

**ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES
REGIONAL AND LOCAL DEVELOPMENT
STUDIES**

*URBAN GOVERNANCE FOR RESOURCE MOBILIZATION: THE
CASE OF REVENUE GENERATION AND INVESTMENT
PROMOTION IN JIMMA TOWN; OROMIA NATIONAL
REGIONAL STATE, ETHIOPIA.*

BY

ERMYAS ADMASU

**A thesis Submitted to the School of Graduate Studies of Addis
Ababa University in Partial Fulfillment of the Requirements
for the Degree of Master of Arts in Regional and Local
Development Studies**

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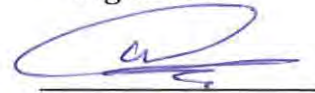
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List of Acronyms

ADLI:	Agricultural Development Led Industrialization
BPR:	Business Process Reengineering
FGD:	Focus Group Discussion
FUPI:	Federal Urban Planning Institute
IFTS:	Institute of Federal Town Studies
JULA:	Jimma Urban Local Government
LED:	Local Economic Development
MFA:	Ministry of Federal Affairs
OECD:	Organization of Economic Development Cooperation
ONRS:	Oromia National Regional State
UDA:	Urban Dwellers Association
UNDP:	United Nations Development Programme
UNESCWA:	United Nations Economic and Social Commission for Western Asia
UNPFA:	United Nations Population Fund

Abstract

Urban governance is one of those factors that affect the level of urban development. The quality of municipal governance plays determinant role in accelerating the development of municipal services, facilities and infrastructure. This further contributes towards the betterment of quality of life for urban residents. This case study is conducted in Jimma Town of Oromia National Regional State specifically emphasizing on the governance of revenue generation and investment promotion by the Municipal Government. The major objective of the paper was to assess how much the quality of governance in the Municipal Government affects generation of revenue from internal sources and promotion of investment to attract private capital for the Town's development. The study specifically focused on assessing the governance related challenges faced by the Municipal Government in resource generation and investment promotion. It also examined what efforts have been exerted by the Municipal Government to promote investment and the patterns of investment growth in the Town. The methods employed in collecting data were more of qualitative in nature with some inclusion of quantitative data. These methods include; interview with key informants in the Municipal Government, Focus Group discussion held with potential investors in the Town, questionnaire distributed among the business community in the Town and document review that included reports, books and articles that in any way supplement relevant data to the study.

The study finally revealed that, governance related problems like; lack of accountability, transparency, weak institutional capacity and lack of permanent, envisioned and publicly elected Municipal Administration affected the governance of resource mobilization in the Town. These problems are impinging on every activities related to revenue generation like; identification of sources, revenue collection, system of valuation, nurturing voluntary compliance, legal enforcement and administration of complaints. Moreover, it was also revealed that, investment promotion is at its nascent stage manifested through lack of appropriate institutional mechanisms and instruments to do so. The Municipal Government managed to attract very less private investment compared to the resource potential of the Town and its surrounding. This is because of lack of transparency, the prevalence of disincentives like long procedures, ethnic problems (discrimination), lack of transparent land administration system, less participation of residents, potential investors and other stakeholders in the development activities of the Town. Therefore, the Municipal Government should improve governance of revenue generation by strengthening its organizational capacity through better man power, materials and logistics support. Increasing taxpayers' participation in revenue related affairs, instituting objective and reliable valuation system and installing appropriate institutional mechanism to address complaints by taxpayers' could be among the most vital areas on which measures have to be taken. Moreover, much attention should also be given to the task of investment promotion by instituting an office which is responsible for it. The Municipal Government should work closely with the business community in the Town to make them part of its development process. The cost and burden of undertaking new investment activates has to be dealt by streamlining investment services and shortening decision making channels. Instituting transparent and accountable land administration and distribution system should also be given due attention.

Chapter One Introduction

1.1 Background

Governance is a complex multi-faceted issue that is difficult to locate into a specific area of concern. But it may very generally refer to “the style in which power is exercised in managing state- society relation and using nation’s economic and social resources for development.” Among others, the concept of good governance involves strong and participatory civil society, open and predictable policymaking process, accountable executive, professional bureaucracy and rule of law. From its economic dimension it refers to the use of political authority to the management of resources for social and economic development (Tegene et.al. 2004 : 131, Vay vanandan, 2003: 19).

Urban governance on the other hand is the process by which local urban governments respond effectively to local needs in transparent, participatory and accountable manner. It has a lot to do with swift urbanization process taking place, which upgraded the mandates of urban local bodies concerning economic development. Now a day Municipal Governments are taking a more active role in social and economic development (UNFPA, 2007: 67 -68).

But handling the business of economic development at municipal level also requires mobilizing the necessary resources which further require institutional capability in doing so. Urban governments are expected to monitor urban development and facilitate the mobilization, distribution and allocation of resources. In addition a municipal government should possess the capacity to negotiate and decide the production, use and allocation of urban resources. (United Nations: NA, 4).

Resource itself is a very broad concept encompassing human, physical, financial and other elements. Similarly, mobilization of resource is broader in nature. However for the purpose of this study, it is limited to how urban governments generate locally available resources from own revenues sources and promoting private investment.

Municipal governments have to generate their own local resources efficiently because “Revenue sharing or grants are unlikely to change a poor city in to a rich one ... cities... will have to bear the brunt of the fiscal challenge by utilizing existing internal resources efficiently” (Cheema,1990: 64). Moreover, Local Economic Development (LED) emphasizes on using the potential of local human and physical resources to stimulate new locally based economic activity. For this local governments should initiate development by using locally available resources and community based institutions (Blakley, 1996: 50-51).

In light of this, effectiveness in the mobilization of revenue resources may contribute to urban development through increased public investment on infrastructure. Effectiveness in mobilizing tax resources has a lot to do with attaining development at local level. Local areas may not be able to move long a head without mobilizing adequate resources and this include efficient generation of resources from tax. (Bird, 1992:29)

Promoting private investment is also one key activity of municipal governments to achieve economic development. Expanding more private business has dual effects on urban development. On the one hand, it increases business activities from which resource can be generated in the form of tax and on the other to generate employment opportunities to residents.

Urban governance has to play decisive role in attracting private capital into urban areas. The private sector by its nature requires conducive institutional, legal, and economic environment. An integrated policy and institutional approach that systematically address range of constraints to improve private investment is a key issue of governance at municipal level. This is because; Smaller or weaker public sector may dampen or constrain the dynamism and growth of the private sector (look and Patrick, 1998:5).

Capable and effective system of governance is crucial in implementing resource mobilization programmes. Such programmes are less likely to succeed in the face of poor system of governance. Mobilizing local resources through public-private participation is one of the urban development challenges facing developing countries now a day (Cheema,1990:419). This implies that, quality of governance affects resource generation schemes by municipal governments.

This background serves as a basis for this study which focuses on studying the town of Jimma. The study is mainly concerned about urban governance in the town specifically in its capacity to mobilize resources from own revenue sources and attracting more private capital by promoting investment.

1.2 Statement of the Problem

Jimma is one of the oldest towns' in Ethiopia with a long history of survival. It has gone through different stages of growth across time under different regimes in the country. It took its present shape during the Italian occupation because they made much investment in infrastructures and services to make it their capital in the southwestern part of the country. Even after the Italian withdrawal, it enjoyed period of economic boom serving as commercial and coffee processing center. But

the Derg's economic policy discouraged private investment by confiscating private capitals and business establishments, after when the growth of the town is stagnated for a long time. However, its growth is hampered still now a day even if it has better opportunity for development unlike the past. The Municipal Government is provided with autonomous power that gives it a range of freedom on the economic issues of the town, especially in formulating its own development strategy and generate the required resources to attain it. Moreover, currently there is a better policy environment, unlike the previous regime, to attract more private capital and use the sector as an integral part of the town's development.

One can observe that, the town is experiencing slow growth rate with weak service provision and infrastructural facilities like for instance; road, streetlight, drainage, waste management etc... and unable to generate employment opportunity for its residents. Scarce availability of resources and poor system of governance to generate resources and attract private investment has a lot to do with the status of the town.

The amount of revenue generated yearly covers very small portion of the resource need to undertake development activities in the town. In this case, efficient and effective generation of resources from available sources could mitigate the resource need of the town. This further requires implanting system of good governance and well-organized and equipped organizations to collect revenue. Efficient and effective mobilization of domestic resources is the key to self-sustained growth and for this promoting good governance is indispensable (Bird,1991:116). This may relate to the generation of own revenue from tax, service charge, fees, license, property ownership (Mc Master,1991:23). Governance problem related to revenue generation like; weak identification of sources, inefficient collection, weak legal enforcement,

weak institutional capacity etc... could contribute a lot to the resource scarcity and less development of the town.

Jimma and its surrounding is considered to be one of the resourceful area conducive for private sector development. Owing to its favorable soil and weather condition Jimma has promising potential for crop and livestock production, its surroundings possess raw materials for various industrial development. In addition it has got potential for industrial activities like leather processing, vegetable and fruit processing, soap manufacturing, packing diary farm and milk, coffee processing, brick making, soft drink factory etc... (Institute of Federal Town's Studies (IFTS), 1997, 34-35). But little investment has been observed in these areas and medium and large scale industries are absent from the town. Moreover, private sector participation in the town's development is minimal. Investment related governance problems like; weak promotional activities, poor investors facilitation, long procedures, lack of accountability and transparency that erodes investors confidence etc... could contribute to the less attraction of private capital in to the town.

Improving Governance of revenue generation and investment promotion could be one way of dealing with the development problem of the town. The issue here is that, how much the quality of governance in the Municipal Government is affecting resource mobilization, specifically in the generation of own revenue and promoting investment. In addition, the Municipal Government and development problem of the town has not been studied clearly from the dimension of governance in revenue generation, coupled with promoting investment. Therefore, this study aspires to fill this gap.

1.3 Objective of the Study

The paper tried to look in to the contribution of urban governance in resource mobilization. It tried to show that generation of own resources requires effective system of governance. It also showed the necessity of capable governance to attract private capital and investment as a means to expand resource base of towns and improving standards of life. This is assessed from the dimension of governance and economic situation in Jimma town.

Specifically it tried to look in to:

- The impact of quality of governance in Jimma Municipal Government on resources mobilization.
- The main governance challenges that the municipal government faces in the generation of own revenue from different sources.
- Factors related to governance that are contributing or hindering any effort to attract private investment in to the town.
- Investment activities in the town and efforts exerted by the Municipal Government to attract private investment.

1.4 Research Questions

- How the quality of governance in Jimma's Municipal Government is affecting resources mobilization for development?
- What are the main governance challenges faced by the Municipal Government in the generation of own revenue from different sources?
- What factors that are related to governance are contributing or hindering any effect to attract private investment in to the Town?

- Is the Municipal Government exerting it's at most and sufficient effort to attract private investment or in facilitating conducive investment climate?

1.5 Significance of the Study

The study shows how much quality of governance affects resource generation for development in self-ruling Municipal governments. It is timely and relevant because both the issue of good governance and development are given due emphasis as a means of improving the livelihood of people and effect development at both local and national level.

In addition, the level of development of Jimma town has now a day became an issue of concern and discourse among concerned authorities and stakeholders. This study contributes by shedding some light on this effort from the dimension of governance in resource generation and investment promotion.

Moreover, it could serve as an additional in put for any other researcher to make further study on the same issue or other related matters in any other place or in Jimma Town.

1.6 Limitations of the Study.

The study was limited only to Jimma town and obtaining additional data for the purpose of comparison with other towns was constrained by lack of resource and time. Convincing respondents to fill the questionnaires was another challenge faced in the due course of data collection because of the sensitivity of tax issues that has reduced the sample size. Moreover, Poor documentation and information system reduced the possibility of using reports and other documents in a way that is best applicable to this study. In relation to this,

language barrier (since some documents are prepared in Oromiffa) has also caused constraints on reviewing original documents and reports. Conducting frequent FGD's (Focus Group Discussions) was very difficult because of the time barrier to get the limited number of investors in the town. This obliged the Researcher to meet respondent investors in person going to their place in addition to the FGD conducted.

1.7 Scope of the study

Though, the issue of governance in general and urban governance in particular incorporates multi-faceted elements this study mainly focuses on urban governance in resources mobilization to contribute for urban development.

Even resource mobilization is multidimensional since, it embraces human, material and other dimensions. However, this study looks in to mobilization of revenue from own sources and attraction of more private capital for investment with in the context of good governance for urban development.

In this regard, though the development or backwardness of Jimma Town can be affected by many factors, this study tried to see it from the governance dimension in resource generation (from own sources) and promoting investment to make use of the locally available resources.

1.8 Methodology

The research is designed to be a case study. Case study is selected because the study is specifically concerned to study Municipal governance in Jimma town with respect to resource mobilization and its possible impacts on the level of development of the town. This requires detailed analysis of the governance situation in the town with respect to

investment promotion and revenue generation. In this regard Kumar (1999:99) provided that case study is an approach to study a social phenomenon through a thorough analysis of an individual case. The case may be a person, group, episode, community, society or any other unit of social life. It assumes that the case being studied is typical of example other cases whose findings can be generalized to other similar cases after making an in depth analysis of it. All data relevant to the case are gathered and organized in terms of the case. Therefore detailed information is collected from different sources using varieties of methods like questionnaire , FGD, structured interview and document analysis to make an in depth analysis in this study.

1.8.1 Data Collection

Different methods of data collection were employed, those are deemed to be appropriate and enable to acquire the necessary information, to address the research questions and possibly lead to credible research findings. The methods are discussed below.

1.8.1.1 Interview

Interview was conducted with key informants in the Municipal Government who are assumed to have particular information on relevant issues that provided wealth of information for the researcher. These include; the city administration up in the hierarchy (the mayor and others), head of revenue collection and investment offices, budget experts, auditors and field revenue collectors. Semi structured checklists with open ended questions were prepared to carry out these interviews. Relevant questions were prepared for each respondents on issues related to governance in revenue generation and investment promotion. Finally, 9 key respondents were interviewed from different offices and departments.

1.8.1.2 Focus Group Discussion

There was discussion with discussants in the FGD on issues that mainly pertains to governance related issues which constrain or contribute for investment promotion in Jimma Town. The discussants are composed of people who are undertaking investment activities and some are on process to invest in the town. The discussions were fruitful in revealing factors that hinder expansion of private investment on which corrective measures have to be taken. The findings from the FGD were triangulated with information obtained from key respondents in the investment office.

1.8.1.3 Structured Questionnaire

This method was employed to collect data from the business community, from whom revenue is generated in the form of tax and non tax revenues. Structured questionnaire was prepared, in to which different sets of questions were incorporated that enable to obtain the business community's opinion regarding the efficiency and effectiveness of revenue generation by the Municipal Government. Range of issues were raised that helped to give deep insight regarding its revenue generation capacity and their involvement in it. Detailed data has been found that provided a wealth of information to the study and that can be triangulated with key respondents' response in the Municipal Government. Data was collected by enumerators, who directly record responses. For this purpose, four students were selected from final year under graduate class in Jimma University and, trained on the questionnaire to help them collect the data appropriately.

1.8.1.4 Reviewing documents and literature

In addition to collecting primary data from the above stated respondents, the study also used all other necessary documents that are obtained from the aforementioned offices, Regional and Federal Bureaus and libraries. Such documents are reviewed to see patterns of change and continuities on relevant issues in the study area.

Moreover, theoretical basis of the study will focus up on pertinent literatures that include books, articles, and any other published and unpublished materials.

1.8.2 Sampling Technique

The tax registry document in the revenue collection office was used as a sampling frame to determine the total sample size. It depicts a total of 3064 business establishments engaged in different types of businesses. Sample size was determined by using the following formula quoted from (Chchara, 1997 and Kinfе,2002 in Dagnew,2006).

$$\text{a) } n_0 = \frac{Z^2 P Q}{d^2} \qquad \text{b) } n = \frac{n_0}{1 + \frac{n_0 - 1}{N}}$$

Where n_0 - is the desired sample size when the population is > 10,000

d - is the margin of error or degree of accuracy desired at 0.05

n - is the number of sample size when the population is < 10,000

N - is the total population

P - is 0.1(proportion of the population to be included in the sample size i.e 10%)

Q - is 1-p i.e 1-0.10= 0.9

Z – is 95% confidence limit i.e, 1.96

It is calculated as;

$$n_o = \frac{(1.96)^2 \times 0.1 \times 1-0.1}{(0.05)^2} = 138.2 \qquad n = \frac{138}{1 + \frac{138-1}{3064}} = 130$$

As indicated above the sample size was calculated from the total sample population (N) of 3064 in the sampling frame in the revenue collection office. The sample population obtained finally was 130. After distributing a total of 130 Questionnaires only 120 were collected back. The data collection from the business community was very difficult because they were less cooperative suspecting that enumerators were sent from the revenue collection office.

From the total collected questionnaire 8 were not included in to the study because of errors in filling them. Therefore analysis is made on 112 sample size.

