rental income tax
- Turn over tax
- Value Added tax
- Urban land use fees
- Urban house tax
- Residential house rent
- Business house rent
- License fee
- Business permit sanitation service
- Out door advertising fees
- Withholding tax on business

There are eleven institutions of which eight of them are banks engaged in collection of revenue as third parties. They have a total of 139 branch offices within the city. As can be observed from Table 5.15 these institutions revenue collection performance has increased both in amount of revenue and number of tax payers through time. But, there is exception for the year 2005/06 where they served less number of tax payer customers compare to the previous year. (For detail see annex 6).

Table 5.15 - Number of tax payer and amount of revenue collected-2004/05-2006/07 (In million birr)

Year	2004/05	2005/06	2006/07	Total
Number of tax paid customers	46,184	44,834	48,246	139,264
Amount of revenue collected	117.0	252.5	356.70	726.2

Source: Revenue Agency(2007)

5.7. Issues and problems surrounding Revenue Generation and Collection

It is observed that Addis Ababa city administration is faced with many problems/challenges in its revenue generation and collection efforts. The major problems also discussed in detail below.

5.7.1. Poor revenue collection performance

The revenue collection efficiency particularly the sale of condominium houses and urban land lease are poor for various reasons. In the past years, the city administration built thousands of condominium houses and transferred these to the city dwellers. It was also expected that, the city administration will collect a huge sum of revenue from such transactions. But, this expectation is not realized so far. For example in

the year 2005/06 and 2006/07 the revenue collected from this source is 48.9% and 9.3% of the actual plan respectively. In practice, collecting a revenue from sale of condominium houses need longer time due to the fact that the house owners are expected to pay their debt in instalments. As a consequence, it is difficult to raise a huge sum of revenue in a short period of time.

The city administration also plans to collect a huge amount revenue from urban land lease in each year. But, it was seen that actual performance was very low. The reasons for poor revenue collection performance in urban land lease were.

- shortage of urban lands
- Problems related to compensation which slow down urban land lease auctions.
- Land administration authority which is responsible for administrating and collecting of urban land lease revenue did not collect arrears of urban land lease on time.

5.7.2. Existence of tax Arrears

Discussion held with the legal department head of revenue agency ³ disclosed that in the year of 1997 E.C the federal government declared a new tax arrears directive so that the city's tax payers pay tax arrears. But, since then there are many legal case related to tax arrears. According to officials, these legal cases are pending in different courts including regular courts, tax appeal courts and kebele social courts. The problem of tax arrears affected the revenue collection performance mainly in two ways. The first one is that the existence of tax arrears imply that there is uncollected revenues. Besides, to collect tax arrears it need more time and require high administrative costs. As Table 5.16

³ Ato Gebre Libanos W/Aragay, Head Legal Department

indicate, currently there are 524 tax arrears files with a total amount of 24.1 million birr.

Table 5.16 Tax Arrear by sub-city level (1997 E.C –February 2000 E.C)

No	Sub-city	No. of Files	Arrears (unpaid)
1	Arada	33	866,837.02
2	Addis Ketema	58	2,833,166.44
3	Lideta	102	8,488,013.34
4	Kirkos	73	2,170,279.15
5	Bole	40	1,477,844.03
6	Yeka	94	481,632.50
7	Akaki-Kality	7	4,558,934.95
8	Nifas silk-Lafto	58	2,237,350.69
9	Kolfe-Keranio	7	42,416.39
10	Gulele	46	147,275.21
	Total	524	24,063,024.58

Source: Revenue agency, legal department monthly report(Feburary,2000 E.C)

5.7.3. Revenue Fluctuations

In the last four years, it has been seen that the city's major sources of revenue were faced with revenue fluctuations. This revenue fluctuation was particularly observed in business profit tax, capital gain tax and non-tax revenue. Business profit tax registered 93% and 39% of growth rate in the year 2003/04 and 2004/05 respectively. But in 2005/06 it experienced high fluctuation and registered negative 21.5% as its performance. In the year 2006/07 it also registered a growth rate of 79.8%. These figures tell us that there is a high revenue fluctuation in the business profit tax revenue. The main reason for such fluctuations is also related to the government decision of lowering the business profit tax rates. Moreover, capital gains and rental incomes did not show a positive growth in the past four years. Furthermore, non tax revenue sources were exposed to high revenue fluctuations in the year 2006/07.

It was also observed that the poor revenue collection performance in urban land lease is the main cause for such high fluctuations of non-tax revenue. In general, it is possible to say that revenue fluctuations is among the major challenges of Addis Ababa city administration revenue generation and collection efforts.

5.7.4. The problem of Administrating own sources of revenue

As discussed earlier in this chapter, it is the federal government which collects, administers and transfers a revenue generated from both Road Transport Authority and Office of Acts Registration and Document Authentication. But, in principle both sources of revenue are the city administration mandate. As a result of such arrangements, the city administration failed with a problem of administering its own sources of revenue. Moreover, this situation also brings a problem of delay in transferring of the collected revenue to the city administration.

5.7.5. Planning inefficiency

Planning inefficiency was basically raised from using unreliable data in the planning process. It was also observed that due to this problem the city's planned and actual revenue collection performance show wider gap in the periods covered by this study. Most of the time, the planned revenue are exaggerated and the actual performances are low. But, sometimes the reverse has happened. For example, in the year 2006/07 employment income tax and business profit tax registered 106.2% and 108.1 % of actual performance respectively. These achievements were brought the total tax revenue actual performance to be 100.2% in the same year. Therefore, such facts imply that there is a problem in the planning process.

5.7.6. Absence of subsidies

Addis Ababa city administrations do not receive a federal government budget grants. Thus, the city is expected to cover its expenditure from its own sources of revenue. Of course, there is federal government road fund transfers to the city administration in every year. But, its contribution is insignificant. On the other hand, even if the city's own sources of revenue seems enough to cover its expenditures, federal government grants may be important in some cases. In addition, in the revised charter article 54(1) it is stated that the city administration may receive financial assistance from the federal government for expenditures on programmes having a developmental value of countrywide effect.

5.7.7. Non-utilization of other revenue sources

Addis Ababa city administration is expected to spend millions of birr for both recurrent and capital expenditures in each budget year. However, it is difficult to say that the city administration exploit all its sources of revenue fully. There are sources of revenue including domestic and external loan, federal government assistance that are still untouched. The revised charter also stated that the city government can engage in different revenue generation activities. Of course, these sources of revenue some how require the federal government authorization and agreements. In practice, the city administration did not utilize these alternative sources of revenue till now. In other words, a single coin is not raised from such sources till today. But, if properly and wisely managed such sources would be a good alternative especially to finance capital expenditures.

5.7.8. Tax evasion and corrupt practices

From administered questioners, it is identified that there is a tendency of tax evasion practices on the part of taxpayers. According to the respondents, taxpayers hide their tax book recordings and also do-not declare their exact taxable income. To tackle such problems; the agency should strengthen its information system. On the other hand, the taxpayers complain that tax collectors are corrupt. They pointed out that this problem is severe particularly in relation to tax assessment committee. They also added that the number of tax collectors at each level is few compared to the taxpayers. As a result, they should have to wait longer hours to pay their taxes.

5.7.9. The rise of the informal sector

Addis Ababa city is an important political, economic, social and commercial center of the country. Therefore, there is high population in flow to the city. Based on the data compiled by Central Statistical Agency (CSA, 1997) cited in (Jemal 2000:86) informal sector defines as household type establishment or activities which:

- Is mainly engaged in marketing production
- Is not registered as a business enterprise
- Has less than 10 persons engaged in the activity
- Has no full written book of accounts and
- Has no license

Accordingly, many economic activities are carried out by sizeable number of people in the city. These activities go unrecorded in the official account. The common and wide spread activities are trading along the city's streets i.e. street vending. There are also sizeable number of

small shops who trade a wider range of goods without having trading license.

The city administration has taken a number of measures to control such informal sector activities and also to bring them under the tax system. These measures include forcing small shops to have license and pay tax, constructing small shops for street traders and others. But still this problem is a major challenge. The informal sector is not well come by the business community on the ground that they sell goods at low prices that affect the demand for goods in the shops of legal traders.

To sum up, the above-discussed problems are the major challenges, which surround the city administration revenue generation and collection efforts. They also hinder the maximum utilization of all revenue source of the city administration.

5.8. The Revenue Administration and The Business community

The following section will attempt to briefly assess the responses of the interviewed sampled members of the business community.

5.8.1. Characteristic of sampled business community

From a total of 174,043 registered and licensed business communities a sample 100 members were interviewed to gather information about the city's tax collection system, assessment, compliance and related issues. From the sampled members, 77% are male and 23% are female headed merchants. All the respondents are the businessmen. Regarding duration of stay in business, 77% of the respondents worked for 1-10 years while 15% of them engaged for 10-20 years followed by 8% having 20-30 years of engagement. Concerning their educational status 36% of them are

high school completed, 14% did not complete their high school education. 13% of the members are primary, 24 are diploma holders, 12 degree graduates and 1 is master degree holder. Regarding the type of business they engaged in, 52% are retailers, 6% are wholesalers followed by 42% of service providers.

Table 5.17 Summary of Sampled Business Community by Sex, Level of Education and Type of Business Engaged in

	Sex		Level of Education						Type of Business Engaged in		
	Male	Female	Primary level	Secondary level	High school completed	Diploma	BA	MA	Retailers	Wholesalers	Service providers
Number of Respondents	77	23	13	14	36	24	12	1	56	6	42
Total	100		100						100		

Source: field survey, 2008

5.8.2. Opinion of the sampled Members on tax administration

a) Tax imposition

The imposition of tax on the tax payers should be based on the ability to pay principles.

In this regard, 55 percent of the respondents from the sampled members of the business community believed that the tax imposed on them is based on their ability to pay. Whereas 40 percent of the respondents argued that the tax they pay and the income they get

from their business is not proportional. As a result, they believed that they are heavily taxed.

Table 5.18 Responses on tax imposition

Issues	Frequency	Percentage
It is based on ability	55	55
Not based on ability	40	40
No comment	5	5
Total	100	100

Source: field survey,2008

b) The tax collection system

The respondents were asked about the existing decentralized tax collection system. Accordingly, 81 percent of them supported the existing decentralized tax collection system for reasons such as this system make possible to pay their tax in the nearest tax collecting offices and this also save them from incurring additional costs. On the other side, 14 percent of the respondents expressed their dissatisfaction on the existing decentralized tax collection system while the rest 5 percent remain silent on these issues.

When asked about the practice of collecting tax and charges through third parties, 78 percent of the respondents answered that it is a good system and should be continued. They reason out that, this system is an alternative and also effective one. But, 9 percent of the respondents argued that this system is somehow complicated and also additional service charges are required to utilize it. So, they stated that they did not support it. The rest 13 percent respondents did not comment on these issues.

c) Convenience of tax paying time

It is argued that timing of tax payment including the time limit given to pay the tax should be as far as possible convenient to the taxpayers. In this regard, 60 percent of the respondents believed that both the tax paying time and the time limit given to pay the tax are convenient and enough to the tax payers. While 10 percent of the respondents argued that both are not convenient and enough. On the other hand, 21 percent of the respondents answered that the tax paying time is convenient but the time limit is not enough. The rest 9% did not comment on it.

d) Tax Assessment

Asked about in which methods the tax is assessed on them, 77 percent of them answered that it is based on the assessment of their daily income while 8 percent of the respondents stated that it is based on accounts and records they keep. The rest 15 percent stated that the tax assessment is done based on evidences.

In line with, the sampled respondents were asked about whether they keep tax records and accounts. Accordingly, 64% of them stated that they keep tax books and records where as 31 percent said they do not keep books and records.

e) Corrupt practices in Revenue collection

The corrupt practices of tax officials would make taxpayers loose their trust in the tax system. Therefore, tax laws should reflect certainty and avoid a loopholes for corruption. 57 percent of the respondents of the opinion survey strongly argue that there are corrupt practices in the revenue collection.