Effort was made to distribute the sample population along different types of businesses. More than 50 types of businesses are identified in the town from which 18 frequently available are selected. More respondents are selected randomly from those business types with more frequent presence.

Selection was stratified by business types because different business types have different set of experiences with the Municipal Revenue Generation Office. Therefore, this method accommodates these variations.

The distribution of business types in sample selection is shown by the following table.

Table 1- Rspndents distribution by business type

Business type	Amount selected
Textile	24
Retail trade	21
Wood and metal	14
Ready made clothes	11
Electronics	8
Stationary	5
Shoes	4
Hotel, café, restaurant	3
Laundry	3
Spare parts	4
Pharmacy	3
Photo	2
Building materials	2
Fruit and vegetables	1
Cosmetics	1
Gold smith	1
Grain and cereals	1
Whole sellers	4
Total	112

1.9 Method of data analysis

Qualitative data was analyzed after categorizing the data obtained in to manageable units. The categories were formed from the same structure that governed the collection of data. As provided by Strauss and Corbin (1998) grouping concepts in to categories enables to reduce the number of units with which analysis is to be made and increases analytical

power. After categorizing the data descriptive method was used to incorporate it in to the analysis.

In analyzing quantitative data (responses obtained from the sample population) frequency distributions were used to group respondents in to the sub categories in which variables have been divided. This frequency distributions helped in coming up with percentages that are incorporated in to the analysis in the form of tables and simple descriptions as found appropriate.

CHAPTER – 2

Literature Review

2.1 Governance and related concepts

2.1.1 Meaning of governance

The term governance is multifaceted, broader and inclusive that is difficult to define and measure. Different institutions defined it from different dimensions. In its conceptual spectrum it is considered to be multi-level (Individual, local, National and international), multi actor (National government, local government, private sector and civil society) and multi faceted that include political, economic, administrative and other issues. Therefore, different definitions may emphasize different aspects depending on one's area of concern. (Battani, 2000: 2).

But the term governance is mainly used in relation to all aspects of the exercise of power and authority in managing state society relation and the style in which nations economic and social resources are employed for development. (Tegene etal, 2004: 131).

The World Bank quoted in Paulos (1999:5) defined governance as:

The manner in which power is exercised in the management of a country's economic and social resources for development. It is also a complex mechanism, processes, relationships and institutions through which citizens and groups articulate their interest, exercise their rights and obligations, and mediate their differences.

This implies that, governance has an economic dimension of managing available resources towards attaining development and ensure welfare to citizens.

From its political perspective the terms embraces important principles of democratic political order, rule of law, human rights, accountability of government officials to citizens, transparency in government operation,

equality before the law, independent judiciary, free press and others. It also incorporate institutional dimensions that involves popular participation in decision making, effectiveness and efficiency in public sector management, stable multiparty system and robust civil society institutions and others. (Mheret and Paulos, 2000: 3).

The OECD (Organization of Economic Cooperation and Development) emphasized issues of participatory development, human rights and democratization in defining governance by focusing on legitimacy of government, accountability of political and official elements of government, competency of government to formulate policies and deliver services, respect for human rights and rule of law.

On the other hand, the UNDP (United Nations Development Programme) gave due focus to political legitimacy, cooperation with institutions of civil society, freedom of association, participation, bureaucratic financial accountability, efficient public sector management, freedom of information and expression and fair and reliable judicial system. (UNDP and OECD quoted in Paulos, 1999: 6).

These all and other definitions show that governance is a complex multi-faceted concept that involves range of political, economic, social, administrative and other issues. Therefore, giving a hard and fast definition of governance is a difficult task. This study has more relation with the economic dimension of generating revenue and promoting investment specifically to attain urban development. Accordingly, “the exercise of power for the efficient generation and management of a country’s resource in a transparent, accountable and participatory manner geared towards attaining development and improve the life of citizens.” could be a more appropriate definition of governance for this study.

2.1.2 Dimensions and elements of governance

As a complex multi-faceted concept it is challenging and difficult to collapse governance in to a specific area of concern. Emphasizing it only from one angle may show only part of what is supposed to be touched leaving other important element aside. Therefore, it involves political, administrative and economic dimensions of very broad nature. (Pethane,2000:3) has also discussed some elements of good governance that characterizes a political system as;

- a. **Legitimacy:** the degree to which citizens accept its rules, structures, and processes and view them appropriate and proper.
- b. **Efficiency:-** the extent to which a system meets its goals, to maximize the welfare of its citizens.
- c. **Effectiveness:-** The ability of a system to deliver its promises on time and as prescribed by its members. It also touches up on the implement ability of laws and institutional capability to perform desired activities.
- d. **Predictability:-** shows the degree to which rules and regulations are applied consistently that provides a sense of being ensured for citizens and the private sector to perform its activities.
- e. **Transparency:** refers to the extent to which the system allows access to information on various public matters to its members.
- f. **Inclusivity:-** refers to the degree to which a system takes in to account the needs, aspirations and views of its members or how much is it is responsive and accountable to public needs.

Other dimensions and areas of governance that may have direct relationship with this study include:

- **Public sector management** which entertains elements of civil service reform, enterprise reform, financial management, providing

an enabling environment for the private sector and poverty reduction.

- **The legal framework of a system** also provides appropriate legal system that is essential for development because it provides stability and predictability for the business environment lowers transaction cost and governs the activity of the civil society. (Battani, 2003).

On the other hand, the legal frame work for development as part of governance includes; adequate safeguards for business contracts enforcement and sufficient state institutional capacity to monitor and regulate the activities of the private sector (Mehert and Paulos,2000:3)

This implies that, studying governance requires discerning some relevant elements in order to have specific focus in analyzing issues from one's own perspective. Though not exhaustive, the above discussion displays the main elements and dimensions of governance. From these, the administrative and economic aspects of governance, which includes transparency, accountability, efficiency and effectiveness, have much more relevance to this study.

2.2 Urban governance; its meaning and dimensions

2.2.1 Meaning of urban governance

The term urban governance has been formerly equated with urban management and its functions restricted to urban planning activities towards physical planning and design. In the past all spectrum of urban economic development issues and municipal affairs were restricted to the task of urban land use planning. But now a day there is a quest to shift the paradigm from emphasis on urban master plans to managing urban

economies in a participatory manner. Recently, therefore the term incorporates the different aspects of governance understood in the specific context of urban administration that generally arrives at responding effectively to local (urban) needs in transparent and accountable manner. (UNPA, 2007: 67, UNESCWA, NA: 2, Wekete, 1997:530).

Therefore, different meanings of urban governance are entertained that express range of broader issues in the urban context.

For instance Djak et al. (2002:1) stated that;

Urban governance is an effort to coordinate and integrate public as well as private actions to tackle the major problems the inhabitants of cities are facing and to make more competitive and equitable and sustainable city. It is a multi sector and multi actor process concerned about the economic base of the city, participation and equality.

This definition mainly emphasized the necessity of public-private partnership to deal with social and economic problems that prevail in urban areas.

In specifically developing countries context, it may refer to:

The political and administrative structure of cities and the major challenges that they face to provide both physical and social infrastructure services. These include managing urban economic resources, creating employment, and attracting investment in order to improve the quality and quantity of goods and services available (Wekete, 1997: 529).

This could serve as a working definition for this study since it touches up on the responsibility of urban governments in generating resources to upgrade infrastructural facilities and services as a way to achieve better life to residents.

Keeping these all facts in mind urban governance also undertake some basic functions with in the context of urban administrative issues. For instance the urban and city governance profile of the World Bank states the key issues and functions of urban governance as municipal finance, competitiveness and enhanced capacity to attract private investment and promote employment, and the capacity to deliver public service in an efficient manner. (Djak, NA, 6).

In general, urban governance includes all of the laws, regulations, frameworks, management systems and processes and the social and cultural surroundings that accommodate the needs and demands of urban residents. (Dahilawal, 2004: 16).

This indicates that urban governance touches up on various issues related to governance that includes participation of different actors, efficient and effective service delivery and reflecting needs of the urban community in transparent and account able manner.

2.2.2 Dimensions of urban governance

The meaning and definition of urban governance clearly exhibits that it is a multi actor and multi- sector process directed towards promoting the welfare of urban residents and ensures sustainable cities that are livable, and well managed. In doing so it undertakes multitude of activities that embraces service delivery, building institutional capacity, effectiveness and efficiency in resource utilization, protecting the urban environment, creating conducive business environment and others with in the frame work of accountable and transparent systems of governance.

Accordingly the UN- Habitat publication on urban governance listed some very important dimensions of urban governance that includes;

1. **Ensuring urban development sustainability:** this requires enabling wide participation of urban inhabitants in the formulation and implementation of long term urban development strategic vision and ensures the safety of urban physical environment.
2. **Efficiency and effectiveness in service delivery:** - is about delivering urban services in an efficient and effective manner. This apparently requires systems of resource mobilization that requires cities to be financially sound and cost effective in their management of revenue sources and expenditure. Apart from improving systems of revenue collection it is important to attract the private sector capital and communities to contribute formally and informally to the urban economy. For this improving organizational capacity with in the framework of public sector management is deemed necessary that includes civil service reform, leadership, strategic management and development. Among others due emphasis is given to;
 - improve the effectiveness and efficiency of local revenue Collection
 - developing and implementing fair and predictable legal and regulatory framework that encourages commerce and investment and minimize transaction cost.
3. **Transparency and accountability:-** serves as basic principle of urban governance that proposes urban governments to be accountable and transparent to their inhabitants manifested through transparent working systems, flow of information and accountable to decisions

made. From among other factors this can be manifested through;

- Regular, open and organized consultation of citizens on city's financial matters and other important issues through instruments like participatory budgeting.

- Removing administrative and procedural incentives for corruption including; simplifying local taxation system and the reduction of administrative discretion in permit processing.

4. **Subsidiary:** urban governments should develop structure of subsidiary in delivering services and making decisions that ensures the participation of inhabitants.
5. **Ensuring equity in resource utilization:** inhabitants should be provided with standardized education employment opportunity, health shelter, drinking water and other basic services.
6. **Participation and consensus building:** involves creating common understanding, identifying common areas of agreements and avoiding differences in civilized and peaceful manner. This mainly involves;
 - Mechanisms are installed to allow citizens participation in planning and implementation of plans, programs and projects.
 - Presence of simple procedures to ensure fair and swift actions on suggestions, grievances etc... by the public
7. **Ensure rule of law and security:** - efficient strong justice system in urban areas ensures sense of security for urban inhabitants and for what they own. City governments should also avoid human conflicts and protect inhabitants from natural disasters. (UN habitat, 2002: 3-9).

This study has much more concern regarding efficiency, effectiveness, transparency and accountability aspect of urban governance in resource mobilization, especially in revenue generation and attracting private capital for urban development.

The impacts of urban governance on different sectors are summarized as follows;

Table 2- The impact of urban governance on different sectors

Main impacts of urban governance on different sectors			
Impacts on	Economic	Political	Social
Urban service delivery	Reduces cost of corruption	Increases public support	Increases fairness in the distribution of benefits
Attracting investment	Generates employment	Increases investors confidence	Increases local benefits of investment
Budgeting, financing	Increases effective collection of revenue	Increases public support for allocating resources to priorities	Reduces efforts to evade taxes and fees

Adopted from GDRC programme on urban governance (<http://www.gdrc.org/u-gov/define.html>)

2.3 Urban governance; Generating own resources for development

2.3.1 Urban governance and resource mobilization; the link

It is an undeniable fact that resource generation and utilization plays a pivotal role in any plan for development. If resources are few because of either scarcity or inappropriate mobilization or utilization, economic growth will be hindered, decision will be constrained, public goods, services and living standards will be low. This implies that resources have to be mobilized for genuine economic development (Mugabi, 1998: 131).

This holds true for any development activity including the local economic development activities of cities. Now a day, with an increasing emphasis on decentralization city governments are becoming more and more responsible for the local economic development of their areas. One of the major reasons in requiring good governance in urban areas is to enable urban residents to get access to basic social services, assuring economic growth, job creation, social cohesion, poverty alleviation and equity. (Dhaliwal, 2004: 12).

Many additional facts are making urban governments more and more responsible for their own development and resource mobilization. Since countries economic activity is becoming increasingly concentrated in their urban areas, attainment of their economic goal is also depending on their ability to inculcate good governance in their administration. Urban governance is therefore used as a means to ensure that economic growth is equitable, sustainable and improves human condition. For this, an increasing role is placed on urban governments for resource mobilization and public investment distancing from the traditional role of central governments for doing the same (The Urban Governance Initiative, NA:1, Dillinger and Yusuf, 1999: 56-57).

Moreover, currently the development attention is geared towards attaining local economic development basing up on the effective generation and utilization of local resources. Therefore local economic development calls for the pro-active initiative of municipalities to combine all local level resources, skills and ideas to stimulate development towards attaining job creation, economic growth and poverty alleviation of urban areas. (Pieterse, 2000:31).

The local economic development strategies of municipalities is believed to embrace six major activities out of which three has direct relationship with resource mobilization. These include;

- Development and maintenance of infrastructure and services that requires the mobilization of sufficient resources.
- Initiatives to promote retention and expansion of existing business in the city.
- Investment attraction and place marketing strategy to achieve it because it was believed that the development objective will be short sighted without close collaboration with the private sector (Pieterse,2000:31).

In generating local resources both capital and revenue funds are needed that help to attain urban development. For this central transfers and grants could be one optional source but the unpredictable nature of such transfers hinders the planning and operation of local councils. This situation straight forward calls for increased, efficient and effective mobilization of internal financial resources which actually are taxes and service charges. Moreover, economic activities and private business located in urban areas are also considered to be driving forces of urban growth both in increasing employment opportunities for residents and serving as lucrative source of tax resources for urban governments. (Wekete, 1997: 576).

This further entails that an effective local resource mobilization activity of municipal governments for urban development mainly focuses on efficient collection and utilization of locally available tax resources absorbing and expanding operating business and promoting private investment to outsource more resources for asset building, creating job opportunity and expanding their local tax base.

Emphasizing on this fact Wegelin (2002:80) stated that;

The increasingly recommended urban development path is reducing the dependency of cities on national fiscal resources through increased generation of local revenue to finance more effective urban infrastructure development that involves increased tax collection and assessment practices improved administrative techniques, more effective budgeting and investment planning.

In a nutshell, urban governments have wider responsibilities to deliver the required goods and services, to maintain welfare and security of their residents, and generally to ensure sustainable urban development. This study is also based on the conception that, due emphasis has to be given for the mobilization of resources available in urban local areas instead of depending on resources that might come from the center. Generation of resources for development further requires strong and committed administration that meets the efficiency and effectiveness criteria of good governance in urban context.

2.3.2 Urban governance and investment promotion

The importance of boosting favorable investment climate for development and reducing poverty is increasingly well understood by governments. The private sector has a very clear role to play for development. Cognizant of this fact, facilitating an enabling environment for private sector development through the provision of incentives, and rewards

believed to contribute for its better performance. The sector contributes through the provision of new goods and services, creating new jobs, and increasing the income base of both national and local governance. However, for it to flourish, it requires conducive business environment, supportive systems and promotional instruments to communicate business opportunities. (UNDP, 1997:16, Kikeri, 2006:5)

Facilitating smooth business environment and devising appropriate promotional instrument has now become an aspect of governance because it has relationship with attaining development by attracting more resources (Ministry of Works and Urban Development, 2006: 34).

From a broader national perspective governance helps to determine the policy formulation and implementation that in turn determine the existence of sound and attractive business environment for investment and production, since business react to incentives and constraints that is usually called as the business environment. Therefore the actions of government in formulating policies influence capital attraction from the private sector. (UN-Publication on the Middle East and North Africa, 2003:10).

Better governance has many things to do with favorable business environment. Some of these may include; it makes easier to start new business and expand existing ones, accountable and capable bureaucracies lower transaction costs, reduces arbitrary governance by creating predictable business environment, facilities effective service delivery necessary for productive business and establishes an incentive structure that reduces uncertainty and promote efficiency. It also follows a system of accountability and transparency that ensures private investors participation in setting standards of behavior for bureaucrats and their regulatory performance, and helps in avoiding cumbersome regulations that increases the cost of doing business (ibid; 11, 78,97).

Generally speaking a World Bank study on improving investment climate stated that;

Governments influence the quality of their country's investment climate through policies, institutions, and their relationship with the private sector. The quality of investment is linked to poverty reduction by the impact of better investment climate on private sector activity and on economic growth and employment (2006)

In the urban local government context, traditionally municipal governments' role for private investment is restricted to the definition of areas and zoning by urban planning and advertising cities as tourist destination. But now a days urban governments are involved in the task of investment promotion and creating conducive business environment as it is believed to stimulate urban growth and creates secondary distributional effects for the national economy. (Plummer, 2002:23).