Table 5.19 Response about corrupt practice

Issues	Frequency	Percentage
Corrupt	57	57
Not Corrupt	18	18
No comment	25	25
Total	100	100

Source: field survey, 2008

f) Compliance of tax payers

In situation, where there is awareness about the need and purpose of taxation, there will be high level of compliance on the part of the taxpayers. In this regard, the respondents were asked whether they know why they pay taxes. 98 percent of them answered that they know why they pay taxes. They stated that paying tax is a duty. In line with this, the interviewees were asked about the existing tax and charges laws and regulations. 65 percent of the respondents confirmed that, they know the existing laws and regulations very well, whereas 33 percent of them states that they do not know the existing laws and regulations at all.

g) Issues related to the number, capacity and knowledge of tax collecting officials

The respondents asked whether the number of tax collecting officials is sufficient enough at each level. 34 percent of the respondents believed that there is enough number of tax collecting officials at each level. On the other side, 46 percent of them said number of tax collecting officials at each level are not enough. They further stated due to this, they would wait longer hours to pay

their taxes. The rest 20 percent of the respondents did not comment on the issues.

When asked about the capacity and knowledge of the tax collecting officials, 27 percent of the respondent said that the tax collecting officials have the needed knowledge and capacity to collect taxes. But, 48 percent of the residents stated tax collecting officials did not have the necessary knowledge. The rest 25 percent remain silent on this issues.

h) Tax appealing system

The respondents were asked whether there is effective tax appealing system or not. 62 percent of the respondents stated that there is no effective tax appealing system. They forward as a reasons that decisions are not given on time. They also stated that the appeal committee decisions are not free and fair. 21 percent of the interviewees believed that the existing tax appealing system is effective one and the remaining 17 percent do not have comments.

i) Introducing new tariff rates

The majority of the respondents (82%) strongly opposed the introduction of new tariffs. They also forwarded the following reasons for their opposition.

- The rates of the existing tariffs are enough
- The city's collected revenue are enough to its developmental activities
- The problem of ever rising cost of living
- It should fight corruption and misuse of resources
- Existence of poor provisions of services

j) Issues related to the informal sector

The sampled respondents were asked whether they believed that the city administration can give the necessary protection for them from the informal sector particularly from those traders who do not pay taxes. Accordingly, 73 percent of the respondents believed that the city administration does not give enough protection to them. They further argued that these illegal traders are a threat to them due to the sale of goods at a lower price than the legal traders. 15 percent of the respondents believed that they would get enough protection and the remaining 12 percent have no comments on the issue.

K) Problems related to rates, tax levy and revenue collection

The respondents were asked to list down the major problems seen in the tax collection system.

Their responses according to importance were as follows:-

- The tax assessment is not objective
- Lack of transparency in tax collection
- The tax fines are not based on the tax payers capacity
- Shortage of tax collecting officials
- The corruption problem
- Existence of weak inspection system
- Poor service provision of the revenue collection workers
- File management problems
- Non-acceptance of tax payers books and records
- Absence of qualified staff
- Lack of awareness on the part of taxpayers.

L) Issues related to provision of public services.

The city administration has the responsibility to provide public services to the city dwellers. In this regard, the respondents were asked whether the city administration provides public services as needed by the city population. 65 percent said the city administration service provision is below the standards and characterized by: -

- poor provision of all services including health, sanitation
- existence of appointed, not elected administration
- The problem of corruption, misuse of resources
- Lack of good governance
- Absence of drainage system, street light, road etc...
- The problem of finance
- The tax paid and the service provided are not proportional

In line with this, the respondent asked whether the city has enough resources to cover the provision of public service or not. 64 percent of the respondents believed that the city do not have sufficient resources to cover all its provision of services. While 20 percent of the respondents believed the city has sufficient resources for such purposes. The remaining 16 percent did not comment on the issues.

The respondents were asked to suggest additional sources of revenue to the city.

Their responses according to importance were as follows:

- Bringing illegal traders to the tax system

- Out sourcing of services such as sanitation, road to the private sector
- Introducing new taxes such as pollution tax
- Creating job opportunity
- Promote trade, tourism and investment
- Efficient utilization of urban lands
- Modernization of the tax system
- Expanding loan services and provision of lands
- Expanding Micro and small-scale enterprises and others.

5.9. Expenditure Management

The expenditure management consists of the expenditure planning, budget allocation and execution, accounting and auditing practices. Proper expenditure management will help to attain development objectives by promoting effective and efficient utilization of scarce resources.

Addis Ababa city administration has the responsibility of providing both state and municipal functions to the city dwellers. It is observed that the expenditure planning is based on the city's five years strategic plan. Besides, the Finance and Economic Development bureau prepared a medium term expenditure framework (MTEF) of the city. According to this framework, the city's three years expenditure plan is projected. (2001 E.C. up to 2003 E.C). It has been observed that for these years the plan shows a balances between the total expenditure and revenues. The planned and actual performances of the city in revenue collection and expenditure management are depicted in Table 5.20.

Table 5.20 – Planned and Actual Revenue and Expenditure of Addis Ababa City Administration (2003/04 – 2006/07)

Year	Revenue (in million Birr)			Expenditure (in million Birr)		
	Plan	Actual	% Achieved	Plan	Actual	% Achieved
2003/04	2,668.1	1,659.2	62.19	2,809.6	1,486.3	52.90
2004/05	4,397.1	2,185.6	49.71	4,128.1	1,564.0	37.89
2005/06	3,476.4	2,636.6	75.84	4,082.2	2,241.9	54.92
2006/07	5,055.0	2,315.6	45.81	5,159.5	2,511.8	48.68
Average	3,899.15	2,199.25	58.39	4,044.85	1,951	48.6

Source: Computed from various annual reports (2007)

As can be seen from the Table 5.20 with the exception for the year 2006/07 annual total expenditure was covered by annual revenue. Moreover, the comparison of average revenue collected and expenditure for year 2003/04 to 2006/07 shows that, the city administration has managed to have about 248,250x4=993,000,000 Birr retained earnings or unspent fund after covering all expenditures. According to officials, expenditure planning is usually under estimated in fear of insufficient revenue generating capacity. Moreover, the city's medium term expenditure framework was not prepared in the period under consideration. As a consequence, unspent fund was predominantly observed.

An important aspect of city administration financial management is the share of recurrent and capital budgets in financial resource utilization. The proportion of recurrent budget should be kept as low as possible so as to bring about accelerated development of the city. In this regard, Addis Ababa city administration recurrent and capital budget expenditures are shown in Table 5.21.