The governance aspect of private investment by municipalities lies on the fact that, they have the responsibility to maintain the welfare of their residents and if the private sector has to deliver benefits to the poor much of the activity for partnership and facilitating the environment in which these benefits come to fruit lies with the municipalities. It is not the private sectors responsibility to care for urban development and to improve the life condition of the poor, rather municipal governments have responsibility to coordinate and integrate the private sector, provide adequate regulation and resolve constraints. (ibid: 27)

Municipal governments may not always and even in most cases have the capacity to fulfill municipal services. In this regard private sector involvement may have a two sided effect. On the one hand it saves public resources by resolving problems like housing, education, and others

through private capital while on the other, it helps to produce more job and increase the tax base. For this they have to be innovative in exercising their authority. (Borja, 1996: 253).

The key to achieving this task is to create appropriate legal and institutional environment to provide incentives for business and set instruments for the promotion of business opportunities in their areas.

Municipal governments should actively engage in the promotion of their cities to develop strong and positive image reinforced by visible work of provision of infrastructure and services to improve the quality of public areas and improve public welfare. Promoting the city internally and building positive image increases collective willingness to participate and ignites greater hope for future of the city that further helps to attract people and capital from outside. (Ibid: 251-252).

Generally speaking municipal governments carry greater duty to work for the welfare of their residents and achieve urban development. For this efforts have to be exerted to mobilize resources and one aspect of doing it is to build strong relationship with the private sector and build mechanisms to attract it to the business opportunities of the area under their jurisdiction.

Strengthening this fact Piterse (2000: 30) stated that;

Municipalities need to build relation with local and foreign private sector by leading them in to a city wide visioning and strategic planning process. Municipalities could play crucial role in helping the private sector to take long term view of their interest and how this coincide with the long term interest of the city.

In attracting private investors municipal governments should not only create modest environment for business but they also need to show business opportunities and use adequate instruments in doing so.

However creating favorable business environment and investment promotion requires technical and administrative capacity of municipal governments to plan, implement and sustain attraction of private investors. Inefficient and corrupt bureaucracies often hinder the effective running of such activities. (Kikeri, 2006,16). Therefore municipal governments should strengthen their capacity and build a governance system that allows these things to happen.

Promoting investment involves such activities as; image building and create good perception, address business opportunities by using general promotional techniques through advertising and public relation events that has to be practiced by urban governments. Such activities may include;

- a. **Promotional tools:** development of investors information and tracking systems, installation and implementation of information technology tools, development of promotional tools (materials) and promotional training.
- b. **Investment promotion:** - includes assistance to organize investors conference, seminars, promotional events and implementation of systems and procedures for investment promotion.
- c. **Investors facilitation:-** refers to the service provided to assist investor in analyzing investment decisions and establishing and operating business.
- d. **Policy advocacy:** - consists of activities that support activities to improve the quality of the investment climate and represent the views of the private sector.
- e. **Accountability:** Creating a system of accountability in handling investment related activities is a crucial. Because inefficient and

corrupt bureaucracy with long and stringent procedures profoundly affects investors decision to pursue their project ideas.

- f. **Streamlining services:** Avoidance of overregulation, long delays, high costs and discriminatory treatment is also the manifestation of good governance in investment promotion.

(World Bank,2003:97, World Bank, 2006, 272)

Therefore, this study is based on the conception that, attracting more private investment in to urban areas should also meet these parameters of governance in investment promotion, which is used as a guideline to measure the performance of the Municipal Government under the study.

2.3.3 Governing revenue generation in the urban context

Municipal governments, especially in developing counties are facing serious financial constraints. The imbalance between the rapidly increasing urban population together with its demand for services and the amount of fiscal resources at hand, which is considered to be very low has caused this fiscal constraint. It is obvious that the demand for services and infrastructure increases when a country is going through a process of urban transition. (Mc Master, 1992:1, Yusuf and dillinger, 1999:56).

Moreover, the fiscal burden of municipal governments is exacerbated by the localization and decentralization of responsibilities for the provision and financing of public services to urban local governments. This phenomena puts them in to a fiscal pressure that calls for strengthening administrative capacity to raise revenue and expenditure management and implement more sound financial management system (Dauskardt, 2000:3, El- Daher, 2001:1).

Municipal governments have two main source of revenue. The first is revenue that they collect from their own residents that include local

taxes, rent for the use of buildings and facilities, interest on investments and other miscellaneous sources. The other source of revenue is central government grants and transfers. In the later case most countries are reducing the amount of grants demanding local governments to make greater efforts to mobilize more revenue from their own sources. (Mc Master, 1992: 1).

This fact puts urban local governments to depend more on their own revenue sources and specially tax sources. This further entails that they have to implant effective and efficient system of revenue generation, which is an aspect of governance.

Enhancing their financial viability by extending revenue sources among others includes; improving local tax administration, introducing new local tax revenue sources (expanding the tax base) and focus on taxes of significant yield to concentrate efforts on those, which can provide sufficient yield.

As local taxes are the main sources of revenue for most developing countries cities, improving the capacity to administer tax is considered as an indispensable task in upgrading their resources status. In this regard the main components (tasks) of tax administration include,

- Identification of potential tax payers
- Employ appropriate assessment techniques to make the right estimation and imposition.
- To effectively collect the tax and employ legal enforcement on non-payers or evaders. (Bird, 1992: 116).

However, handling such activities efficiently and effectively requires organizational set – up that meets the criteria of governance in tax collection. Revenue raising enhancement plans usually use the following

indicators in order to explain the main activities that have to be undertaken to improve tax collection capacities. These activities range from expanding the tax coverage to setting ethical standards and improving professional skill of tax collectors. Some of these activities may include;

- a) **Improving tax coverage:-** tax coverage has to be improved by changing the system used to discover and identify businesses by making continuous assessment and monitoring and depend more on the administrative assessment than on business owners declaration for registration.
- b) **Improving collection efficiency:** by establishing a system of collection monitoring and using tax clearance for enforcement. This is because low collection efficiency is a major constraint in generating sufficient yield from tax. Success at collection is essentially a matter of information management and leverage to know who owes what.
- c) **Tax payers information:** well organized tax payers information is very much important because lack of reliable and accessible information hinders efficiency of tax collection. Therefore, an integrated and reliable recording of tax payers information helps in enhancing efficiency.
- d) **Tax education to payers:-** undertaking tax payers education is also an important element since it helps in shaping attitudes to increase voluntary compliance. Tax officials in this regard should provide information on how revenue is assessed, collected and used. Tax payers are willing to pay when they believe that their money is well spent. Voluntary compliance boosts revenue mobilization.
- e) **Strengthened legal enforcement:-** there should be strong legal system to deal with non – payers and evaders. It also increases

financial capability by dealing with arrear. There should be perceived and strong actions against defaulters.

- f) **Valuations** : the purpose of tax valuation is to provide the basis for distributing the burden and make payers pay the right amount. The task needs objectivity to reduce the possibility for dispute. Valuation must be continuous and effective that ensures buoyant tax base. The main issue here is to impose right amount of tax on every business that requires right market information and tax rate.
- g) **Complaint handling**: sufficient complaint handling of tax payers fosters their trust on the revenue collection system and nurtures voluntary compliance. Moreover, it enables to entertain tax payers right from the side of revenue collection offices by making their system responsive and transparent.
- g) **Human and material requirement**: fulfilling the necessary human, material and logistic requirement is also vital aspect of improving revenue generation efficiency.

(Dauskardt,2000:18-24 and Peterson,2006:6 and Dillinger,1992:22-24 and Bird,1992:192-198)

These all points indicate components of effective governance in revenue generation from the point of view of an institution entrusted with the task of raising resources from tax. The above-mentioned factors are used as indicators to evaluate the governance of revenue generation in the Municipal Government under the study.

CHAPTER III

Urban governance and the legal frame work in Ethiopia

3.1 Organization of urban governance under different regimes

Up until the starting of the modern Ethiopian state in the pre twentieth century, there was lack of permanent political center in the country. Governments frequently shift their seat for different political reasons. This hindered the development of towns. The completion of the formation of the modern Ethiopian state in the late 20thC marked the establishment of permanent center for political and economic activities. From this time on wards, towns started to flourish here and there because of various reasons. Among these, the introduction of modern communication and transportation facilities, the short lived Italian occupation, the modernization of education and health sectors and the country's increasing contact with the modern world are the most important factors that led to the expansion of towns. (Ministry of Works and Urban Development,1999:30-31 and Ministry of Federal Affairs policy document,2003:25).

The emergence and prevalence of various urban centers in the country necessitated the establishment of a separate administrative structure under which they should operate. In this regard municipal governments were established starting from the early 1940's as local governments with defined territorial jurisdiction and functions. (Sheawaye,2003:17)

Towns and cities in the country have passed through different forms of management and organizational structure under different regimes depending on their political motive, ideology and policies. The different

policies followed and regulations promulgated left their own repercussion on the level of growth and development of towns.

3.1.1 The Haile Selassie Regime

Many of the urban centers have got legal status during this period. Various proclamations were issued in the first fifteen years of the Haile Selassie regime that touched up on various aspects of municipal matters. From among these provisions Decree No. 1 of 1942 provided for the creation of municipalities with appointed council under the ministry of interior and defined some functions for them. Its main intent being to define administrative arrangement of the government, the decree created a highly centralized government, which allowed it to exercise unlimited power over the municipalities through the Ministry of Interior Meheret,2003:23 and MWUd,1999: 38).

In addition to this the regime also issued proclamation No 74/1945 that embarked on some less significant reform measures from the previous provision. In this case municipal functions were further elaborated and the terms of central control over municipalities were incorporated. It also classified urban centers in to towns and cities that raised municipalities from two (Gondar and Addis Ababa) to six without stating the criteria's for the classification.(MFA,2003:82,Mheret,2003:23and Ministry of Works and Urban Development,1999:38).

Moreover General Notice No. 172/1954 designated Addis Ababa the status of chartered city. This gave the city administration the authority to carry out all municipal functions, power and authority to be exercised within the framework of self-administration. The city was given the authority to enact laws, determine policies, adopt budget and exercise its power through the city council. (Ministry of Works and Urban Development,1999:44)

The regime has also proclaimed the rates, dues and fees regulation of 1971. It was stated in the document that the only dependable source of revenues are rates, dues and fees generated by the towns. There was no any legal grant that ensures central transfer to municipal activities and it was only the city of Addis Ababa that has the authority to borrow from internal sources.(ibid:480)

This entails that, although municipalities are recognized as legal entities by the regime the doors were not open for them to exercise autonomous self rule. They cannot make their own decisions in their own affairs since their decision has to be approved by the ministry of interior and their respective provinces. Therefore, their growth and development is constrained by too much intervention from the center. (MFA, 2003:82)

3.1.2 The Derg Regime

Immediately after coming to power the military regime disbanded the legacies of the imperial regime and established its own administrative structure. The municipal administration and its legal structure is not an exception to this. The Derg regime issued three main proclamations in relation with municipal administration.

The first of these was the proclamation on urban land and extra houses (Proclamation No. 47/1975) which was issued with the intent of nationalizing urban lands and extra houses. It did not give much attention to define the power and functions of urban dwellers association.

The issue of defining the power and authorities of the Urban Dwellers Associations (UDA's) as the core administrative bodies of municipalities

was further elaborated by Proclamation No. 104/1976, that was issued to provide for the creation of various level of UDAs. The idea was to establish kebele, higher and central level UDA's, each having their own power and authority. Proclamation No. 206/1981 further fine-tuned the power, responsibilities and organizational structure of the UDA's at different levels.

The primary aim behind establishing the UDA's is ideological. It was meant to equip residents with Marxism and Leninism, to struggle against feudalism and imperialism. This aim was very far from the task of attaining urban development and devising strategy towards it.

The central focus of the regime in introducing such reform measures was to consolidate state power rather than creating self governing municipal organs. Municipal authorities were not yet empowered to function as self ruling entities that use their own authorities to deliver service to their residents. In the actual sense they were extensions of the state and party organs who operate as ordered from the center controlled through government driven UDA's (Meheret, 2003:24). Therefore municipalities once again lacked a self ruling scheme and considered as nothing better than direct extensions of centralized rule.

3.1.3 The current Federal Government and Municipal Governments

After holding state power the EPRDF regime embarked on the establishment of the Federal Republic of Ethiopia with ethnically divided regional states. The 1995 federal constitution declared for the institution of self-ruling regional entities through system of decentralization with the

intention of taking the government closer to the people and introduce a system of self rule to the people.

In this regard though the constitution provided for the possibility of establishing self ruling government organs at different levels, it said nothing with regard to establishing separate urban municipal administration as part and parcel of the newly established federal state structure. The regional constitutions are also no different in this regard that led to sheer neglect ion of municipal organs legal status in the newly emerging system of state administration (Ministry of Works and Urban Development, 1999:57-58).

What made things worse is the government's emphasis on Agricultural Development Led Industrialization (ADLI) that conceived rural areas as the primary engines of economic growth for the country and the main focus of resource allocation. This is based on the conception that rural areas are the main centers of production and urban centers play only secondary role to the national economy (Shewaye, 2003:11 and Mehret,2003:25).

However reforms began to emerge when the regime devised its second five year plan that, in addition to other issues, laid due emphasis on urban development. The policy aspires to enhance the role of urban areas in the national economic development and improving the life condition of their residents. Adopting appropriate urban development strategy was mentioned to be at the heart of achieving these objectives (Shewaye, 2003:12).

One such draft policy document by the Ministry of Federal Affairs provided the legal personality of urban centers with municipal and chartered status to include; to own property, borrow money from local

sources, enter in to contracts and to sue and be sued. Such organs do not need any permission from any other government organ to exercise their power (MFA,2003:90).

This might give them an independent power and authority to have a say and decisions in their own affairs.

More over the government has shown much more interest to take reform measures in areas of governance and management of urban areas, revenue generation and tax collection, attaining local economic development and others.

In its reform on urban governance, it envisioned to have self-governing cities managed by democratic, transparent and accountable governments work in partnership with civil society organizations, the private sector and the community at large. Among others it promotes the establishment of democratically elected city council as a means to promote municipal administrations accountability to their residents (MFA,2003:8-10).

Enhancing the financial status of municipalities has also been incorporated in the policy document to serve as instruments of development, service delivery and good governance. The policy document suggests enhancing the fiscal role and autonomy of municipalities and ensuring their stable financial position by improving their collection efficiency through effective municipal financial management practices.

It also suggests municipalities to be authorized to introduce new taxes, revise rates, dues and fees. Raising awareness of taxpayers and providing adequate legal basis and enforcement mechanisms for the collection of revenue and recovery of arrears is also deemed necessary to raise municipalities' financial status. The policy document further proposed on

strong Local Economic Development efforts that mainly involves promotion of private investment by Municipal Governments, to strengthen or enhance the local tax or revenue base (MFA,2004:1-4).

Local Economic Development in this policy document is stated as the new role of local government. The document conceived urban economic development as a process of partnership among local government organs, urban community and the private sector.

Therefore, urban governance is proposed to shift itself from administrative attitude to enterpreneurialism and partnership. Instituting local economy division in municipalities responsible for identification of economic base, preparing project profile and business promotion in attracting private investment is suggested to be pivotal in attaining urban development.

3.2 The Study Area and the Municipal Setting

3.2.1 Historical Background of Jimma Town

Jimma is one of the historical towns in the existing oromia regional state. The kingdom of Jimma was established by Aba Jifar I (1830-1854) by uniting the five ghibe states of Gomma, Gumma, Limu Enaraya, Gera and Jimma.

Aba Jifar II (1875-1933) played crucial role in further consolidating and expanding the administration of the kingdom. The political and economic influence of the kingdom was extended to the south and south western Ethiopia which made the town the focal point of commercial activity in the region. The kingdom sustained its strength until the death of Aba

Jifar II in 1933 which was followed by the Italian short occupation in Ethiopia.

Jimma for the most part came in to its present shape during the Italian Occupation who made the town the capital of one of the 6 established regions of their empire in eastern Africa (African Oriental Italian). Accordingly Jimma became the capital of the whole western Ethiopian region. The Italian enormously contributed for the development of jimma by constructing the current asphalt roads, old buildings, and an airport. After the end of the Italian rule the restored Ethiopian government made Jimma the capital of kefa province in 1941. The government issued decree no 1/1942 that gave the town municipal status for the first time with other five towns in Ethiopia.

Jimma continued as the capital of keffa province until 1987 under the Derg regime though it was later changed in to the capital of Illubabor administrative region. Jimma's role as the capital of the previous Illubaboor province was revised after EPRDF took state power. The province was further divided in to two, of which one is Jimma zone covering proportionally smaller area than the previous. After this time Jimma's role in covering wide administrative and geographical area has been reduced.

3.2.2 Socio economic condition of the town

Even though it is difficult to get clear figure currently published documents reveal the town's population is estimated to be over 150,000 with growth rate of 4.11%. The number of males accounts 51% and females 49% from the total population. The ethnic composition in the town include Oromo, Amahra , Gurage , Dawro , kefa and others Oromo being the majority.

The main economic activity in the town is commerce (trade and catering activities). The local Urban-rural exchange in Jimma and its surrounding has contributed significant business activity. Trade and commerce is the major employer in the town. No large scale industrial activity is found in the town. There are only small scale industries of which 70% are grain mills and wood works. The rate of unemployment has dramatically increased in the past 15 years reaching 22% in 2003 (IFTS,1997:134 and JULA,2005: 2005).

There are 17 elementary, 5 secondary high schools, 1 teacher's training college, 2 technical and vocational schools and 1 university. The gross enrollment rate for elementary school is 83%. Though access to education has dramatically increased, there is high level of quality problem manifested through poor physical state of buildings, shortage of class rooms, over crowdedness, shortage of teaching aids and capable teachers. (Plan and programme office of the Municipal Government,2008)

According to the same report on health facilities, there is one referral hospital, 2 health centers and 2 health posts owned by the government. There are also privately owned 4 higher clinics, 11 middle level clinics, 20 pharmacies, 4 drug stores and 3 drug vendors. Concerning road facilities it is also stated that, the town currently has a total length of 112km road facility out of which 30 km is asphalted and 92 km gravel where as the existing master plan requires 500 km road for the town.

Water service coverage currently reached 76.7%.The town received telecom service for a very long period of time and until December 1999 (EC.) there were 1187 digital telephone 8055 mobile and 248 internet users. (The Jimma Town Municipal Government work plan, 2006/07)

It is indicated that there is a very serious problem of housing in the town. The 1986 census revealed that 87% of the houses in the town are

old aged 60% made of wood and mud. Up until 1998(EC.) the town is short of 10,400 houses and this is projected to increase to 16,000 in the year 2002(EC.). Many people are living in overcrowded residential areas, bad sanitation situation and lack of basic services like safe drinking water and sewerage (The Jimma Town Municipal Government work plan, 2006/07).

3.3.3 The Power, Responsibilities and Governance Structure of Jimma Municipal Government.

The existing federal constitution delineated the power between the Federal and Regional Governments. Article 50(4) of the constitution authorized Regional Governments to establish their own government and create other lower level organs that are found to be appropriate and necessary.

On this basis article 45 of the constitution of the Oromia National Regional State (ONRS) determined the administrative structure of the Region to consist zones, districts and kebeles. The power and responsibilities of each level is also provided in detailed manner in its various parts.

However, the status of municipal governments and its structure is not clearly recognized by the Regional Constitution. As discussed by Shewaye (2003: 141) both federal and regional constitutions failed to unambiguously state the role, responsibilities and structure of municipal governments in the realm of the federal structure.

Even if, it is not explicitly stated, the possibility of establishing municipal structure and functions is provided on article 49(3)(b) of the Regional

Constitution. According to this article, the Regional Council can establish other administrative structures (other than zones, districts and kebeles) based on number of population, area and socio-economic activities. Article 103 of the constitution also stipulates that the Regional Government shall promote and support the peoples self rule at all levels.

It is referring to these provisions of the constitution that Proclamation No 65/ 2003 was issued for the establishment of Urban Local Governments in ONRS. The Proclamation formulated population criteria to group the towns in to four categories. By this Jimma town has got first grade municipal status along with other 18 towns in the region. The Proclamation provided the Municipal Government with decentralized power and autonomy specifying the power and responsibilities to be exercised.

The core justifications behind issuing the Proclamation include the creation of standardized urban centres for work, residence and development. This is believed to be attained by providing adequate power and functions for self-rule to the municipal governments. Streamlining the operation and organization of municipal governments based on democratic governance, is also deemed necessary to improve their development capacity. Therefore, from the outset the Proclamation made it clear that, they would be allowed to administer themselves and be responsible for their own development.

It provided the objectives to be met, functions to be undertaken and power and authorities to be exercised by towns with recognized municipal status.

In this regard, the main objectives of such towns are clearly elaborated. Some of them that are relevant to this study include;

- Promotion of self-rule by enhancing resident's participation in the overall activities of the town. This is in order to make them both part and beneficiaries of the development process.
- Ensuring good governance by instituting effectiveness, efficiency and accountability in the administration.
- Ensure the provision of efficient and equitable service to residents
- Promote social and economic development by encouraging investment and particularly industrial development.

It has also provided some functions and responsibilities that have to be undertaken in order to achieve the above stated objectives. These functions are broadly elaborated covering wide range of areas that include services, development activities and governance issues. Some of these include;

- Provision of wide range of services that are categorized in to environmental, social, cultural, public utilities and protective in nature.
- Promotion and facilitation of investment activities and income generating scheme. In line with this, formulation of city based poverty reduction programme is also provided to be vital to attain development and improve living standard of residents.
- It is also charged with the responsibility to facilitate forums for the expression of local opinions.

With the purpose of bringing these and other functions in to effect the municipal government is vested with its own power. These powers, according to the proclamation are restricted to be exercised only within the urban local issues of municipal governments. Therefore, as provided on article 8 the Municipal Government is empowered to;

- Initiate its own visions and values
- Develop and execute its social and economic development plans
- Prepare and execute the budget of the city
- Introduce, adjust and collect its own taxes
- Administer urban land and houses under its jurisdiction
- Manage its own human resources in accordance with the law.

It can be inferred from this that, the Municipal Government is authorized to administer its own affairs. This is to be achieved by formulating its own development plan, generating and use of its own resources and encouraging investment to attain industrial development. Therefore, it is legally empowered to act as the forerunner of its own social and economic development and improve the standard of living of its residents. This further shows that, attaining development to the town depends mainly, on how effectively the revenue generation schemes are governed. Since the legal authority to do so is provided to the administration.

Governance Structure of the Municipal Government

The constitution of ONRS declared the administrative structure of the region to consist the regional government, zones districts and kebeles. Similarly Proclamation No 26/1991 (issued for the establishment of urban administration) stipulated for the establishment of town administration at zone, district and kebele level below the regional government. The Jimma Municipal Government is established at zonal level as the capital of the Jimma zone of ONRS.

Proclamation No 65/2003 determined the urban governance structure to be followed is the council mayor system; where by the council will have the final authority on urban issues and the highest executive authority vested on the mayor and his committee. The governance system, according to the proclamation should constitute; the city council, the mayor, the mayor's committee, the city manager, other executive bodies and the city court.

Members of the city council have to be elected by residents on a kebele basis being accountable to the electorate and the regional council. The council elects the mayor as the head of the executive from its members and his accountability goes to the council and the president of ONRS. The mayor further proposes the members of the mayor committee from the council and non-council members, each of them having defined executive role in the non-municipal executive bodies. The manager of the municipal services is recruited by the mayor as a professional appointee being accountable to him.

The currently existing structure however shows that there is no publicly elected council. Rather the highest executive organ is the mayor's committee chaired by the mayor. The structure constitutes departments related to the municipal service and functions and non-municipal executive bodies. The municipal services and functions of the town constitute departments that include;

- Land Administration, Building Permit and Control Department
- Revenue and Budget Administration Department
- Social and Economic Service

On the other hand, the non-municipal executive bodies constitute five major departments that include;

- Capacity Building Office
- Public Organization and Participation Office

- Trade Industry and Urban Development Office
- Public Security and Justice Office.
- Public Relation Office.

The heads of these departments are also members of the mayor committee that constitutes 5 members in addition to the mayor. The municipal service function and the departments under it are headed by the municipal manager who is directly accountable to the mayor of the town.

Because of lack of publicly elected council as provided by the law most higher officials are political appointees whose appointment and dismissal is not clear to the public at large. In a discussion held with an expert in the social and economic service office it was revealed that the administration is highly unstable as officials frequently change before even accomplishing what they have planned. Three mayors were appointed and dismissed in the last four years. Moreover, officials are mainly appointed from other places with very limited background about the socio-economic and cultural set up of the town and its surrounding. This has caused visible governance problem, lack of vision and commitment in the administration that affected the development activities of the town.

This may imply that, lack of publicly elected officials led to lack of accountability, less involvement of residents and other stake holders in the governing the town. Moreover, unstable administration kept the municipal government persistently unchanged hindering measures that may be taken to improve the system of governance at all levels.

Chapter IV

Data Analysis, Presentation and Discussion

4.1 Governance and Revenue Generation in Jimma town

Some of the reasons behind requiring good governance in urban areas is to ensure fair and equitable services, alleviate poverty and achieve development for the residents (Dhalilawal, 2004:2). This requires effective, efficient, transparent and equitable system of revenue generation in these areas. The quality of governance in this regard is reflected through the processes to be followed in implementing effective and efficient revenue generation. As discussed by Mc Master (1992:44) these processes include identification and registration of revenue sources, assessment and valuation of what has to be paid, efficient collection administration, legal enforcement on evaders and complaint administration. He has also further added that, revenue generation can be influenced by the attitude of taxpayers. There may be difference in the degree of acceptance or rejection of tax payment. Therefore, tax education to increase voluntary compliance is vital element of revenue generation. A system of accountability is also very necessary that ensures payers participation in decision making and administering their complaints. In this case, Mugabi(1998:144) stated that payers willingness increases if, they are involved in decisions and know about how their money is spent. Proper dispute administration also contributes to convince them that the system is fair and treats them on equal ground. Furthermore, Bird, (1991:198) under lined that the purpose of tax valuation is to make payers pay the right amount. This requires appropriate system of valuation and its administration. Effective valuation resolves the possibility of dispute and complaints by effecting fair and equitable payment system. Institutional capacity is the key to

achieve the above stated principles. Fulfilling the necessary materials and human resources is at the heart of building better institutional capacity. In the later case professionally equipped and ethically shaped staff composition is vital. As Bird (1991:90) provided, Weak institutional capacity encourages prevalence of tax evasion, corruption and incorrect valuation. This further undermines equity of the tax system because; recipients of equal income, owners of same property and consumers of similar goods may not be taxed equally.

The governance of revenue generation in Jimma town is to be assessed based on the above stated theoretical ground.

Nature of the administration in revenue generation

The Municipal Government previously has two different offices that conduct the task of revenue generation. These include the Jimma Town Revenue Collection Office and the Municipal Revenue Collection Office. The two offices collect revenue from different sources effecting division of labor. The town's revenue collection office is given the responsibility to generate revenue from direct and indirect tax sources that includes; income tax, agricultural tax, sales tax, turnover tax, excise tax and others. On the other hand, the municipal revenue collection office generates revenue from land lease, land tax, building tax, abattoir service, house rent and others. However, the two offices were merged in to the Jimma town revenue collection office just before the collection of data for this study. This is done in order to improve efficiency in the currently under going reform measure called Business Process Re-engineering (BPR). Therefore, more focus is laid on this office in conducting this study.

Sources of Resources

Proclamation No 65/1995 elaborated various sources of revenue for towns with Municipal status in ONRS. Therefore, the Municipal Government in Jimma town is also authorized to generate the necessary revenue from the sources specified.

It is vested with the authority to introduce, adjust and collect; taxes, rentals and service charges. Moreover, it is permitted to use the resources for the development of the city. As per the Proclamation, the urban land and property taxes should be exclusively considered as the income of the Municipal Government. In addition it can generate revenue from any other own income generating schemes, Voluntary contributions and donations.

With Regard to Regional Subsidies, it is provided that the regional government may adopt mechanisms of subsidizing Municipal Governments. They could also be provided with funds for activities that they undertake on behalf of the Regional Government. This shows that, Regional transfer is one possible source of revenue for municipal governments. However, the Regional Government till now a days transfers only a fund called *Road Fund* in relation to supporting Municipal services earmarked to maintain roads in the town.

They are also provided with the power to borrow funds from Federal and Regional governments as well as accredited financial institutions for capital expenditure. However, this is to be done with the prior approval of the regional government and by observing macro economic stability as set by the Federal Government.

This shows that, the proclamation provided varieties of own and external revenue sources for the Municipal Government. Nevertheless, the reality on the ground tells that, much of the revenue spent on municipal functions and services (related to the town's development) is generated from own sources. Let us look at the revenue generated for municipal functions and services and the share of regional transfer to it.

Table 3 Revenue generated for municipal functions and share of regional transfer to it.

Year	Revenue generated	Share of road fund (Regional transfer)	Total revenue	Share of capital expenditure from the revenue generated	% share of regional transfer to the revenue generated	%Share of capital expenditure to the revenue generated)
1995	3,087,170	741,505	3,828,675	509,508	19.3	16.5
1996	4,802,025	2,418,660	7,220,685	2,215,174	33.5	46.1
1997	10,514,831	1,806,711	12,321,542	7,004,573	14.6	66.6
1998	8,283,696	1,625,800	9,693,497	1,272,564	16.3	15.3
1999	11,339,246	2,354,288	13,693,534	4,062,859	17.1	38.5

Source: Jimma Town Revenue Collection Office 1999 (EC.)

The table depicts that, the pattern of growth of revenue for municipal services fluctuates and shows slow growth depending on the yearly revenue generation performance and capacity of the office. The share of Regional transfer to relevant Municipal services is very low and fluctuating because the amount of transfer depends on the financial capacity of the center. There is only the road fund, which is earmarked to rehabilitate road in the town. Even from the total revenue to be spent on Municipal functions only some proportion is allotted for capital expenditure. The share of capital expenditure raised above 50% of the

total budget only in 1997 budget year and in some years it goes below 20%.

On the other hand the capital expenditure plan of the Municipal Government stated in the recent five year plan shows the following composition of activities and revenue plan.

Table- 4 Capital investment plan for infrastructure in Jimma town

s/no	Types of infrastructure	unit	Work plan			Financial plan(x1000 et.b)			Total Cost X1000et.b
			2008	2009	2010	2008	2009	2010	
1	Asphalt road	km	2.0	2.0	3.0	6000	6000	6000	18000
2	Gravel roads	”	8.0	8.0	8.0	12000	12000	12000	36000
3	Cobble stone roads	”	2.0	3.0	5.0	1000	1500	2500	5000
4	Earth roads	”	30.0	30	30	200	200	200	600
5	Side walk	”	2.0	2.0	2.0	1000	1000	1000	3000
6	Drainage system	”	7.1	7.1	7.1	10670	10670	10670	32010
7	Earth drains	”	5.0	5.0	5.0	477	477	477	1431
8	Culverts	no	6.0	8.0	10	240	320	400	960
9	Bridges	”	1.0	1.0	10	1500	1500	1500	4500
10	Solid waste management	Ls	”	”	”	2700	2700	2700	8100
11	Liquid waste management	”	”	”	”	1500	1500	1500	4500
12	Market center upgrading	no	1	1	”	3000	3500	3500	7500
13	Street lighting	km	5.0	5.0	5.0	425	425	425	1275
	Total cost					40712	41792	42872	122876

Source: city strategic plan between 1998-2002 EC.

As indicated by the above table the Municipal government needs to generate at least 122million birr in the coming three years. If it is seen on average, it should generate 40 million birr a year only for improving physical infrastructure. However, the administration generated a maximum of 11.3 million birr of highest in 1999(EC.) budget year, as indicated by table 3, compared to the previous years. It can be inferred from this that, improving revenue generation from own sources is vital to attain the aspired for development. Enhancing the quality of governance in revenue generation could be one crucial aspect in doing so.

4.2.1 Identification and Registration of Revenue Sources.

Improving tax coverage and efficient generation of revenue from all possible sources requires identification and registration of these sources. This requires crucial activities related to; expanding revenue efforts to untapped areas, incorporating left revenue bases in to the tax system and reaching untaxed business activities (Mugabi,1998, Ministry of Works and Urban Development,2006:19).

In this regard, the Jimma Town Revenue Collection Office conducts registration of new businesses for tax payment once in three years when officials are engaged in town wide assessment to conduct a new round valuation. In this lapse of time until a new round of assessment is conducted, registration for tax payment is left to business owners' willingness than system of identification followed by the office. As per the law, businesses are legally required to register for tax only 60 days after their establishment, which, according the head of the revenue collection office, is less complied.

This implies that, the longevity of the assessment period constrains the timely registration of new businesses for tax payment. It is observed that, stretching revenue sources to new businesses depends mainly on business owners' willingness to register for tax. As Dillinger (1992:v) provides tax coverage can be improved by changing systems that discover new sources from one that depends on owners declaration to that mainly depends on the administrative body itself.

An interviewed auditor is to the view that, official control could have been strengthened, if there is coordination with the Jimma zone trade and transport control office. This office conducts a yearly town wide assessment to control ownership and renewal of business license that also indirectly enables to identify taxpayers. However, it is not well coordinated with the revenue collection office and lacks well established information exchange system. Therefore, he suggested that either the mandate for control be given to the revenue collection office or the two offices work in coordination to improve the system of control.

On the other hand, the head of the trade and transport control office expressed that, yearly control is undertaken and many businesses are found to work without license, which may imply without paying tax too. For instance for the last two years (1998 and 99) around 400 businesses are found working without license and paying tax (each year). But there is big capacity problem to take follow up and legal measures after identifying them. The mechanism used for coordination with the revenue collection office is to prohibit the renewal and discharging of business license to those who did not pay tax. However, in reality, the yearly assessment shows many unlicensed businesses and there is incapability to redress the problem.