**Table 5.21 – Recurrent and Capital Expenditure of Addis Ababa city
– 2003/04-2006/07 (in million Birr)**

Budget Year	Recurrent Expenditure			Capital Expenditure			Total	
	Executed	% share of total	Growth rate %	Executed	% share of total	Growth rate %	Expenditure	Growth rate %
2003/04	713.9	48	-	772.4	52	-	1,486.3	-
2004/05	572.3	36.6	(19.8)	991.6	63.4	28.4	1,564	5.2
2005/06	814.8	36.3	42.4	1,427.1	63.7	43.9	2,241.9	43.3
2006/07	740.1	29.5	(9.2)	1,771.7	70.5	24.1	2,511.8	12.0
	Average	36.4	4.5		63.6	32.1		20.2

Source: Computed from – FEDB Annual Reports (2007)

As can be observed from Table 5.21 the executed recurrent expenditure shows high fluctuations in its share of the total budget. On the other hand, the executed capital expenditure registered an increasing trend with an average annual growth rate of 32.1%. The above figures tell us the fact that the city administration spend more on capital expenditures than the recurrent ones in the past four years. These trends are acceptable and also need further attention to cope up with the needs of the ever-increasing population of the city.

It is also possible to see the expenditure share of the city level offices with that of the sub-cities. As Table 5.22 indicate, in the past years sub-cities share of expenditure increased through time. However, in the year 2006/07 more focus is given to road and houses construction which are performed at city level. As a consequence, sub-cities expenditure share decreased.

Table 5.22 – Total Expenditure of Addis Ababa city – 2003/04-2006/07

Expenditure level	2003/04	2004/05	2005/06	2006/07
City level	65.7	65	56	78.8
Sub-cities level	34.3	35	44	21.2
Total	100	100	100	100

Source: MTEF Reports (2007)

5.10 The Budgeting process

The budget administration of the city is based on the city government financial administration proclamation No. 16/2003. It has been observed that the guideline for allocation of annual capital and recurrent budgets are the five years strategic plans of the city. At present, both the state and municipal function budgets are combined, consolidated and approved as a city budget.

The budget preparation starts with the budget call in which each sector offices are notified of their budget ceiling by the Finance and Economic Development Bureau (FEDB). Then, each sector offices prepare and submit its budgets proposal to FEDB. The FEDB establishes an ad hoc budget committee to examine and consolidate the proposals and forward it to the mayor office. This practice is common and similar for both at city and sub cities level.

The mayor presents the consolidated budget to the city cabinet and a budget defense program will be takes place. The next step is submitting the budget to city council for approval. Lastly, the approved budget will be proclaimed in the Addis Negarit gazeta. During these steps the budget will be subject to revision and change.

The revised charter in its article 59(1) stated that the city's budget should be prepared transparently and through the participation of residents. But, in practice the budget preparation is not bottom up process. In each year, budget is prepared in offices with out participating of the community. As a consequence, the city dwellers do not get the opportunity to comment on the budget preparation process except in case of some developmental projects, which require public contribution to finance them.

5.11. Accounting and Auditing

Currently, Addis Ababa city administration uses cash based computerized double entry accounting system. Every payment more than

five hundred birr are made in checks from the bank account. It is also seen that procurement of goods and services is conducted in accordance with the city's financial administration proclamation No. 16/2003. However, the problem of timely reporting of financial information's to the treasury department is dominantly observed.

A discussion held with inspection department head of FEDB ⁴ disclosed that the department has the responsibility to perform a post -audit in each offices annually. According to officials, the audit results revealed that problems such as misuse of resources, non-compliance of the financial administration laws, lack of information, absence of closing financial accounts on time and others are observed in the inspected offices. Furthermore, due to the existence of small size of staffs, the department was not able to audit all offices in each year.

The office's of chief auditor is responsible for auditing the city administration is over all financial performance. This is based on article 26(1) of the revised charter which stated there shall be an office of the chief auditor of the city government to inspect and report to the city council on the efficiency, performance effectiveness, resource utilization and administration thereof. Accordingly, in the past four years it conducted audit inspection on many offices of the city administration and reported the result to the city council. The office is serving as external auditor and is also independent in the performance of its functions.

⁴ W/ro Meaza Abebe Head inspection Department

CHAPTER SIX

SUMMARY AND RECOMMENDATIONS

6.1. Summary of Major Findings

Public finance is a broader area of discipline which is concerned with the management of governments financial activities. One of such activities is the public revenue. Public revenue is the main method through which governments raise resources to finance their activities. In other words, it is concerned with the identification, generation, collection and administration of revenues. The most and common sources of public revenue include taxes, market borrowing, income from public undertaking, sale of public assets, user charges, fees, fines and others.

In the Ethiopian context, public revenue could be seen from two perspectives i.e. tax and municipal revenues. Taxation has an old history in the country. But, it was in the imperial regime that modern tax proclamations and regulations were introduced in the country. Since then, many laws and regulations were enacted to govern the tax collection and administration of the country. On the other hand, municipal revenue is a recent phenomena compared to tax revenue in the country. Moreover, it is the municipality's power to levy, collect and administer municipal revenue.

A decentralized form of governance is a recent phenomena in Ethiopia. Legally speaking, it was the 1994 FDRE constitution which established a federal form of arrangement in the country. Accordingly, Addis Ababa city is recognized as a special city administration with a status equivalent to a state. As a result, the city administration is empowered to perform state and municipal functions jointly. It is also entitled to generate and collect both tax and municipal revenues which fall under

its jurisdictions. Such expenditure and revenue powers also further strengthened by Addis Ababa city government revised charter proclamation No. 361/2003.

In this thesis the review of recent performance of Addis Ababa City Administration in its revenue generation and collection efforts has been carried out with primary and secondary data from 2003/04 to 2006/07.

Addis Ababa city administration enjoys wider sources of revenue. It is observed that, Addis Ababa status of both as a city and state is the main cause to have such a wider sources of revenue. Thus, the city administration collects revenue from tax, non-tax, capital and municipal sources. Furthermore, it generated external assistance from donor countries and institutions. With regard to inter-governmental transfers, the city administration does not receive regular federal government budget grants. Besides, the received transfers for some years were insignificant in their contribution. However, there is a federal government road fund transfers to the city administration in each fiscal year.

Addis Ababa city administration revenue generation and collection efforts experienced a steady growth in the periods covered in this study (except for the year 2006/07). The city administration applied a fiscal decentralization system where revenue collection is made at kebeles and sub- cities level. In addition, the tax collection and administration system is a computerized one. This helps to provide effective service to the tax payers. Moreover, the system of collecting tax through third parties enhanced the city's tax collection performance.