This implies that, lack of direct mandate by the revenue collection office for business control is resulting inefficiencies in the identification and registration of revenue sources that will have a direct implication in the governance of revenue generation.

This has been more substantiated by the response obtained from the business community regarding coverage of revenue sources.

Table 5 Respondents opinion on tax evasion

Questions	Response	Frequency	Percentage
Do you believe that there is a problem of tax evasion and under payment in the town?	Yes	97	86.6
	No	14	12.5
	Not respond	1	0.9
To what extent Under payment and evasion affects the income of the town?	Very high	45	40.2
	High	40	35.7
	Medium	21	18.8
	Low	5	4.5
	Not respond	1	0.9

Source: own survey 2008

As depicted by the table 86% of the respondents believe that, there is a problem of tax evasion and under payment in the town. With regard to the intensity in affecting the income of the town 40.2% and 35.7% of the respondents said very high and high respectively.

This implies that, the revenue collection office has to revise its system of revenue source identification and registration for improved efficiency. It also indicates that there may be large number of business operations that are undetected for the purpose of revenue generation that requires improving the performance of the revenue collection office.

In addition to registering the already available revenue sources, expanding the tax base and revising the rate may also result in identifying new sources. In this respect the mayor of the town expressed that, little attention is given to revenue generation with narrow tax base and rate determined almost 30 years before. It was only recently that revision of tax base and rate was undertaken, which may raise the revenue generated by the Municipal Government.

According to him, the Municipal Government planned to collect up to 21 million birr in 2000 budget year, which shows almost a fold from the previous budget year (the highest record). If all sources are identified, registered and efficiently utilized, it is possible to collect as much as 80 million in one budget year.

It is important to see the plan and achievement of the revenue collection office in light of what has been stated by the mayor.

Table- 6 plan and achievement of the revenue collection for municipal services (before road fund subsidy)

Year	1995	1996	1997	1998	1999
Planned to generate	8,915,426	9,117,373	20,496,000	18,222,834	19,971,870
Actual revenue generated	3,087,170	4,802,025	10,514,831	8,283,696	11,339,246
Achieved %	34.6	52.6	51.3	45.4	56.7

Source: Revenue Collection Office (1999 EC.)

It can easily be depicted that, there is a huge gap between plan and achievement in revenue collection and the pattern of growth of revenue generated fluctuates showing low rate of increase. This implies that a lot

has to be done in exhausting the identification and registration of all possible sources in addition to revising the tax rate and base. Introducing new bases and rates result in little outcome unless capacity is increased to exploit the existing ones. It only improves yield from what is collected having limited effect on evaders and under payers (Dauskardt,2000:18). This entails that, revision of bases and rates by the revenue collection office has to be accompanied by effective identification, registration and collection systems.

One vital aspect of governance in revenue generation is to locate and place all taxpayers on the rolls to improve tax coverage. This on the one hand improves revenue capacity and on the other ensures that all businesses are treated equally to facilitate fair competition among them. If some businesses are left free without paying tax it might discourage others and invite them to follow the same suit. Moreover, it precludes the practice of fair business competition between taxpayers and evaders as the later could conduct business with lesser cost. Therefore, efficient system of identification and registration has to be instituted in Jimma Town Revenue Collection Office to improve revenue capacity and ensure fair and equal treatment of all businesses.

4.2.2 System of valuation

System of tax valuation and its efficiency plays a significant role in generating appropriate yield from tax resources. Valuation usually distributes tax burden over payers. Systematic and appropriate system of valuation makes payers pay the right amount and reduces possibility of conflict between responsible officials and the taxpayers. Equity can be achieved only when there is proper system of valuation and its implementation (Dillinger,1992:16).

In Jimma's case there are two prominent ways used to impose tax burden on businesses. For those who record income and expenditure of

their day to day trading, financial records are audited to identify their profit. Hence, tax is imposed based on the outcome from the audited records. On the other hand, regarding businesses without records of their income and expenditure, tax is decided only based on negotiation with tax officials concerning their day-to-day income.

An auditor in the town's revenue office disclosed that, if officials suspect the business owner is with holding information, the only mechanism they employ is to compare it with other similar business and impose tax burden. This usually causes discontent among the business community. But they are allowed to present their complaint to the revenue office.

From the total respondents communicated in the business community around 82.2% of them disclosed that, tax burden is decided based on estimation of their daily income, while the rest (17.8%) have income and expenditure record. In relation to this, around 61.6% of respondents believe in the appropriateness of the valuation system and the rest (38.4%) doesn't. But paradoxically 63.4% of the respondents' one or another time went to the revenue collection office to present their complaints on decided tax. It may be the case that, even if they accept the system they may not be in complacence with the way it is executed. Moreover, 68.8% of the respondents do not believe that the office has sufficient complaint administration system, while the rest (31.2%) responded it is okay with them. This implies that, improving the execution of the tax valuation system is an important task that should be handled in order to increase taxpayers' acceptance towards it.

Interviewed tax expert expressed that, with holding income is common problem among the business community. As most of them conduct business traditionally with no record on income and expenditure, it is very difficult to know their exact profit. Therefore, discontents are unavoidable.

Attaining equity among taxpayers in the amount they pay could be difficult because of two reasons. In the first place, majority of the businesses are valued for tax based on estimation and negotiation. The other is the possibility that this system opens doors for corruption. If there is room left for negotiation between payers and tax officials it could open the door for bribery. The more tax is imposed on verifiable and observable basis the more it ensures equity and reduces chances for maneuvers. Minimizing the discretion of assessors by devising clear criteria or formula for assessment contributes a lot in making the system of valuation fair and less vulnerable to misconducts. (Bird1991:198, Mc Master,1992)

The other important issue in relation with valuation is how frequently it is conducted. The continuity of valuation is crucial in order to avoid loss of revenue from tax. "Discovery and valuation must be continuous activities. The more continuous it is, the more buoyant the tax base and the less the taxing authority depend on nominal tax rate...." (Dillinger 1992:22)

But an auditor in the office disclosed that, tax valuation is conducted once in 3 years which is found to be un realistic. In three years changes may occur in the business environment like; opening and termination of businesses, increase or reduction of income because of inflation or other factors. Such and other new developments are skipped until the conduct of new round assessment after 3 years. This most probably causes loss of revenue by the Municipal Government.

This implies that, factors related to the system of valuation are additional causes to the loss of income by the Municipal Government. Inefficient valuation could also cause inequity in the amount of the tax paid among business people that may discourage and de motivate them to comply with the revenue generation office.

The revenue generation office should make the valuation system more convincing to meet the governance criteria of transparency. Criteria based system of valuation is more favored to win acceptance from tax payers. Otherwise erratic valuation only known by the assessors may open the door for unethical conduct like corruption and degrade the governance criteria of equity in revenue generation. Moreover, tax payers with limited information on the assessment criteria may get dissatisfied and be less willing to pay.

4.2.3 Revenue collection

Revenue collection is an important aspect in the governance of revenue generation after the identification of sources and valuation of what should be paid. Low collection efficiency inhibits the generation of sufficient revenue even with best system of identification and valuation. Efficient collection system ensures; prior and timely notification of what should be paid, monitoring of payments, enforcing penalties for on time payment and make the payment process time saving and simple to avoid payers delayance and dissatisfaction (Dillinger,1992:24, Mc Master,1992:45-46).

In Jimma town the revenue collection office starts to collect revenue when payers appear to the office based on the schedule set to different level tax payers. It is assumed that the payers know the period in which they should discharge their payment and pay in the established deadlines. Afterwards monitoring follows over those who did not pay and their case will be transferred to the legal department. An auditor in the office stated that, monitoring is done very slowly because communicating non-payers is usually constrained by insufficient logistics and man power which hinders timely enforcement for payment. This shows that the office lacks swift mechanism to call on late payers with loose monitoring system.

Enforcing penalty improves the efficiency of revenue collection by initiating payers to pay in due time. The revenue collection office levies penalty of 2-5% of the total paid amount on late payers. Nevertheless, proclamation No 74/2003 provides that, late payers have to be penalized with 25% over the official lending interest rate of commercial banks. This shows that, the amount of penalty enforced is by far lower which might not push payers to pay on time. In this case (McMaster,1992:46) provides that, penalties should be deterrent putting high rate of interest on late payers, which ensures longer payment causes high overdue. This could be one way to improve the efficiency of revenue collection.

It is also learned from the interview with officials that, there is only one center for revenue collection where all taxpayers has to come to discharge their duty. As tax payment is conducted in the months between July to September payers may come and stay for long hours waiting for their turn. They may also come from far areas that discourage them to pay on time. However, (Mc Master,1992:46) commented that collection efficiency can be improved if different paying centers are established at different locations even at postal offices, banks, local cash offices etc... to avoid delayance. In this case it can be stated that, Jimma is a relatively big town and using only one collection center may hinder the collection process by discouraging payers.

Respondents from the business community were asked as to what factors mainly hinder the tax collection process and their response is summarized as follows.

Table- 7 Factors hindering revenue collection

Question	Response	Frequency	Percentage
What factor mainly hinders revenue collection?	Lack of interest to pay	50	44.6
	Lack of timely notification	18	16.1
	Limited collection capacity	14	12.5
	Lack of information on the tax payment schedule	3	2.7
	Reluctance to pay	18	16.1
	Do not know	9	8.0

This implies that, the office has to work much on voluntary compliance since 44.6% of the respondents believe that lack of interest to pay mainly affects tax collection process. Enforcement measures with strict penalty could help to increase collection efficiency.

Concerning notification of the amount to be paid there is lack of prior notification by the office to taxpayers, who should come right to the office to know the amount they pay. In this case, Proclamation No 74/2003 ruled that payers have to be communicated in writing about the amount they have to pay. Therefore, lack of prior notification could also affect collection process by inducing information gap between the office and taxpayers.

Majority of the respondents (64.3%) also believe that the office exerts pressure on them to pay tax on time using different mechanisms like; public wide advertising, notification of deadlines and schedules and enforcing penalty on late payers. However, the rest (35.7%) do not experience any enforcement mechanism to make them pay tax on time. Therefore, the office has to expand its sphere in exerting more pressure to collect tax without delayance.

In general the governance of revenue collection is hindered by a number of factors that include; weak monitoring and execution system, insufficient penalties much lower than recommended by the law and lack of diversified payment center that discourages payers punctuality. Moreover, lack of prior notification on the amount to be paid and insufficient public addressing to enforce on time payment are some of the governance issues that should be improved.

4.2.4 Voluntary compliance in the business community.

Tax collection and generating resources from other sources is apparently the task of government agencies. However, the successful achievement of this task would not be simple unless there is cooperation and voluntary compliance from the side of taxpayers. For this to prevail, concerned government agencies should play crucial role through tax education and awareness raising forums. This may revolve around the equitability of the tax system, on how revenue is assessed, collected and used. Well conducted tax education generally promotes compliance which in turn boosts revenue mobilization. (Bird,1992:196, Mugabi,1998:144)

As described in the previous part, there is prevalent situation of tax evasion and under payment in Jimma town that affects the revenue yield of the town administration. Key informants and the response from the business community have confirmed this.

However, paradoxically almost 93% of the respondents in the business community basically agree/believe in paying tax. Given this fact the problem may lie in the administration of revenue generation and mechanisms used in building willingness to pay.

To deal with the issue of raising compliance forums are usually prepared twice a year by the revenue collection office. These forums focus on informing the business community about their duties and rights, the

benefits of paying tax and the consequences of evasion and under payment. In this case majority of the respondents said that they attend awareness raising forums one or another time when they are called by the office.

An interviewed auditor disclosed that, the outcome of these forums is not that much satisfactory in raising compliance among taxpayers. The head of the revenue collection office is to the opinion that, with full cooperation from them the office would have performed much better in revenue collection, even with out improving its current capacity for execution. This implies that tax education may not be the only the only solution to raise voluntary compliance.

Possible scenarios have been listed by the key informants about why the business community lacks voluntary compliance. These includes, lack of changes on infrastructure and service provision, lack of accountability report on collected money, lack of awareness on the importance of paying tax, lack of interest to pay, reluctance to pay speculating for reduction or cancellation and lack of trust on the fairness and equity of the tax system.

Emphasizing one of these possibilities (Mugabi 1998:144) stated that, tax payers willingness to pay increases when they believe that their money is well spent. Therefore, accountability report on the money collected and visible changes on infrastructure and services may matter on voluntary compliance since they increase participation and sense of belongingness. (Bird,1992:194) added that tax payers has to be convinced on the equitability of the tax system since their perceived attitude on the fairness of the tax system may shape their level of compliance.

Nurturing this requires increasing payers participation by giving the necessary information and receiving comments and ideas to involve them

in decisions and actions. However, 58.9% of respondents do not believe that the revenue collection office allows their involvement in matters related to revenue collection while the rest (41.1%) believe that it allows participation.

It may be the case that, the Revenue Collection Office and the Municipal Government should facilitate conditions to involve them in decisions and actions. Presenting accountability report (on how their money is spent) and employ convincing tax valuation should be prioritized, instead of simply educating them about the benefits of paying tax, their duties and on the legal consequences of evasion or under payment.

This is evident from the payers response who were asked, what should be done to improve voluntary compliance? For this 27.7% of the respondents focused on more tax education while 70.6% suggested on discussion and participation with the business community on issues related to tax.

The governance principle of accountability and promoting participation could contribute much in raising willingness to pay tax. As supported by theoretical discussions informing how tax money is spent would increase effectiveness than simply educating on duties and possible punitive measures. Making the system open and participatory would enable to listen to the views of taxpayers and increase their sense of belongingness.

4.2.5 Legal enforcement and related issues

Monitoring of payments and administration of arrears through adequate enforcement measures including legal enforcement is an aspect of governance in revenue generation.

In revenue enhancement plans four major ways are suggested to increase revenue that includes; extending revenue bases, increasing collection from the bases, increase new tax bases and sufficient penalties and enforcement on evaders. There should be sufficient arrear administration system by implementing strong and perceived actions against defaulters. Fair and Just application of the enforcement is also emphasized as an aspect of governance (Ministry of Works and Urban Development, 2006:13, Dillinger and Yusuf:1999:3, Daskardt:2000:21-24).

The ONRS income tax proclamation No 74/1995 has clearly provided for the legal mechanisms to enforce penalties on defaulters. Accordingly, the revenue collection offices are fully authorized to take their own measures instead of taking cases to formal court procedures. This provision ruled the seizure of the defaulters' property and wealth by tax authorities to cover the unpaid tax amount and the cost of seizing the wealth and property.

The head of the legal department in the revenue collection office disclosed that, the law has provided full authority for penalty enforcement to the office without going to any formal court structure. However, this requires adequate facilities and human resource like any formal court. For instance the office should appoint its own prosecutor and it should have its own police force to enforce the seizure and protection of defaulters' property, which are lacked. This shows that the office has not yet practically instituted the legally provided structure vital for legal enforcement. As a result, she commented that, in the actual sense no legal measures and penalties are enforced by the legal department against defaulters.

Given this, what the taxpayers feel about the strength of the legal measures also matters in shaping their perception towards paying tax and abide by the law.

Table 8 Respondents opinion on legal enforcement in paying tax

Questions	Response	Frequency	Percentage
Do you believe that legal measure will be enforced if you default in paying tax?	Yes	90	80.4
	No	22	19.6
To what extent fear of legal measures initiates payers to pay tax?	Very high	11	9.8
	High	14	12.5
	Moderate	32	28.6
	Low	50	44.6
	Not respond	5	4.5
Have you ever experienced when legal measures are taken gainst defaulters?	Yes	32	28.6
	NO	80	71.4

Source: own survey 2008

As we can see majority of the respondents (80.4) believe that, legal measures will be taken if they default in paying tax.

On the other hand 44.6% of the respondents rated the enforcement impact by the office as very low, 28.6% as moderate, 12.5% high, 9.8% very high and the rest not responded. It may be the case that, though they believe legal measures can be taken, they do not foresee practical measures.

The head of the revenue collection office also commented that, there is weak system of legal enforcement. If taxpayers are abided by the law it may be because of other reasons than strong legal measures by the office. As Dauskardt (2000:22) provides tax administration bodies should

take sufficient legal measures to inculcate perceived and actual impression that evading tax and giving fraudulent information causes legal consequences.

As explained by the head of the legal department, the office has so many responsibilities ranging from administration of arrears to taking final legal measures on defaulters. The activities include; going through all documents to verify payers from non-payers and prepare legal notice and hand it to non-payers by going to their business places. However, these activities are severely constrained by shortage of adequate man power and scarcity of logistics. It also lacks an independent authority to play its role in its own right because it is placed under the auditing section whose priority is more of financial auditing than legal enforcement. Regardless of this, it has gone through 90 files and effected the payment of 250,000 birr from defaulters in the last budget year (1999).

Therefore, strengthening its capacity with out question helps in improving revenue yield.

In a nut shell, legal enforcement has to be taken as part and parcel of the revenue collection process. Since it can play its own part in increasing revenue from taxes and improve the overall efficiency of the process, by creating perceived and actual impact on the taxpayers to be cooperative and pay the right amount. Moreover, ensuring the rule of law as a governance principle requires every body to be under the law, ranging from higher officials to ordinary citizens. Strengthening the office and instituting the required legal structures enables to take the necessary legal measures on defaulters. This helps in reinforcing the idea of respecting the law in the minds of taxpayers. In addition, it avoids a system where payers and defaulters are treated equally in the face of weak legal enforcement.

4.2.6 Complaint administration system

As discussed by (bird,1992:196) the proper handling of controversies between tax payers and administrative bodies is an important aspect of governance in revenue generation. It is also further noted that, complaint handling not only enables taxpayers to exercise their rights (than simply be coerced to pay) but also induces them for more compliance to pay tax (Soest, 2007:355).

In light of this, the Jimma Town Revenue Collection Office has an adhoc complain hearing committee whose members are not permanent. The head of the revenue collection office expressed that, the committee convenes when cases are coming from taxpayers. However, it lacks permanently instituted section for the purpose of hearing and resolving complaints. This makes the task to be an additional and secondary concern for other staff members who are overburdened with other activities. In this regard, Proclamation No 74/2003 provides that any payer with an objection on the assessment made has the right to appeal to tax appeal commission in revenue administration offices. However, in Jimma's case this commission is not permanently instituted that may cause delayance until it is formed to resolve appealed cases.

This may be the reason why, 47% of the respondents from the business community believe that there is no any properly instituted organ for the purpose of hearing and resolving appeal from taxpayers. The other 53% at least know that there is a committee to handle this problem. This may entail that; those who believe that complaint-handling body is unavailable may hesitate to exercise their right to appeal even when they do not accept the assessment.

Asked if they ever presented their appeal before the office, 63.4% of them responded that they have appealed one or another time, while the rest (36.6%) have never went there to appeal. However, 68.8% of them do not believe that their appeal will be resolved timely and properly even if they appealed to the office while the rest 32.2% believe that their case can be resolved. This shows that, the business community lacks trust on the complaint handling mechanism of the Revenue Collection Office, which might lead them to think that they have to pay what ever is decided as if they are coerced to do so. This may also hinder the exercise of taxpayers' right to be heard and treated fairly.

Revenue, authorities should take account of taxpayers' right. Fair and proper treatment of their appeal is important for the efficient collection of revenue because, their compliance increases when they develop trust on the fairness of the revenue administration system. (Soest,2007:355)

Therefore, absence of well established complaint handling system may hinder the exercise of tax payers right and reduces their trust on the revenue administration office, which may further degrade compliance to pay. Therefore, an improved complaint handling system has to be instituted to improve the quality of governance in revenue generation and reflect the interest of taxpayers' right in the process.

4.2.7 Assessment on the institutional capacity for revenue collection

Administrative capacity in revenue generation can be improved with; the proper organization of activities, possession of well trained and qualified human resources and fulfilling the required logistics to run activities. Moreover, using appropriate information and documentation system to ensure the registration of all payers is also recommended for efficient revenue generation (Bird,1992:196). Poor listing and documentation

system limits the effectiveness of even the best collection procedure. Allowing payers' participation in revenue related issues also improves their willingness to pay, that reduces the burden of control from tax administrators enabling to perform better even with limited capacity (Mc Master,1992:47).

In this regard, the business community's assessment on the internal execution capacity of the revenue generation office has been assessed. In the out come 11.6% rated it as very good, 37.3% good, 25% fair and the rest (26.1%) weak and very weak.

Almost all the interviewed officials in the revenue collection office have confirmed the offices problem related to capacity attributing it to different factors. The mostly agreed up on capacity constraint is shortage of human resources in both quantity and qualification.

The revenue collection office need a total of 30 staff members for field, administrative and support activities, where as it has only a total of 19 staff members. In aggregate terms it is running short of 36.6% of the total required. Interviewed tax expert in the office commented that even all the 30 staffs may not be sufficient to handle activities related to revenue generation in a big town like Jimma. Therefore, activities are done in a situation of scarce human resources.

Gaps are also noticed in terms of qualification in staff composition. From the total available staff about 15% is below twelve grade complete, 42% twelve grade complete with no further training and 31.5% are diploma holder with only one degree holder. This is why the interviewed respondents including the mayor commented that, educational qualification and expertise skill is lacked in conducting revenue generation activities and things are done more based on the rule of

thumb less supported by scientific knowledge. In relation to this Mc (Master,1992:43) is to the view that improving revenue generation usually requires qualified and trained staff in areas of tax records, valuation, auditing and others.

An interviewed auditor has also commented on the critical shortage of auditors who are at the same time responsible for field activities. Handling field works may constrain office related activities like auditing, complaint handling and others that cause delayance and customer dissatisfaction.

It is also widely commented that scarce availability of logistics and materials affects field related activities like; assessment, announcing warning notices to late payers, administering legal enforcement and the like. For instance, among other things the office has no any car, motor bicycle or even bicycle that can be used for field activities. This affects the quality of the work done and tasks could not be accomplished in the required period. Moreover, working under such conditions may induce dissatisfaction among staff members.

An efficient urban information and documentation system helps to simplify the intricacies of urban governance by providing data concerning all relevant aspects of the city. In addition to providing other importance's, it facilitates financial management and control, effecting efficient generation of revenue from tax and non tax sources through the identification and registration of business people, inhabitants assets and progress control (Djak,2002:200).

In this case, the office mainly utilizes manual documentation and registration system that affected the availability of well organized and full information on tax payers. As viewed by the head of the revenue

collection office, computerization of tax payers information would have resolved this problem. Manually stored data and information may be missed, torn apart or fed up that affects revenue generation activities. Poor registration and documentation system may cause inefficiency even when the system of valuation and collection is considered to be good. Therefore, the office needs to use new computerized electronic data entry system for improved performance in revenue generation.

Proclamation No 65/1995 for the establishment of urban local government mentioned the importance of residents, stakeholders and business community involvement in decision-making activities. Since it enables them to be both part and beneficiaries of the development process. However, majority of respondents from the business community (58.9%) claimed that the revenue collection office allows less participation in its decisions and actions. Moreover, from the total respondents 57.1% believe that the office has no smooth relationship with the business community while the rest (42.9%) responded it is good.

This may have its own impact because the success of generating resources depends not only on the capacity of the office but also on the cooperation and willingness of the community at large. That is why the head of the revenue collection office said “we could have collected much more with our existing capacity if the business community is cooperative and willing.”

He further underlined that all other developmental and recurrent activities are undertaken with the revenue generated by the office. But sufficient attention is not given for revenue generation and it is not attached with the very idea of the town’s development. If the accounts are full enough to pay salaries and run immediate needs it is usually considered that there is sufficient revenue and no problem at all.

The higher-level officials are not that serious and diligent to strengthen the office and generate resource with the vision of attaining development. Their attention is much more geared towards political than developmental activities.

Weak performance of the office may have dual implication. On the one hand it leads to loss of revenue by the Municipal government, where as on the other it compromises the equity and fairness of the tax system. As Bird (1991) provides weak revenue generation capacity from tax encourages tax evasion, under payment and in appropriate valuation system. This leads to a situation where people with the same income, ownership and consumption charged different amount, which may affect the fairness and equity governance dimension of revenue generation

Efficient public sector management is also important aspect of governance to deliver services and undertake functions. Observed from this dimension the Jimma Town Revenue Collection Office's performance is affected by varieties of constraints emanating from capacity problems. Redressing these problems could be vital in improving the governance of revenue generation and delivery of adequate and better service to the community at large.

4.3 Governance and investment promotion in Jimma town

Nature of the Administration in Investment Promotion

As provided by proclamation No 65/1995 one of the functions expected to be undertaken by municipal governments is promoting investment. Accordingly, the Municipal Government has a department called Land Administration, Building Permit and Control Office under the Municipal service manager. In this department, there is a team responsible to conduct investment promotion and related activities.

The discretion of municipal governments regarding investment promotion is clearly provided by proclamation No 138/2000 of ONRS that currently amended proclamation No 115/1998. Therefore, they have to;

- ✓ take primary responsibility to lead investment activities in their respective town
- ✓ collect, prepare and compile investment related information to promote investment
- ✓ Look in to project ideas and give final decision
- ✓ Land preparation and follow up and others.

The investment bureau in Jimma town also operates under these specified rules that define its authorities and duties.

4.3.1 Resource capacity for investment

Before looking in to the governance of investment promotion in Jimma town it would be important to look in to the resource potential of the town and its surroundings that provides opportunities for investment.

Effecting local economic development among other things requires the identification of potential resources that are possessed by the area and

design strategies on how these resources will be put in to use to develop the area. It is well recognized that local governments should take an initiating role to their development by using locally available resources. One of the most important emerging roles of local governments is identify and facilitate the utilization of resources to make things happen. Therefore, emphasis is laid on using the potential of local human and physical resources to stimulate local based economic development. (Blakley,1996:50&52, Montgomery,2003:25)

Many studies indicate that, Jimma zone is one of the resourceful area primarily owing to good climatic condition and vast reserve of natural resources. The fertility of the land, favorable climatic condition and adequate rainfall for agriculture, coffee production, livestock and forestry are among the most important opportunities that gave the area accumulated potential for various industrial development. This enables potential and prospective entrepreneurs to participate in the development process. For instance, form the 18 woredas in the zone 12 are coffee producers covering about 74 thousand hectare of land obtaining around 68 thousand tones of coffee per year. Jimma town and its surrounding is rich in terms of livestock production. Moreover, 24% of the total land area in the zone is covered by forest of which significant amount of it is natural forest (JULA,1995:10-14).

This resource potential in the surrounding areas is considered as a great potential by the Jimma town Municipal Government. A conference was held in the town (in April, 2000 EC.) with the stated objective of “core business identification” for the town. A panel of experts, the administration and different stakeholders were participants. Emphasis was laid on Jimma’s potential to be industrial (especially agro industry) and commercial center using the raw materials produced in the surrounding areas.

In an interview held with the mayor of the town similar and other potential opportunities were emphasized that could substantially contribute to its development.

Among others he stated that varieties of resources accumulated in the surrounding area and the ever green and fertile nature of the land would give the town the opportunity to be agro industrial and industrial center in the sub region. Moreover, the surrounding area is high producer of organic coffee which is produced in the most woredas of the zone, that could make the town coffee process and distribution center. In addition to this its potential in playing a central place role for its surrounding areas give it big market potential for about 10 million people residing in the south western region. The fact that most industrial and agro industrial products are imported to this area from central market implies that Jimma can play this role if, the resources in the surrounding area are properly utilized.

Some more opportunities that could add more value to attract capital for the development of the town include;

- ✓ The town's geographical advantage to be conference center for the southwestern part of the country gives it the potential to expand hotel and other services.
- ✓ The completion of the Jimma-Addis road that could facilitate fast communication with the central parts of the country.
- ✓ The presence of Air transport having 6 days flight to Addis and other western parts of the country and completion of project work to upgrade it to an international airport.

Irrespective of these accumulated potential for development the town is lagging far behind possessing only what has been done in its historical past and even considered as one of getting old towns' in the country. Medium and large-scale industrial and agro industrial establishments in the town are almost non-existent. Most existing industrial activities are small scale in nature focusing on grain mills wood and metalwork shops, coffee hullers, bakeries and pastries. Of these grain mills and wood works taken together constitute 70% of the small scale enterprises in the town (IFTS,1997:134). This has shown very little change in the past years as confirmed by official respondents.

A study conducted by the Oromia regional state on the assessment of industrial potential available in the Oromia western sub-region indicated that, there are 70 potential medium and small scale projects that are feasible (if undertaken) mostly in Jimma town and other small towns.

Tabl -9 feasible investment projects in Jimma town and its surroundings

Project Type	Number
Food	24
Beverage	3
Wood work	5
Metal Work	10
Non metallic	9
Textile	1
Leather	4
Chemical	7
Printing and paper	3
Other types	4
Total	70

Source Jimma Urban Local Government investment profile (2005)

Apart from these there is potential for large scale industries in the areas that include meat and leather industry, diary and fattening, mining and minerals, engineering industries, fertilizer industry, soap and cosmetics, hotel and other services like education (JULA:2005).

It can be inferred from this that, the town and its surrounding possess enormous potential for investment, if capital can be drawn from within and other areas.

4.3.2 The Jimma Municipal government and investment promotion.

Urban governments are responsible for the attainment of urban development and improve the life standard of their residents. One aspect of performing this duty is to attract more private capital to generate revenue and create employment opportunity for residents (Plummer, 2007:27). This requires a governance system that facilitates conducive environment for investors.

The ability of the private sector to play its crucial role in creating jobs for residents and expand the capital base for revenue generation, depends on how much it is attracted and maintained through the provision of incentives and support systems (UNDP, 1997:16). In this case good governance facilitates conducive environment for businesses by; avoiding arbitrary handling of activities, improving bureaucratic performance, reducing the cost of doing business and increasing predictability. Better governance makes starting of new businesses and maintaining existing ones easier (World Bank,2003:77)

There are many elements of good governance that have direct relations with the task of attracting investment and maintaining their operation by facilitating conducive environment. These include;

- Establishing capable institutional set up to undertake image building and promotional activities in advertising the urban areas potential for investment.
- Developing simple and accessible promotional instruments that enable to establish wide area contact and instigation of potential investors to come and invest.
- Conducting investor facilitation services by providing pre and post investment services.
- Creating a system of accountability in handling investment related activities is also crucial. Inefficient and corrupt bureaucracy with long and stringent procedures profoundly affects investors' decision to pursue their project ideas.
- Avoidance of overregulation, long delays, high costs and discriminatory treatment is also the manifestation of good governance in investment promotion.

(World Bank,2003:97, World Bank, 2006:272, Kikeri, 2006:16)

Therefore, creating a permanently conducive investment climate needs adequate institutional capacity and systems of governance to handle the above listed important activities.

Institutional capacity to promote investment

Good governance in enhancing and promoting investment activities requires adequate institutional set up with the capacity to handle all related responsibilities. In this regard, Kikeri (2006:5) suggested that, creating a permanently conducive investment climate requires strong institutional set up that fosters the task of advocacy and supplying the necessary technical support.

Investment related activities and responsibilities of municipal governments are specified under Proclamation No138/2000 of ONRS. Some of these include; preparation and appropriate distribution of land for investment, collect, organize and distribute investment related information, comment on proposed project ideas and give final decisions, ensure legality, resolve disputes and others. Good governance of investment activities in Jimma town is reflected through the better handling of these responsibilities that requires adequate institutional set up.

In an interview held with different key respondents in the administration including the head of investment team, a number of constraints were identified that affect the performance of the investment office in creating conducive environment for investment.

Even if the Investment Office is practically instituted under the Land Administration, Constructions Permit and Control Department, it lacks an independent authority to plan and execute its own activities. As a result, promoting investment has become secondary concern and routine land related issues have dominated much of its activities. It is also disclosed that, other towns may not establish an organ specifically to promote investment. However, they usually create the system and procedures to handle the task. In Jimma's case, neither these systems and procedures are established nor is the institution meant for this activity properly managed towards its goal. Therefore, less attention is given towards collecting and organizing investment related information that may hamper the task of promotion. This entails that, lack of organized information system hinders investors' facilitation and attraction, further precluding the municipal government from playing its development role.

Lack of practical division of responsibilities within the department like; investment promotion team, land preparation team, land administration team and others is also another constraint that need due attention. This was actually proposed long time ago but failed short of practice. Therefore, the office is currently burdened with land related issues leaving the task of promotion aside. As a result, there is confusion of responsibilities and neglect of some important activities having repercussion on the quality of service delivered to customers including potential investors. Furthermore, the office is also constrained by serious shortage of professional staff to promote investment. It is staffed with town planners than other professionals with expertise skill and experience of handling investment activities.

The head of investment office and other officials believe that, promoting private investment is crucial activity to achieve development in the town. This further requires an independent and authorized organ to provide the service. However, what practically seen is lack of independent authority by this organ, that left investment promotion activities as no bodies responsibility and in a vacuum. Lack of envisioned and stable administration that can decidedly works to the town's development is mainly raised in relation to this problem.

One aspect of urban governance as discussed by the UN-Habitat quoted in (Ministry of Works and Urban Development,2996:5) is ensuring efficiency in providing urban functions including the utilization of efficient mechanisms to attract private investors in improving the welfare of residents. Promoting investment requires technical and administrative capacity that cannot be implemented by inefficient bureaucracy (Kikeri, 2006:16). This entails that, institutional efficiency and effectiveness (as an aspect of governance) has to be promoted in the investment office

which otherwise inhibits its competitiveness and capacity to attract investors.