In the year 2004/05, the city administration was enshrined the power of collecting value Added Tax (VAT). Since then, VAT has become a fast growing source of revenue to the city. The same is true for the sale of condominium house. They are a new sources of revenue though the

revenue from them are collected in installments. To solve such problem, the city administration concluded an agreement with the Commercial Bank of Ethiopia in the year 2007/08. Accordingly, the bank paid the total amount of money to the city administration at once and the house owners would pay their debt in installments to the bank. The introduction of a new service charge rates directive in March 2004 is also a reason for the increase of the city's total revenue.

On the expenditure side, it is observed that the city administration spend more resources on capital expenditures than the recurrent ones. These trends are acceptable and also need further attention to cope up with the needs of the ever-increasing population of the city.

Despite the good performance of the city administration in generating and collecting of revenues, there are many problems and challenges which hindered the maximum utilization of the revenue potential of the city. The major problems associated with revenue generation and collection performance are summarized as follows.

The problem of administering own sources of revenue is a challenging issue for the city administration revenue generation and collection efforts. There are some municipal revenue which are the city administration mandate. However, in practice it is the federal government which collects, administers and transfers such sources of revenue. Moreover, it has been seen that the city administration is not beneficial from the business profit tax of companies. This issue has become a serious problem when taking into account Addis Ababa position i.e. it is a place where many companies are concentrated and operating.

It has been observed that, there is non-utilization of other alternative revenue generating sources. There are sources of revenue such as

domestic and external loan, federal government assistance which are still untouched. The Revised Charter also empowered the city administration to engage in different revenue generation activities which is not realized so far.

The revenue collection efficiency particularly the sale of condominium houses and urban land lease are poor for various reasons. In both cases, there are a huge amount of uncollected arrears. In the former one, the fact that house owners are expected to pay their debt in instalments is the main reason for existence of such arrears. Whereas shortage of urban land and administrative in-efficiency of the responsible organ are the major causes for uncollected arrears of lease income.

Revenue fluctuations are another major challenge which affected the city administration revenue generation and collection performance. It has been seen that the city's major sources of revenue were faced with revenue fluctuations. This was especially observed in business profit tax, capital gain tax and non-tax revenue. The major reasons for high fluctuations in the business profit tax is related to the government decision of lowering the business profit tax rates. On the other hand, the poor revenue collection performances in urban land lease is the main cause for such high fluctuations in non-tax revenue. Concerning capital gain tax, it is the mode of payment which brought fluctuations in its revenue.

There is a tendency of tax evasion practices on the part of tax payers. Tax payers hide their tax book recordings and do not declare their exact taxable income. Such activities have also negatively affected the city administration's total income. In addition, there are large number of illegal traders who do not pay tax to the city administration. Had these

illegal traders been made to work on license, the city's revenue would have increased.

Most of the time, the tax assessment tends to be subjective instead of being objective. Besides, the tax collection system lacks transparency. These situations also open the door for corrupt practices. However, the existing inspection system to control corrupt practices is not strong and effective. Moreover, the existence of less number of tax collecting officials at each level is a major hindrance for efficient service delivery. This situation is also accompanied by absence of qualified staff and poor service provision. Furthermore, tax paying time is too short and the tax fine burden is not a proportional one.

Addis Ababa city administration revenue-expenditure balance shows a surplus ratio except for the year 2006/07. In addition, it was observed that the city administration spend more resources on capital expenditures. However, the city administration public service and infrastructural provision are below the standards. In other words, the service provision could not cope up with the city's high population growth rate. As a consequence, poor provision of health, sanitation, drainage system, road and other social services are dominantly observable in the city. Besides, misuse of resources, lack of good governance and the presence of appointed, not elected administration aggravated the situation more.

6.2. Recommendation

Although there is an increase in revenue from time to time, the maximum utilization of the city's revenue potentials is not yet achieved. Besides, the city administration revenue generation and collection efforts were faced with many problems and challenges. Therefore, the following

measures are recommended to enhance the revenue generation and collection efforts of Addis Ababa city administration.

1. Improving the city's revenue generation capacity through proper utilization of:
 - Domestic and External loan sources
 - Federal government assistance
 - Engaging in different revenue generation activities
2. Empower the city to administer its own sources of revenue.
3. Improve the tax assessment system. At present it is observed that the tax assessment system tends to be subjective. This has also opened the door for corrupt practices. Therefore, introducing a tax assessment system which is objective, fair and based on evidence is important.
4. Designing a revenue sharing system between the federal government and the city administration. This is particularly important in sharing of companies business profit tax to the city administration.
5. Introducing efficient utilization of urban lands through:
 - Building up the implementation capacity of land administration authority
 - Improving the system of urban land lease auctions
 - Enforcing lease compliance
 - Speed up the compensation process
6. Reinforcing the legal enforcement mechanisms. This would help to bring illegal traders to the tax system.

7. Improve the tax collection efficiency through:

- Expanding the organizational structure of the Revenue Agency
- Modernizing of the tax collecting system
- Providing effective tax appealing system
- Promoting tax education, awareness creation programmes
- Maintaining communications with tax payers.

8. Improving human resource management and institutional set up:

- Enhancing the capacity of the revenue collection team through training
- Filling vacancies with skilled manpower
- Introducing an attractive salary scale

9. Both revenue and expenditure planning have serious shortcomings so a reform in planning process is needed.

10. Strengthening the internal and external audit to ensure accountability and transparency.

11. Encouraging the private sector and the community participation in investment, development and administration aspects.

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ANNEXES

Annex 1 Interview questionnaire 1

ADDIS ABABA UNIVERSITY **SCHOOL OF GRADUATE STUDIES**

QUESTIONNAIRE 1

This questionnaire is designed for staff who works both in the Finance and Economic Development bureau and the Revenue Agency at different tiers of administration (center, sub-city and keble levels). It aims to gather information about source of revenues, method of tax collection, the process of budget preparation of Addis Ababa city administration. This study objective is to identify the major challenges and problems of the city administration in its revenue generation and collection process and to forward objective your accurate and reliable information is highly needed.

Part I

1. Your position _____
2. Age _____
3. Education _____
4. For how long you lived in the town _____

Part II

1. What are Addis Ababa city sources of revenue?
2. Explain the duty and responsibility of both finance and economic bureau and the revenue agency at
 - a. Center
 - b. Sub-city
 - c. Keble
3. Who authorize the city administration to levy and collect charges and taxes?

4. Explain the nature each revenue source in terms of
 - a. base
 - b. buoyancy
 - c. Collection
 - d. rate
5. List all the existing rules and regulation that govern revenue collection and generation sources based on their high yields?
6. Rank the five top revenues sources based their high yields?
7. What are the methods of imposing taxes?
8. Of the following, which can be cited as a problem(s) in tax revenue collection?
 - a. The reluctance of tax payers
 - b. Rate determination problems
 - c. Tax payers hide their revenue books
 - d. Shortage of tax collection staff
 - e. Negligence of tax collection staff
 - f. Corrupt practices of tax collection staff
 - g. Others
9. What is the measures taken to solve the problems?
10. Do tax payers pay their taxes on time?
11. Is there arrears? How much it? For how long it is over due?
12. Does the existing decentralized tax collection system has an advantage?
13. What are the problems related to revenue collection from fees, charges and other non tax sources?
14. Is the tax authority organizational structure make possible to collect taxes effectively?
15. Compare the number of tax collection staff with the number of tax payers at each level?
16. Is there a federal government transfer of grants to the city?
17. Do kebele and sub-city administration have fiscal autonomy?
18. Does the city have a power to revise tariff rates?
19. Are there joint revenues? Explain them?
20. Discuss the impact of non-licensed trades on revenue generation capacity of the city?
21. What measures must be taken to improve the sources of revenues and its collection?

- 22.If you asked to suggest a new sources of revenue to the city, what sources you propose?
- 23.Describe the types of expenditures at each level?
- 24.Explain the nature of each expenditure?
- 25.Does the revenue match with expenditure?
- 26.In case of budget deficit, how you finance it?
- 27.Is there a problem of not releasing budget on time?
- 28.How is budget prepared? Who are the stakeholders? Discus this with different level such as
 - a. Center
 - b. sub city
 - c. Keble
- 29.Explain the major problems in expenditure management at the three levels?
- 30.Is there budget ceiling? why?
- 31.Is there emergency budget?
- 32.Does the city encountered with misuse of resources?
- 33.Is budget transfer is possible from one program to another?
- 34.Are there both internal and external auditors? How frequently does auditing take place?
- 35.Do you have conclusive remarks?

Thank you,

Annex 2: Interview Questionnaires

ADDIS ABABA UNIVERSITY **SCHOOL OF GRADUATE STUDIES**

QUESTIONNAIRE 2

The objective of this questionnaire is to gather information regarding the organizational structure of the city administration, power and function of the city administration, historical development of the city, its relationship with the federal government and other related aspects.

Part I

1. Your position _____
2. Age _____
3. Education _____
4. For how long you lived in the town _____

Part II

1. Describe the organizational structure of the city administration?
2. Discuss the historical development of Addis Ababa city?
3. Who elects the city mayor?
4. How is the city cabinet organized?
5. What look like the existing relationships between the mayor and the cabinet?
6. Does the city has an elected council?
7. To whom is the mayor accountable?
 - a. To the city population
 - b. To the federal government/the prime minister
8. Discuss the city's different tiers of administration in terms of their
 - a. Duties and function

- b. Accountabilities
- c. Responsibilities

9. Enumerate the type and number of offices which found at
 - a. Center
 - b. Sub city
 - c. Kebele
10. How are office heads/managers assigned? Is it merit based or political appointment?
11. Does each office have the necessary power of decision making to discharges its functions effectively?
12. Evaluate the level of transparency as well as accountability of the city administration in general?
13. Comment on the city's governing charter?
14. Explain the city-federal government relations particularly in reference to revenue matters?
15. Is there a federal government transfer of grants to Addis Ababa?
16. Does Addis Ababa benefit from federal arrangement?
17. Do kebele and sub city administration have fiscal autonomy?
18. Compare the city revenue generation performance with its expenditure?
19. Currently, the city is administered by care-taker administration. Comment on it?
20. Describe the impact of rural-urban migration on the city especially in relation to service delivery?
21. Identify the major bottlenecks to the city development?
22. Addis Ababa, the capital city of the federal government, Oromia regional state, the city administration itself and seat of many regional and international organization, what should the city do to maintain its position and status?
23. Do you have conclusive remarks?

Thank you

Annex: 3 Survey Questioners -3

ADDIS ABABA UNIVERSITY SCHOOL OF GRADUATE STUDIES

QUESTIONNAIRE- 3

This questionnaire is prepared for the business community who lived in Addis Ababa City. It aims to gather information about source of revenues method of tax collection, its utilization and related matters. The data will be used to write master's thesis in regional and local development studies at the Addis Ababa University. This study objective is to identify the major challenges and problems of the city administration in its revenue generation and collection process and forward a viable solution. Therefore, for realization of this research you objective, accurate and reliable information is highly required.

Give answer by the letter of your choice under each question

Part I

1. Sex Male Female
2. Age _____
3. Education _____
4. For how long you lived in the town _____
5. The type of business you engaged _____
6. Duration of stay in the business _____

Questions in detail

1. The tax imposed on you is based on the ability to pay principles
A) Strongly agree B) Agree C) strongly disagree D) Disagree
E) No comment
2. Tax paying time is convince to the tax payers
A) Strongly agree B) Agree C) strongly disagree D) Disagree
E) No comment
3. Collection of taxes at keble and Sub cities level in decentralized form is the best option for the tax payers
A) Strongly agree B) Agree C) strongly disagree D) Disagree
E) No comment
4. Currently, taxes are collected through third parties such as postal office and banks, Do you agree with this system
A) Strongly agree B) Agree C) Strongly disagree
D) Disagree E) No comment

5. The time limit given to tax payers to pay their taxes is sufficient enough
- A) Strongly agree B) Agree C) Strongly disagree
D) Disagree E) No comment
6. In which way the tax is impose on you?
- A) Based on the accounts and records you keep
B) Based on the assessment of you daily income
C) Based on presumptive taxes
D) Others, specify
-
-
7. Do you keep tax records and accounts?
- A) Yes B) No
8. If your answer is No for question 7, explain the reasons
-
-
9. The tax assessment committees have the necessary knowledge as well capability to assess and impose the exact rate
- A) Strongly agree B) Agree C) Strongly disagree
D) Disagree E) No comment
10. Tax and charge collectors are free from corrupt practices
- A) Strongly agree B) Agree C) Strongly disagree
D) Disagree E) No comment
11. Tax and charge collectors create most problems on tax payers
- A) Strongly agree B) Agree C) Strongly disagree
D) Disagree E) No comment
12. There is sufficient number of tax collection staff at each level
- A) Strongly agree B) Agree C) Strongly disagree
D) Disagree E) No comment