Promotional instruments, transparency and accountability

Municipal governments have to play their parts to involve the private sector and civil society in the development process. Mechanisms have to be created for citizens and potential businessmen to provide their own input. The private sector plays a very clear role for urban development if, there is an enabling environment and attracted with the necessary incentives. Apart from this, internal and external promotional activities with appropriate instruments do also contribute in building image and display opportunities.(UNDP,1997:16,Pieterse, 2000:30,Reese,1997:229, Borja,1996:252)

The involvement of many actors, and most important, the private sector is un equivocally necessary for the development of Jimma town. For this to be realized participatory frameworks, multi faceted investment promotion instruments and systems should be indispensably set up.

In this regard head of the investment office disclosed that, there are very limited ways and systems to conduct internal and external promotional works. One of the most used methods is arranging meeting and discussion forums with the business community. Such forums are usually conducted once in a year and effected little change until recently. Preparing trade fairs and bazaars are also rarely exploited as a means to promote investment in the town.

One easy way to build positive image and advertise investment opportunities is; to collect organize and compile investment potentials and incentives in a way that could be accessed to others. Until recently the Municipal Government has prepared only one bulletin scarcely distributed among stake holders.

Electronic media and the web site could also be used to disseminate information to both internal and external (foreign) viewers. According to head of the social service team, though the town has its own official web site, it was rarely used to expose the town's resource potential and promote investment.

Under this condition, both outsiders and residents lack sufficient information about the plan and activities of the town administration and its potential investment opportunities.

In a focus group discussion held with investor group in the town all participants agreed that, private investment is lagging far behind in Jimma town and promotional activities are at their nascent stage. The town added little value in a very long time and even one participant said "when a town gets old it looks like Jimma." They also admitted that there are efforts to reverse this situation very recently by the current administration.

Investment promotion, frequent contact with the business community and give ideas on feasible investment projects are pursued very scarcely at the town level. Little has been done to mobilize the business community towards the town's development. Let alone attracting business men through promotion, most discussants suspect the efficiency of the municipal government to fairly treat those who come on their own, because there is lack of effective systems and procedures to deliver the required service within short period of time.

The participants further commented that, there are limited forums prepared to effect close relationship with the business community. There are little discussions conducted with the business community by the municipal government's initiative, which created a sense of seclusion (lack of belongingness) among them. This probably leads them to spend much of their capital in other areas than in Jimma. If investors have come to Jimma, it is on their own initiative than because of promotion done by the municipality. According to the mayor, though there is large amount of invest able private capital with in the town, this has not been exploited by working closely with the business community. The town residents and the business community know very little about the town's administration development plans, which led them to show little interest to wards it.

In this regard Plummer (2002: 27) reflected that Urban Governments has to be open and participatory to involve the private sector in the development of their areas. Their close partnership with the private sector attracts ample resources to improve the life of their residents and standard of their town. More over, World Bank (2003:97) provided that, better governance promotes better transparency and accountability that provides better opportunity for private investors to participate in the development process.

Participants in the FGD also emphasized on the presence of ethnic based discrimination in the municipal government that brought its own impact on promoting investment in the town. They underlined that, there is community wide perception on ethnic discrimination especially among non-Oromo ethnic member residents. Participants of the FGD emphasized this as one of the factors for lack of security among other ethnic groups to invest in Jimma implanted by past administrative

bodies. Hence it causes enormous capital out flow that the town can not afford to lose. They also expressed their positive feeling towards the current Municipal Government effort to avoid this attitude. On the other hand the Mayor expressed that they treat all residents and business people on equal foot and this may be a misconception that exist among residents.

This may entail that; if the Municipal Government could encourage participation and close partnership, such kind of misconception would not have occurred. Un- habitat quoted in Ministry of Works and Urban development (2006, 3-9) provided participation and consensus building to be one aspect of urban governance that enables to bring common understanding on matters of common interest. (Battani:2000:3) has also discussed cohesive ethnic and cultural integration and support for private economic initiative as an aspect of governance that should be practiced. Therefore, these qualities of governance have to be nurtured in the Municipal government.

Lack of transparency is stated as one of the issues to hinder the investment climate in the town. It is commented that, the process of land administration and distribution is not clear. Investors do not get full and clear information in this regard, which may lead them to dispute and finally go away to other areas with their capital.

As an expert in the social and economic service office stated, investors need accountable and transparent system but un fortunately processes and procedures are short of this. This is said mainly pointing towards land allotted through negotiation, which lacks clarity and mostly causes un ethical and corruptive moves. Negotiation entails internal agreement that leads to corruption and favoritism. Under this system land may be given to people with less capacity (in capital terms) while there are others

who can do more on it. This usually leads to under use of land, loss of income by the town and most of all bad mouth for others who may possibly come and invest.

This entails that, the municipal government has to promote participatory and open system of governance. It has to work in close partnership with the residents, business community and other stakeholders. As development in general and urban development in particular is a multi actor process, their involvement enables to attract resource for the development of the town.

Incentive systems and streamlining investment services

Businesses usually react to incentives, costs and constraints that is called as investment climate (World Bank,2003: 10). In this regard responses from the FGD participants tell that, practicing incentive system for investors is given little attention. One investor stated that “I have not been practically told or do not know about the incentives that I should get, though I am making a big investment, at least by the standard of the town.”

A system of good governance in investment has to facilitate an incentive structure that promotes efficiency in attracting private investment. It should also reduce the cost and time of doing business to protect investors from boring and cumbersome procedures (World Bank 2003:80). In this regard, the head of the investment office commented that there are procedures and ways of doing things that could dissatisfy potential investors. For instance, they face challenges of delayed decisions on their project ideas, they are usually assigned to search for land to implement their project ideas other than technical advice and

support by the office and they are left by themselves to clear land for development, which may cause dispute with landholders.

This would have been much more effective if the municipality handles it because; it results in extra burden on investors. They also incur extra costs when they are required to pay money to mobilize a survey team from the municipality to show the land selected for investment. The same view is also reflected from the FGD discussants. Another source of disincentive is Provision of land in the sub urban part of the town that discourages investors, because these areas have no infrastructural facilities. Hence, investors fled to other areas with their capital. Participants in the FGD stated that a land requested by an investor could be forbidden for no clear reason where as the town's mayor relates this to lack of resource for compensation.

This shows that, there are activities and costs that are undesirable by investors which may discourage them from realizing their project ideas in to ends. Ensuring the practice of desirable incentives and avoiding disincentives are aspects of governance that should be encouraged in the workings of the Municipal Government.

Another aspect of governance in investment promotion is streamlining investment services to create simple procedures by avoiding cumbersome and long procedures that cause delaynce. This is because overregulation, cumbersome procedures long delays deter investors from business activity (ibid:92). Participants in the FGD with investor group in the town confirmed that, investment decisions are not given as fast as investors demand them. According to the head of the investment team, there was a plan to formulate a team called *virtual team* to resolve this problem. This team is planned to be composed of key higher officials who avail themselves when there is a need for immediate investment decisions.

However, this is not yet realized which would have accelerated investment decisions and served as positive inducement for coming investors. This entails that, long and frustrating procedures and decision making processes has to be improved to promote better working environment and protect investors from being discouraged.

This has been further reinforced by the mayor who is to the view that, long and frustrating procedures and poor investment services may also exist in other towns, but it is much more prevalent in Jimma town. There are tendencies of emphasizing procedures than their ultimate goals. Such things would un disputably discourage initiatives to invest in the town with most probable impact on new comers.

Generally good governance and specifically in this context urban governance should facilitate conducive environment for business to flourish by practically implementing incentive systems, improving bureaucratic performance, reducing uncertainties and the cost of doing business (world bank,2003:10). Therefore, Encouraging business community participation, establishing system of transparency and accountability, conducting promotional activities with effective instruments, establishing incentives and avoiding disincentives are aspects of good governance in investment promotion that should be instituted in Jimma town, since prevalence of constraints in this regard are manifestations of poor governance system.

Lack of committed and envisioned municipal administration directly accountable to the people led to the neglect ion of the development of the town as the main agenda. The administration is usually un stable that led to the instability of plans and executions. This according to some respondents served as a source of all other constraints related to attracting investment and generating adequate internal resources.

4.3.3 Investment pattern and the growth rate in Jimma town

Looking in to pattern and growth of investment in Jimma town may Show how much the resource potential in the surrounding is exploited. More over it may show how much governance in investment is worked on to change these resources in to real economic value.

Let us first look in to the growth pattern of investment in the Oromia regional state, since it might have something to say about Jimma zone, where Jimma town is situated.

Table -10: Growth pattern of investment in the Oromia regional state (1994-1998 Ec)

Year	Total investment (Number)	Total capital '000'	Yearly increase %	Employment Opportunity
1994	73	1,157,524	-	8,788
1995	115	1,178,054	1.77	44,514
1996	337	4,728,455	301.3	56,358
1997	790	7,605,025	37.8	73,264
1998	685	6,633,645	-14.6	76,482

Source Oromia Investment Agency investment report from 1984-1998

The above table clearly testifies private investment has shown significant pattern of growth in the Oromia region for the years specified in terms of number, capital and rate of employment opportunity. One can easily see the rate of increase between 1995 and 1996, which shows a percentage increase of 300%. This rate of increase may have its own impact on investment distribution in the different Zones of the Region.

The issue at hand however is, how much the sub region and the town inconsideration has benefited from such an increasing pattern. For this

purpose let us consider 10 out of 17 zonal administrations in Oromia Regional State. The selected zones are top 10 investment drawn areas ranked according to their achievements.

Table11:- Zonal investment distribution in Oromia regional state (1984-march 2000 Ec)

No	Zone	Domestic investors		Foreign investors	
		Number of investment	Total capital '000000'	Number of investment	Total capital '000000'
1	East Shewa	1,745	15,229	262	5,066
2	North Shewa	448	3,647	28	4,345
3	West Shewa	449	3,508	47	1889
4	South west shewa	500	3,476	45	1,476
5	Arsi	276	1,090	4	90
6	Bale	251	731	2	232
7	West Arsi	142	610	1	1
8	Jimma	236	604	9	40
9	Illuababoora	65	426	2	16
10	Wellega	168	539	2	217

Source Oromia regional government investment agency report document (2000)

The share of Jimma zone and town from the total proportion is depicted from the above table that computed the top 10 zones in terms of investment attraction. Investment distribution may vary from one zone to the other depending on its proximity to the center, resource availability and the extent to which investment promotion is undertaken by the respective administration. The share of Jimma Zone can be Judged as lower which may have its own implication on the level of private investment taking place in Jimma Town since it is the capital of the Zonal administration.

As confirmed by concerned officials in the municipality, the level of private investment that is taking place in Jimma town is considered lower by the standard of other equivalent towns in the Oromia region and other towns in the country. This can be depicted by the following table that shows the level and pattern of investment in Jimma town between the years 1995-1999 Ec.

Table- 12: pattern and growth of investment in Jimma town between 1995-1999 Ec.

Year	Number of investment	Total capital	Share of industry in%	Share of trade In%
1995	61	5,210,702	5.92	46.2
1996	41	3,803,135	0	44.9
1997	38	1,151,994	6.2	35.2
1998	–	9,755,606	1.45	69.6
1999	50	12,397,867	16.4	43.7
Total	190	35,319,304	–	–

Source plan and programme office of the municipality

For the last five years without including the year 2000 a total investment of only about 35 million has been drawn in to Jimma town. As we can see from its distributional pattern, trade covers significant portion of the investment undertaken where as industry and agro industry covers lower proportion from the aggregate. This shows that little investment was conducted on medium and large-scale industries, which have the potential to create employment opportunities for residents.

What we can infer from this fact is that, the resource potential of the town and its surrounding for investment and economic development has been under utilized. A lot remains to be done if, the town has to catch up with the others and score great deal with regard to development.

Therefore, improving Governance in investment promotion is a timely issue that should be addressed.

The above-discussed governance related constraints that are discussed in the previous parts may affect the level and pattern of growth of investment activities in Jimma town, with out ignoring other additional factors that may hinder investment in the area. Given the area is endowed with natural resources (as discussed in the previous part) low growth pattern of investment may have some thing to do with problem of governance in generating resources and attracting investment.

CHAPTER FIVE

5. Summary and policy implication

5.1 Summary

Governance involves a multi faceted dimension that embraces the whole spectrum of political, economic, institutional and administrative issues. Among other things a system of good governance should promote the welfare of citizens through cooperative and participatory development, by defining issues and provide directions and create opportunities for development. All in all leaders has to bring people, resource and organizations together to achieve economic development (Ministry of Works and Urban Development,2006:109, Reese,1997:243).

The UN-Habitat (2002:14) has emphasized ensuring urban development as an aspect of urban governance inextricably linked to the welfare of residents by providing the necessities of urban life. This further requires a system of good governance that entertains the qualities of transparency, accountability, participation, efficiency and effectiveness in managing institutions, equity and fairness in managing affairs and utilizing resources.

Upgrading the quality of governance to promote transparency, accountability, participation, equity and fairness are vital elements for improved revenue generation. Moreover, the private sector involvement is crucial for urban development that entails urban governments' responsibility to attract more private investment. As Reese (1997:231) provided the private sectors decision on business location among other things is influenced by their relationship with government bodies. A

governance system that ensures predictability, security, which do away with cumbersome and stringent procedures, that promotes equity, transparency and accountability, helps to establish conducive business environment to attract private investment.

The study is conducted in Jimma town with the intent of investigating the governance of revenue generation from own sources and promoting private investment and the possible impacts that it may have on the development of the town.

The Municipal government in Jimma town is entrusted with the power and responsibilities to initiate its own social and economic development plan, raise its own revenue from specified own sources and promote development by encouraging private investment. It is currently led by a cabinet committee whose members are political appointees, having no publicly elected council as provided by the law. The Municipal Government is unstable frequently changing before realizing whatever plan or policy designed for implementation. Besides, it could not establish strong linkage with the community characterized by lack of accountability and transparency. All in all there is lack of envisioned and stable administration longsighted towards the development of the town.

As a reflection of this, the revenue generation activities of the Municipal Government are also constrained by various issues that pertain to governance.

Identification and registration of revenue sources is an important aspect of efficient revenue generation. However, problems related to the longevity of assessment period, lack of coordination among concerned bodies and lack of direct mandate for business control by the Revenue Collection Office affected the identification of revenue sources. In effect, it

is revealed that there is prevalence of tax evasion and underpayment bringing its own impact on the revenue capacity of the municipal government.

Inefficiency in the execution of the valuation system is also another constraint in the process of revenue generation. Lack of objective and standard valuation equally applicable to all tax payers in levying tax eroded the payers confidence on the effectiveness of the valuation system. It failed to bring fairness and equity among them and make them pay the right amount. This further degrades their willingness to pay.

Effective and efficient institutional set up is an aspect of governance that should be met in order to strengthen the revenue collection process. Poor collection process hinders revenue generation even when there is best system of identification and valuation. Weak monitoring and execution, insufficient penalties, lack of diversified payment centers and lack of prior notification on the amount to be paid are among the most important governance problems that constrain the actual collection of revenue.

Improving voluntary compliance among tax payers facilitates revenue collection even when revenue administration bodies have limited capacity. However, the compliance rate in Jimma town is very low as observed from the prevalence of tax evasion and under payment. The literature suggests that; improving the equitability of the tax system, informing how tax money is spent, increasing payers participation and upgrading service delivery are better mechanisms to improve voluntary compliance. However, these elements are less entertained in Jimmas case that mainly focus on informing tax payment as a duty and responsibility and the consequences followed on defaulting .

The existing mismatch between the capacity for legal enforcement on evaders and the legally provided authority to the legal department is an issue in the revenue collection process. The capacity for legal enforcement is severely constrained by lack of resources like man power, logistics and execution structure; as prosecutors, police forces and others. Based on the current situation one can say that legal enforcement is almost non existent. However, sufficient enforcement induces actual and perceived feeling to fear legal consequences on defaulting. It could have also avoided a system where payers and non payers are treated equally by enforcing the rule of law.

The absence of well-defined and permanently existing compliant hearing organ in the revenue collection office inhibited tax payers right to be heard and fairly treated. The fact that most respondents do not believe that, their cases can be resolved even if they appealed shows how much they lost trust of the office. This further affects their willingness to pay.

The performance of revenue administration bodies can be affected by their internal capacity for execution. In this regard, the Jimma Town Revenue Collection Office faces serious capacity problem related to human resources (quality and quantity), logistics, poor information and documentation system. Weak performance in revenue collection encourages tax evasion, under payment and poor system of valuation. This may further degrade the equity and fairness governance criteria in revenue generation as people with similar income could be charged with different amount. Weak performance also goes against efficient public sector management requirement of governance for the delivery of quality services and functions.

Promotion of private investment is an aspect of resource mobilization because it expands the tax base by increasing business activities and

taxable property value. Beyond this, it also improves the welfare of residents with better income and standard of life (Bird, 1992: 64). In the case of Jimma Town promoting private investment is also constrained by combinations of factors that pertains to governance.

Lack of adequate institutional set up directly meant for promoting investment and related activities signified absence of due attention to promoting investment. Nevertheless, investment promotion requires adequate technical and administrative capacity that could be less managed by inefficient bureaucracy. Inability to provide this function effectively and efficiently degraded the capacity and competence of the town to attract private investment.