13. Tax collection staffs at each level has the needed qualification and experience
- A) Strongly agree B) Agree C) Strongly disagree
D) Disagree E) No comment
14. There is effective tax complain /appeal/ mechanisms
- A) Strongly agree B) Agree C) Strongly disagree
D) Disagree E) No comment
15. There is delay in giving decisions on issues of tax complain
- A) Strongly agree B) Agree C) Strongly disagree
D) Disagree E) No comment
16. The tax authority create public awareness before it starts tax Collection
- A) Strongly agree B) Agree C) Strongly disagree
D) Disagree E) No comment
17. The city administration has sufficient financial resources to satisfy demand for public services
- A) Strongly agree B) Agree C) Strongly disagree
D) Disagree E) No comment
18. The amount and quality of service you get is commensurate with the charges and taxes you pay
- A) Strongly agree B) Agree C) strongly disagree
D) Disagree E) No comment
19. Do you pay contribution other than taxes?
- A) Yes B) No
20. Is the contribution necessary?
- A) Yes B) No
21. Fines for not paying taxes on time is necessary
- A) Strongly agree B) Agree C) strongly disagree
D) Disagree E) No comment

22. The current government tax paying system and rate is better when Compared to its predecessor ones?

- A) Strongly agree B) Agree C) Strongly disagree
D) Disagree E) No comment

23. Do you know why you pay taxes?

- A) Yes B) No

24. If your answer in No for question 23 why?

25. Do you know the existing tax laws and regulations?

- A) Yes B) No

26. If your answer for question 25 is No, state the reasons

27. Currently, the tax payers files are computerized, Do you support this system?

- A) Yes B) No

28. If your answer for question 27 is No, explain your reasons

29. Have you taken TIN numbers (taxpayer's Identification Number)

- A) Yes B) No

30. If your answer for question 29 is No, state your reasons

31. Revenue Collection problems are rather created by us (the tax payers) than collectors

- A) Strongly agree B) Agree C) strongly disagree
D) Disagree E) No comment

32. Do you agree if the city administration will exempt you from tax Levies?

- A) Strongly agree B) Agree C) Strongly disagree
D) Disagree E) No comment

33. Do you get sufficient urban services such as water supply, road Maintenance, sanitation service etc?

- A) Strongly agree B) Agree C) Strongly disagree
D) Disagree E) No comment

34. If your answer to question 33 is C or D what do you think the reasons are?

35. Addis Ababa City Administration is accountable both to the Federal government and the city council/population at the same time. Do you think this trend should continue?

- A) Yes B) No C) No comment

36. Do you support the city administration borrowing of money from financial institutions to finance its development activities?

- A) Yes B) No C) No comment

37. If your answer for question 36 is No, why?

38. If you believe that the government service provision is lower than demand, what are the causes?

39. Do you agree if the city administration introduced increased new tariff rates?

- A) Yes B) No

40. If your answer is No for question 39, state your reasons

41. Do you keep your revenue and expense accounts and show to tax assessors and collectors
- A) Yes B) No
42. If your answer for question 41 is No why?
- _____
- _____
- _____
43. If the city administration contract out most of its service provision to the private sector, there will be better provision of these services
- A) Strongly agree B) Agree C) Strongly disagree
- D) Disagree E) No comment
44. Are there other institutions that impose tax on you? Which are they?
- _____
- _____
- _____
45. The recently introduced parking lot fees is become a good source of revenue and at the same time create sizeable job opportunity
- A) Strongly agree B) Agree C) Strongly disagree
- D) Disagree E) No comment
46. Parking lot fee rate is appropriate and hence must be encouraged
- A) Strongly agree B) Agree C) Strongly disagree
- D) Disagree E) No comment
47. There are many illegal traders who do not pay taxes to the tax authority in the city. Do you want to continue this trend?
- A) Strongly agree B) Agree C) Strongly disagree
- D) Disagree E) No comment
48. If your answer for question 47 is C or D what should be done to them
- _____
- _____
- _____
49. Do the city administration give you enough protection (which is one of its duty) from these illegal traders activities
- A) Strongly agree B) Agree C) strongly disagree
- D) Disagree E) No comment

50. If you asked to suggest additional revenue source to the city administration, what do you suggest? list them

51. Do you think the high rural-urban migration rate is a major cause to the low provision of public service in the city.

- A) Strongly agree B) Agree C) Strongly disagree
D) Disagree E) No comment

52. In last year, the Revenue Agency which is responsible for revenue matters of the city awarded a prize by some regional organization for its best tax collection performance, Do you agree with this notion?

- A) Strongly agree B) Agree C) Strongly disagree
D) Disagree E) No comment

53. Rank the major problems of the city which should be solved as soon as possible

54. Currently, the city is administered by care-taker administration. Do you support it

- A) Strongly agree B) Agree C) Strongly disagree
D) Disagree E) No comment

55. Addis Ababa, the Capital City of the Federal government, Oromia regional stage, the city administration itself and seat of many regional and international organization, what should the city do to maintain its position and status?

56. Do you have conclusive remarks?

Thank you!!