Instituting sufficient mechanisms to promote investment like promotional instruments and compiled investment related information is vital to attract private investment. However, such promotional instruments are scarcely available in Jimma town. Moreover, participation of the business community in the town's development is limited because of the less accommodative nature of the Municipal Government. The land administration and lease system also lacks transparency that encourages discrimination and corruptive conducts. These factors brought together precluded the business community from being potential actor in investment and development process of the town.

Governance in investment promotion requires to provide incentives and to do away with disincentives that discourage businesses from taking place. But in Jimma's case constraints like delay in decisions on project ideas, incurring extra costs in searching land and clearing it for development, lack of technical support and advice, cumbersome and long working procedures and inability of the municipal government to provide land in the central part of the town (where investors would like to invest) served as disincentive for private sector attraction.

The cumulative effects of poor governance in revenue generation and investment promotion could be one factor that is pulling the development of the town back. Currently the Municipal government generates small amount of revenue and its pattern of growth is less promising for the time to come.

On the other hand, there is very limited investment activities that are currently taking place in the town. Compared to the resource capacity and opportunity of the town and its surrounding one could say that very little has been done with regard to investment promotion. Large and medium scale industrial establishments are almost nonexistent in the town where small and medium scale commercial activities employ majority of the people.

Attracting more private capital is a key task that should be handled properly if the untapped resource potential of the town and its surrounding has to be used for its development. This in turn calls for measures to improve the governance and institutional capacity of all concerned organs in the Municipal Government towards facilitating conducive business environment.

5.2 Policy implication

Jimma town lacks a publicly elected municipal government with defined accountability to the residents. As a result; in stability, lack of defined vision and persistent plan and execution are characteristics features of the administration because of frequent turnover. This has affected the municipal government's relationship with residents and other stakeholders since their involvement is not ensured in administering the town. Moreover, reform measures towards a system of good governance for the development of the town are less realized. Therefore, instituting a publicly elected accountable municipal government is a timely issue that should be addressed as soon as possible.

Generating revenue is one important function of municipal governments, which have greater impact on the quality of services provided to residents. Given efficient public sector management is vital element of governance in general and urban governance in particular sufficient attention has to be given to revenue generation in the municipal government. It has to be related with the overall development need and goal of the town. This calls for strengthening the organizational capacity of the revenue collection office in human resources, logistics, materials to improve its documentation system, establishing diversified payment centers and others.

Revenue generation is the task of mandated government offices. However, its sufficient realization requires cooperation from different stakeholders mainly the business community. This further requires creating a sense of belongingness and nurturing compliance among them. In doing so the revenue collection office in the town should encourage participation of the business community in decisions and actions that affect their activities. Voluntary compliance has to be

nurtured through more participation, improved service delivery, informing how tax money is spent than simply tell that paying tax is a duty and non compliance has legal consequences.

Various constraints have been identified in relation to the valuation system of the revenue collection office. As efficient system of valuation contributes a lot to revenue generation, on the other hand, weak execution would also serve as a fertile ground to degrade equity and fairness governance principle of revenue generation. People with the same income may be required to pay different amount that erodes their willingness to pay. Therefore objective and criteria based system of valuation has to be devised which is clear and convincing to the business community.

The wide gap between mandate for legal enforcement and the real existing capacity for execution is also identified as constraint for revenue generation. Strong legal enforcement promotes the rule of law and avoids a system where payers and evaders are treated equally by inducing a perceived and actual fear towards the law. Therefore, the capacity of the legal section of the revenue collection office has to be improved by instituting the necessary legally provided structures like prosecutors, police forces and others.

Transparency and accountability are important aspects of governance to entertain rights of citizens. Business holders are dutiful to pay tax from their income but equally they have the right to be heard. Weak complaint administration system with lack of permanently instituted organ inhibited taxpayers' right to appeal their complaints. Therefore, making such organ available to ensure the appropriate and timely addressing of payers complaint should be an important measure that should be taken to improve the governance system of the revenue generation.

Ensuring sustainable urban development to promote welfare of residents is an important aspect of urban governance. This among others requires sufficient effort to attract capital and business towards towns. In Jima's case sufficient institutional setup is unavailable to promote investment. This may be practically an activity floating on the air as nobody's responsibility. Strengthening the investment office with defined responsibility and sufficient manpower would contribute a lot in improving the town's competitiveness and capacity in attracting private investment.

Urban development is a multi actor process involving many stakeholders. In Jimma town there is visible constraint in ensuring the business community's participation in the development process. Promotion of investment and instigating potential investors towards utilizing their capital to development is at its nascent stage. The Municipal Government has to work hard to involve them as stakeholders and show profitable and potential business areas. Moreover, compiled investment related information has to be prepared and sufficiently communicated via different mediums. The prevailing perception towards ethnic discrimination among residents has also to be dealt by promoting equal participation and opportunity for all in a transparent way.

Governance in investment promotion requires doing away with disincentives like long and cumbersome procedures, unnecessary costs and burdens that may dissatisfy investors' decision to undertake business. In Jimma's case constraints are identified in relation to land administration, long procedures in giving decisions and others. Streamlining investment services with defined responsibilities of who does what and when may avoid long procedures and relieves potential investors from unnecessary cost and burden

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Annex I-Questionnaire prepared for the business community.

1. General Questions

1.1 What kind of business are you involved in?

1.2 For how much years are you engaged in this business in jimma town?

1.3 Which level of tax payer are you?

1.4 Is there conducive business environment in the town?

Yes No

1.5 If you answers no, what are the reasons?

a. Shortage of adequate services

b. Administrative problems

c. lack of attention to the private sector

others _____

2. Institutional capacity of the municipality revenue office

2.1 How do you evaluate the efficiency of the tax collection office?

Very good Good Fair poor

2.2 In the tax collection office's activity which area has the most glaring problem?

a. timely assessment

b. valuation system

c. collection system

d. communicatining others _____

decided tax

Why? _____

2.3 What control mechanisms have you frequently experienced from the revenue collection office?

- a. Continuous checking c. un informed appearance
b. Tight payment schedule d. legal enforcement
others _____ None

2.4 Were these mechanism/s effective in enforcing you to pay tax?

Yes No

2.5 Does the revenue collection office allows participation of the Business community in its activities?

Yes No

2.6. Do you believe that the business community has positive (cooperative) relationship with the revenue collection office?

Yes No

2.7. If no what are the reasons?

3. Tax coverage

3.1 Do you believe that all business are registered as tax payer in the town?

Yes No

3.2. Do you believe that the city administration is earning what it is supposed to from tax resources?

Yes No

3.3 Which factor leads to more loss of tax income to the municipality?

- a. tax evasion c. Institutional problem of the office
b. under payment others _____

3.4 Does tax evasion exists as a problem in the town?

Yes No

3.5 If yes, it affects the municipality revenue:

Very high high medium In significant

4. Valuation system

4.1 What is the basis to decide tax on you?

- a. Paid receipt
- b. Guessed income
- c. daily
- d. others _____

4.2 Do you accept the tax valuation (decision) system?

- Yes
- No

4.3. If your answer is no Why?

4.4 What other alternatives do you suggest?

- 1. _____
- 2. _____

4.5 do you believe that you are paying fair amount?

- Yes
- No

4.6 Does the office have sufficient tax complaint administration system?

- Yes
- No

4.7 Have you ever presented complaint on decided tax Amount to the office?

- Yes
- No

4.8. If yes what was/were the reason/s?

4.9. Are tax complaints timely administered by the revenue office?

- Yes
- No

4.10 If changes has been effected on the amount, what problem were identified from the original decision?

5. Time dimension

5.1 Is tax decision (valuation) made a head of time?

Yes No

5.2 Are you allowed to know the amount decided right on time compared to the time that you are required to pay?

Yes No

5.3 Are you usually urged to pay tax on time?

Yes No

5.4. What mechanisms are used by the revenue collection office to urge you to pay tax on time?

a. Continuous communication c. Setting dead lines

b. Enforcing penalties

Others _____

5.5 Do you have tax arrears?

Yes No

5.6 If yes for how much years?

5.7 What are the main causes for tax arrear among the business community?

a. Shortage of money c. high tax rate

b. Low interest to pay d. The offices failure to collect on time

others _____

5.8 What factors constrain the timely administration of tax?

a. Lack of timely communication c. lack of willingness to pay

b. Lack of capacity by the office

others _____

6. Voluntary compliance

6.1. Do you believe in paying tax?

Yes

No

6.2. If your response is no why?

You don't know where the public money goes

Not receiving adequate service

Others _____

6.3. Have you ever received tax education?

Yes

No

6.4. Has the city Administration ever reported on what has been done by the money collected?

Yes

No

6.5. What is the problem from tax payers side in paying tax?

a. Little attention to pay

c. lack of interest

b. Lack of money

d. Lack of awareness

Others _____

6.6. What do you suggest to be improved to increase voluntary compliance in paying tax?

a. Increased tax education

b. Involving the business community in tax decision

b. Discussion on tax issues with the business community

Other suggestions _____

7. Law Enforcement

7.1 Have you ever seen the finance bureau filing case against tax evaders?

Yes

No

7.2 If yes are the cases sufficiently administrated?

Yes

No

7.3. How much time does it take to bring the issue to an end?

0-1 year 2 years 3 years above 3 years

7.4. Do you fear that legal measure will be taken if you are evading tax?

Yes No

7.5. Which measure is frequently taken on tax evaders or those who are not willing to pay?

a. Revoking license c. Interrupting business

b. Legal enforcement d. Financial penalty

7.6. Were the measures effective in urging tax evaders to pay tax?

Yes No

Annex-II- Interview Guidelines for key informants in the tax collection office

1. Name _____
2. Your position in the office _____
3. For how much time did you stay in this position _____
4. How do you evaluate the institutional capacity of your office in administering tax?
Very strong Strong moderate Weak
5. Do you have fulfilled logistics and materials to perform your activities?
Yes No
6. If no, what materials are scarcely availed to affect your activity?

7. Are you facing shortage of human resource in performing your activities?
Yes No
8. If yes in what areas?

9. How did this affect the performance of your office

10. Do you believe that all business are registered and pay tax in the town?
Yes No
11. If no, what are the reasons?

12. Do you make assessment to identify new business and properties or the business people come and register by themselves?

13. Do you experience a situation of tax evasion?
Yes No

14. If yes; it happens,

Frequently sometimes rarely

15. Do you believe that the business community hides out incomes to reduce amount of tax paid?

16. What are the bases for deciding tax on business?

14. Are these instruments effective in valuing the right amount?

Yes

No

15. If no, do you have alternatives?

16. Do you have any checking mechanisms to ensure the appropriateness of the tax decisions?

Yes

No

17. If yes what are they?

18. Is tax valuation conducted right on time

Yes

No

19. If no. why

20. Is the decided amount communicated a head of time to business people?

Yes

No

21. If no why?

22. What are your communicating instruments?

23. How do you evaluate their effectiveness?

24. How do you evaluate voluntary compliance to pay tax?

25. Have you ever given tax education to business people?

Yes

No

26. If yes, in what ways:

27. Has it resulted in any positive effect?

Yes

No

28. If yes, how? _____

29. How do you deal with tax arrears?

30. What are the reasons for arrears?

31. What measures do you take on tax evaders or on those that are not willing to pay?

1. _____

2. _____

3. _____

32. Do you take cases to court?

Yes

No

33. If yes, are cases getting on time solution?

Yes

No

34. If no. what challenges are faced when cases are taken to court?

35. Do you plan to collect certain amount in a year?

Yes

No

36. If yes, what is the basis for your planning?

37. Do you think that the town is fully generating what it is supposed to get from tax?

Yes

No

38. If no, how do you rate the loss?

Very high high moderate Low

39. What are the main problems faced in administering tax?

39.1. From the revenue collection office

39.2. From the side of tax payers

40. Do you have plan to improve the system of tax administration:

Yes No

41. In what areas _____

42.. Show the core problems that persist at each stage?

Valuation _____

Assessment _____

Communicating _____

Collection _____

Enforcement _____

43. Which stage base a much more propensity to cause revenue loss?

44. Which tax base accrues the highest revenue yield?

45. Do you give much more administrative attention for it?

Yes No

46. How do you evaluate the rules and the codes to govern tax?

**Annex III- Interview Guidelines for key informants in the
Investment Office**

1. Name _____
2. Position in the town administration _____
3. How long did you work in this position? _____
4. What is the function and responsibility of investment office in Jimma town _____
5. Is your office functioning fully in accomplishing its activities?
Yes No
6. If no, what hindering factors are you facing?

7. What administrative problems are you facing in promoting investment?

8. Is there sufficient private productive investment taking place in the town?
Yes No
9. If no, what do you think are the reasons?
 - 9.1. From the side of the city government

 - 9.2. from the side of potential investors

10. What mechanisms do you (instruments used) employ to attract private investors?

11. How wide is your locational scope in promoting private investment?

12. Are there identified areas of investment for Jimma town?
Yes No
13. If yes, how do you publicize these potential areas?

14. Do you have any published material to advertise the investment potential of the town?

Yes

No

15. If yes, 15.1. When did it published?

15.2. How did you distribute it to other people?

16. Does the town participate in trade fairs and Bazaars?

Yes

No

17. If yes, How frequently or how much time? (Let us say per year)

18. How frequently do you arrange meetings or conferences with the business community to discuss on investment issues ?

19. Have you ever used communication media to advertise the good image and economic potential of Jimma town?

Yes

No

20. Are local/ domestic investors willing to work with the Municipal Government?

Yes

No

21. If no, what are the reasons?

22. Are there investment related constraints in the town?

Yes

No

23. What are these constraints?

24. What actions were taken by the Administration to tackle these constraints?

25. What administrative problems are there, that discourage private productive investment? (Past and present)

25. Do you believe that there are sufficient incentives provided to promote private investment?

Yes

No

26. If yes, are they being properly communicated to private investors?

Yes

No

27. Do you have services provided to investors including, pre investment decisions services

Post investment decision services

28. Have you streamlined service provisions in facilitating the operationalization of investment activities?

Yes

No

29. Do you have sufficient working and trained man power?

Yes

No

30. If no, how much effect does it have on your performance?

31. What are the main institutional constraints that you are facing in promoting productive private investment?

32. Do you work in cooperation with other levels of government?

Yes

No

33. What is the form of the relationship?

34. How do other higher level bodies support your activities?

35. Do you believe that the task of investment promotion and attraction exhaustively done in the town?

Yes

No

36. If no, what do you suggest for the time to come?

Annex-IV- Interview Guideline for the Municipal Administration

1. What is your position in the Municipal Government?

2. For how much time are you working in this position?

3. How do you explain the level of development of Jimma Town?

4. Do you believe that the town has the resource potential for development?
Yes No
5. If yes, what can you mention in this regard?

6. How do you evaluate the institutional capacity of the Municipal Government?

7. If it is weak or there are some constraints in what areas?

8. Does the Municipal Government allows participation in its decision and action?

9. How frequently do you meet with different sects of the community, say the business community?

10. Are you trying to involve them in the development activities of the town?

11. If yes, how?

12. What are the main sources of resource for the town Administration in delivering service?

13. Do you believe that the town is generating sufficient resource from tax and other service charges?

14. Do you believe that the town administration earns what it is supposed, from tax resources?

15. How do you evaluate the capacity of the revenue collection office in collecting tax?

16. If it is weak or inefficient, why?

17. What should be /have been done to improve its capacity?

18. If its capacity is improved can it significantly improve the revenue capacity of the Municipal Government?

19. Is central transfer a dependable resource for the town's development?

20. What should be done to depend on internal resources?

21. Is Jimma Town conducive for investment?

22. What opportunities will an investor have to come and investment?

23. How do you evaluate private investment activity in the town?

24. If it is not sufficient or weak what are the main constraints.

25. Does the city government has the necessary institutional capacity to promote private investment?

26. What is the city government doing to attract private investment or what instruments are employed?

27. Were these activities sufficient or successfully employed?

28. Do you believe that there is investible private capital in the town?

29. Do you have relationship with local investors (in the town) domestic in relation to investment?

Yes

No

30. If yes, what were the outcomes?

31. What are the main constraining factors in promoting private investment?

From the side of the administration

From the side of the business community _____

32. Do you believe that the Town can develop using its own resources?

33. What would you say about the future development of the town?

Annex-V-Discussion areas for focused group discussion

1. Do you believe that sufficient private investment is taking place in the town?
2. Are there sufficient incentives for investment in the town?
3. Do you believe that there is unmobilized investible private capital in the town?
4. What are the main constraints for investment in the town? (past and present)
5. Is the city Administration making sufficient investment promoting activities?
6. What affects the decision of private investors to invest or not in the context of Jimma town?
7. Does the Municipal Government allow participation and gives sufficient orientation concerning the investment opportunity of the town?
8. If an investor decides to invest are there constraints in the process of materializing its decisions?
9. Is the town of Jimma developing? If not what constraints are there?

Figure 6 – Administrative Structure of Jimma Municipal Government