Annex 4- Revenue collected in Addis Ababa city Administration 2003/04-2006/07 (in Million Birr)

NO	Revenue Title	Budget year			
		2003/04	2004/05	2005/06	2006/07
	A. Tax Revenue				
1	Direct tax	596.70	815.10	759.30	826.40
	Income from employment	282.50	356.10	425.60	457.90
	Rental Income	26.00	55.90	13.00	19.90
	Business profit tax	277.90	387.10	303.60	330.60
	capital gains tax	5.30	14.10	14.70	10.50
	Others	4.90	1.90	2.40	7.50
2	Indirect taxes	130.10	269.30	270.40	476.50
	Value Added tax /VAT/	-	76.70	116.30	207.60
	Excise taxes	4.90	3.70	2.40	6.30
	Turnover taxes	101.90	93.00	108.20	155.70
	Stamp sales and duty	23.30	96.00	43.50	106.90
	Sub total	726.80	1,084.50	1,029.70	1,302.90
	B. Non tax Revenue				
3	Administrative fees and charges	18.70	7.10	15.00	29.10
4	sale of public goods and services	26.90	38.00	118.10	54.20
5	Government investment income	178.70	223.30	534.50	180.00
6	Miscellaneous Revenue	67.10	55.70	57.40	21.30
	Sub total	291.30	324.10	725.00	284.60
	C. capital Revenue				
7	Sale of condominium houses	7.90	6.30	205.10	118.30
8	Others	50.70	3.70	-	1.30
	Sub total	58.60	10.00	205.10	119.60
	D. Municipal Revenue				
9	tax revenue	62.40	91.80	81.30	77.90
10	Rental income	116.30	130.50	162.00	116.70
11	Service charges	62.00	68.80	74.60	34.70
12	sale of Goods and city services	259.60	368.90	331.50	343.90
	Sub total	500.20	659.90	649.30	573.20
	E. Subsidy Revenue				
13	Road Fund	18.60	20.30	20.70	27.20
14	Others	1.90	4.60	41.40	-
	Sub total	20.50	24.90	62.10	27.20
	F. Other Revenues				
1	Public contribution	21.60	30.00	-	-
2	External assistance	42.10	56.80	6.40	8.00
	Sub total	63.70	86.80	6.40	8.00
	Grand total	1,661.10	2,190.20	2,677.60	2,315.60

Source : Finance and Economic Development Bureau

	Expenditure categories and year	2003/04		2004/05		2005/06		2006/07	
		Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
A	Recurrent Expenditure (1+2)	971.60	713.90	857.70	572.30	1,099.60	814.40	1,141.60	740.10
1	State organs recurrent expenditure	703.10	480.20	564.70	423.00	761.80	598.50	801.00	640.30
	Administration and General service	230.80	178.60	215.10	135.50	249.90	208.80	287.70	248.70
	Economic services	25.80	20.00	33.10	17.80	36.80	21.10	28.70	26.00
	Social services	291.30	248.60	283.20	246.00	367.40	315.50	397.20	338.20
	Others	155.20	33.00	33.40	23.70	107.70	53.10	87.40	27.40
	Municipal organs recurrent expenditure	268.50	233.70	293.00	149.40	337.70	216.30	340.60	99.80
	Administration and General services	52.10	44.20	37.00	27.60	28.90	22.80	40.70	24.70
	Economic services	85.30	65.40	72.40	56.20	80.60	64.30	85.60	70.10
	Social services	5.60	4.80	6.20	4.50	7.00	5.80	6.20	4.90
	Others	125.40	119.30	177.40	61.00	221.10	123.40	208.00	-
B	capital expenditure (3+4)	1,838.00	730.30	3,270.40	934.80	2,982.60	1,420.80	4,017.90	1,763.70
3	State organs capital expenditure	464.90	173.90	768.10	133.50	455.10	235.30	598.70	313.90
	Administration and General development	55.80	13.10	43.00	6.90	22.50	10.90	49.50	21.70
	Economic development	218.70	95.20	587.30	72.30	336.00	188.30	439.90	255.90
	Social development	150.40	25.60	97.80	14.30	76.60	16.10	79.30	8.30
	Others	40.00	40.00	40.00	40.00	20.00	20.00	30.00	28.00

	Expenditure categories and year	2003/04		2004/05		2005/06		2006/07	
		Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
4	Municipal organs capital expenditure	1,373.10	556.40	2,502.30	801.30	2,527.50	1,185.40	3,419.00	1,449.70
	Administranion and General development	147.80	71.50	215.80	65.20	239.20	76.50	122.60	37.50
	Economic development	981.20	408.20	1,986.10	639.50	1,911.60	1,032.20	2,996.50	1,369.80
	Social development	10.50	1.00	9.10	3.00	16.30	0.20	17.20	2.40
	Others	233.60	75.70	291.30	93.60	360.30	76.50	312.70	40.00
	Total Expenditure (A+B)	2,809.60	1,486.30	4,128.10	1,564.00	4,082.20	2,241.90	5,159.50	2,511.80

Source: Computed from annual Reports

Annex 6 Number of tax payers served and amount of revenue collected through third parties-1997-2000 E.C

No	Name of Insitution	No of branch offices	1997 E.C		1998 E.C		1999 E.C		2000 E.C (Six month performance only)	
			No of tax payers served	Amount of collected Revenue	No of tax payers served	Amount of collected revenue	No of tax payers served	Amount of collected Revenue	No of tax payers served	Amount of collected revenue
1	Awash Bank	13	12,429	46,536,637.13	7,053	53,587,760.00	3,692	102,465,190.00	n.a.	41,992,008.38
2	Dashen Bank	11	4,686	14,060,709.03	6,011	50,601,554.00	7,187	75,453,669.00	1,672	25,634,081.29
3	Construction and Business Bank	4	4,393	11,462,643.42	3,970	21,798,925.00	4,688	45,796,124.00	1,017	13,968,852.54
4	Abyssinia Bank	6	9,451	21,726,482.84	12,326	62,059,812.00	13,793	59,174,234.00	3,867	19,410,536.08
5	Wegagen Bank	10	4,282	9,903,165.25	4,146	16,123,895.00	3,611	23,206,649.00	1,130	5,593,200.81
6	United Bank	5	1,213	5,354,986.27	1,945	16,852,524.00	1,937	14,845,227.00	351	2,269,659.13
7	Nib Bank	14	1,015	1,289,320.22	2,800	15,113,075.00	1,481	4,849,895.00	78	237,158.58
8	Ethiopian postal service	16	4,905	3,045,340.17	2,743	9,118,362.00	3,395	12,085,436.00	676	1,703,581.61
9	Addis Credit and saving Enterprises	18	1,403	2,228,198.21	1,914	5,502,461.00	1,899	10,360,185.00	209	180,913.55
10	Commercial Nominence	15	2,407	1,483,435.52	1,926	1,721,985.00	4,264	4,360,725.00	1,194	2,200,422.06
11	Commerical Bank of Ethiopia	27	-	-	-	-	2,299	4,110,942.00	145	2,792,463.88
Total		139	46,184	117,090,918.00	44,834	252,480,352.00	48,246	356,708,275.00	10,339	115,982,877.91

source: Addis Ababa City Administration Revenue Agency (2007)

n.a:- the date is not available